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

RESPONSE TO SGX-ST'S QUERIES

The Board of Directors ("Board") of Lorenzo International Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce the following in response to the additional queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") to the Company in relation to the Company's unaudited results announcement for the first quarter ended 30 June 2023 ("**Q1FY2024**") (the "**Q1FY2024 Results**"):

SGX-ST's Query 1

In relation to the Company's response to Query 3:

a. Please explain why the Company has yet to commence legal proceedings against the purchaser, noting that the disposal of the foreign subsidiary was executed more than 2 years ago pursuant to an order from the Chinese court on 18 June 2021. Please disclose what caused the undue delay, what is the limitation period to bring a legal claim in China and whether the delay has negatively affected the Company's ability to recover the receivable from the purchaser.

b. The Company stated that it will be filing the suit in the Chinese court after finalising some documentation. Please disclose (i) what documentation is the Company referring to; (ii) the identity of the legal counsel acting for the Company; and (ii) