LORENZO INTERNATIONAL LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200508277C)

RESPONSE TO SGX-ST'S QUERIES

The Board of Directors of Lorenzo International Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce the below in response to various queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") to the Company in relation to the following announcements released by the Company on 9 October 2017:

(i) Financial Statements and Related Announcement: Discrepancies between unaudited and audited accounts (the "**Material Differences Announcement**"); and

(ii) Financial Statements and Related Announcement: Auditor's Comments of Accounts (the "**Disclaimer of Opinion Announcement**").

Material Differences Announcement

SGX-ST's Query 1

Please disclose the reasons for the material difference of S$5.56 million in "Trade and other payables" between the unaudited and audited accounts.

Company's response

The breakdown of the material difference of S$5.56 million is as follows:-

Trade and other payables	**Unaudited**	**Audited**	**Difference**
	S$'000	S$'000	S$'000
Trade payables	3,314	4,119	805
Other payables	13,466	10,384	(3,082)
Amount due to directors	3,282	-	(3,282)
	20,062	14,503	(5,559)

The reasons for the material difference of S$5.56 million were as follows:-

a. grouping of amount due to directors of S$3.28 million into trade and other payables in the unaudited financial statements instead of under a separate line;
b. reclassification of S$1.14 million from trade and other receivables to trade and other payables;
c. additional accruals of staff benefits and withholding taxes payables amounting to S$0.38 million; and
d. reclassification of certain accounts from other payables to trade payables.

SGX-ST's Query 2

In relation to "Note A" (Revenue and Cost of sales), please:

a. Disclose the details of the project and the reasons for the delay in the project;
b. Disclose details of the "sales return", including the underlying transaction, the identity of the customer, and the reasons for the return; and
c. Disclose management's reasons for the overstatements of sales and cost of sales.

Company's response

a. The sales relates to the supply of building materials to a customer, Kimson Investment Limited, for a construction project in Ha Long Bay, Vietnam (the "**Vietnam Project**"). The Company understands from the customer that approval for the commencement of the Vietnam Project from the regulatory body of Vietnam was expected to be obtained in April

2017. However, such regulatory approval had not been obtained as at the date of the financial statements which therefore resulted in the delay in the Vietnam Project.

b. The "sales return" was for building materials sold to a customer, Myanmar Worldwide Resource Trading Co, Ltd ('**MWR**") during the financial year ended 31 December 2014. As MWR did not subsequently make payment to the Group for such building materials despite numerous reminders, the Group had thereafter sought a return of the building materials. The Group has recovered a significant portion of the goods from MWR and had accordingly recognised the sales return.

c. The overstatement of sales and costs of sales was related to the Vietnam Project as explained above. As at the date of the unaudited financial statements, the management had not been informed, and had not been aware, of the delay in the Vietnam Project and accordingly had recognised the sales and the related costs of sales.

SGX-ST's Query 3

In relation to "Note B" (Other operating income), please:

a. Disclose the details of the doubtful debtors, and provide the reasons for why these doubtful debts had been written back; and

b. Disclose the reasons for stock obsolescence written back.

Company's response

a. The doubtful debtor was MWR. A full provision for doubtful debts was made for this debtor in the financial year ended 31 December 2015. The doubtful debts had been written back because the Group has since recovered a significant portion of goods from MWR.

b. The provision for stock obsolescence was made in the financial year ended 31 December 2015. As the Group was able to sell the goods to Kimson Investment Limited for the Vietnam Project, the provision was written back in the unaudited financial statements.

SGX-ST's Query 4

In relation to "Note E" (Other operating expenses), please disclose the breakdown and details of these doubtful debts, including the identities of the debtors, amounting to S$1.10 million.

Company's response

Debtor	**Amount** (S$)
Royal Furnishers Ltd	47,450
Pt. Lorindo Anugrah Batam	40,876
Zahran Furniture & Decoration	819
Graha Mulia Teak	5,941
Mastrotto Singapore Pte Ltd	455,000
Busy International Pte Ltd	5,443
28 @ Wilkie Pte Ltd	21,004
BD Krane Engrg Pte Ltd	1,951
BD Cranetech Pte Ltd	77,634
Classic Furniture Pte Ltd	10
Creativebuild Solutions	140
Central Marbles Asia Pte Ltd	1,670
Gennal Industries Pte Ltd	1,452
Homz Lifestyle Pte Ltd	1,880
Integrated Building Constructions Pte Ltd	3,303
Leon Wee Mr.	1,683
Lau Mr.	2,194
Mr. Jj	693
Sunray Woodcraft Construction Pte Ltd	(3,638)
Stones Selection Pte Ltd	2,089
Stoneworks Projects Pte Ltd	7,486
Uber Design House	16
W'ray Construction Pte Ltd	64

Earth Stone Pte Ltd	(2,299)
K.C.S Interior Design	(156)
Tg (2010) Pte Ltd	(6,321)
Syrb Pte Ltd	(4,562)
Tiong Seng Contractors Pte Ltd	(25,750)
Sunray Woodcraft Construction Pte Ltd	730
Low Keng Huat (Singapore) Pte Ltd	6,052
Qxy Resources Pte Ltd	6,000
Deenn Engineering Pte Ltd	6,729
Samsung - Tiong Seng Jv.	1,252
Samsung - Tiong Seng Jv.	638
China Construction (S.P) Development	13,469
Paul Y. Construction & Engineering	2,110
China Construction (South Pacific)	8,125
Conceptime Sdn Bhd	415,961
Total	**1,097,938**

SGX-ST's Query 5

In relation to "Note L" (Trade and other receivables), please provide a breakdown, quantifying and explaining each material adjustment made.

Company's response

Trade and other receivables	**Explanation**	**Unaudited**	**Audited**	**Difference**
		S$'000	S$'000	S$'000
Trade receivables	*Note a*	11,055	8,013	(3,042)
Less: provision for doubtful debts	*Note b*	(1,529)	(2,892)	(1,363)
Net trade receivables		9,526	5,121	(4,405)
Other receivables	*Note c*	8,186	5,776	(2,410)
Less: provision for doubtful debts	*Note d*	(2,800)	(3,659)	(859)
Net other receivables		5,386	2,117	(3,269)
Retention sums receivables	*Note e*	-	241	241
Due from customers for contracts WIP	*Note f*	163	21	(142)
Tax recoverable	*Note g*	727	560	(167)
		15,802	8,060	(7,742)

Note a: The difference was due to reversal of sales of S$2.89 million due to the delay in the Vietnam Project as explained in 2 (a) above and reclassification of S$0.15 million to trade and other payables.

Note b: The difference was due to reversal of provision for doubtful debts written back of S$1.24 million and an additional provision for doubtful debts of S$0.12 million.

Note c: The difference was due to reclassification to trade and other payables.

Note d: The difference was due to additional provision for doubtful debts.

Note e: The difference was due to reclassification from non-current portion to current portion and vice versa.

Note f: The difference was due to overstatement of sales.

Note g: The difference was due to an under provision of prior years' tax expenses of a foreign subsidiary.

SGX-ST's Query 6

In relation to "Note M" (Cash and cash equivalents), please:
a. Explain why bank borrowings had been recorded as a "cash advance from director";
b. Disclose the identity of the director; and
c. Elaborate on how the said director is involved in the bank loan.

Company's response

a. The Company wishes to clarify that no bank borrowings had been recorded as "cash advance from director". The reversal of the cash advance from the director resulted in bank balances becoming a bank overdraft. Hence, the amount was reclassified to "bank borrowings" for presentation purposes.
b. The director is Mr Lim Pang Hern.
c. Mr Lim Pang Hern had advanced an amount of S$3 million to the Group whose use is conditional upon matching cash advance from a controlling shareholder of the Company.

Disclaimer of Opinion Announcement

SGX-ST's Query 1

The auditor had stated that "Some of the Group's financing arrangements had expired and the amounts outstanding were payable on 30 September 2016 and 31 December 2016. At the reporting date, no letter of extension on the repayment dates for these outstanding loans and borrowings at year end amounting to $5,875,732 was obtained from the banks."
a. Please explain why these were not announced pursuant to Listing Rule 704(22).
b. Please provide an update and subsequent monthly updates pursuant to Listing Rule 704(23).
c. Please list all the Company's debts that are in default, and disclose if there is any upcoming maturity of debts.

Company's response

a. Notwithstanding that certain amounts outstanding had been payable on 30 September 2016 and 31 December 2016, the Group had been in discussions with its principal bankers to agree upon revised repayment terms. Further to such discussions, the Group was able to negotiate for instalment repayments for the expired financing arrangements. Accordingly, as the aforementioned instalment repayments had been agreed upon with its principal bankers, the Management and the Board was of the view that the expiration of the financing arrangements would not result in the Group facing a cash flow problem requiring disclosure under Listing Rules 704(22) and 704(23).
b. Please refer to the Company's response in a. above.
c. The current status of the Company's abovementioned financing arrangements is as follows:

	September 2016 S$	**December 2016 S$**	**Total S$**
Advance facility	-	3,000,000	3,000,000
Bank overdraft	1,024,681	673,173	1,697,854
Trust receipts	508,127	669,751	1,177,878
Total	1,532,808	4,342,924	5,875,732

The Group does not have any upcoming maturity of debts.

SGX-ST's Query 2

It was stated that "a letter of financial undertaking had been provided by the director cum shareholder of the Company".

a. Please disclose the identity of the director cum shareholder.
b. Please explain why the Company was unable to repay its debts when they fell due as at 30 September 2016 and 31 December 2016 if the director cum shareholder has provided a financial undertaking.

Company's response

a. The director cum shareholder is Mr Lim Pang Hern.
b. The letter of financial undertaking from the director was to cover the period from 1 April 2017 to 31 March 2018.

SGX-ST's Query 3

It was stated that "…significant differences (were) noted from our sample count and that no physical re-count was performed by management…"

a. Please quantify what are the significant differences.
b. Please explain why no stock recount with the auditors was undertaken. If this was undertaken, please update the results of the subsequent stock count.

Company's response

a. The differences were variances between the physical quantities and the quantities reflected in the computer inventory system. Due to the large volume of stock and unfamiliarity of the new finance staff due to turnover during the 15-month financial period ended 31 March 2017, the Company is unable to specifically quantify the significant differences.
b. The management took the decision not to do stock recount so that the audit can be completed to meet the extended deadline to hold the Company's forthcoming Annual General Meeting. However, management has since commenced periodic stock monitoring to address the matters.

SGX-ST's Query 4

It was stated that "no recoverable amount based on the value-in-use computation was determined for Retail CGU (Singapore) and Leasing CGU". Please explain why the Company did not compute these despite previous concerns raised by auditors.

Company's response

The computation of value in use amount requires reliable information and resources. The Company was unable to compute these as there was insufficient reliable information available and insufficient resources owing to the frequent turnover of finance staff during the 15-month financial period ended 31 March 2017.

SGX-ST's Query 5

It was stated that "One of the subsidiaries of the Group had recognised sales of $2,000,000 to an external customer…" In relation to this transaction, please:

a. Disclose the identity of this customer;
b. Explain why the Company did not collect cash when sales were made on "cash term";
c. Provide the reason why the customer has been unable to pay since March 2017;
d. Disclose the financial condition of this customer and explain why the Company released the goods to the customer when the customer was unable to pay in March 2017; and
e. Disclose when the Company expects payment for these sales.

Company's response

a. The customer is Lip Chee Engineering Pte Ltd.

b. This particular sale related to inventory used for construction projects. Although the sales were made on cash terms, the Company usually grants customers a grace period to collect cash for such sales on cash term.
c. The Group was not informed and is not aware of the reason(s) why the customer had been unable to pay since March 2017.
d. The customer is a small company and is dependent on collection from their customers to pay for the goods that they purchased. As mentioned in paragraph b above, the Group usually grants customers a grace period to collect cash after a sale.
e. The Company has agreed on a repayment schedule with the customer and as at the date hereof, S$0.4 million has been collected from the customer.

By Order of the Board

Teoh Jin Thean
Executive Director / Chief Executive Officer
16 October 2017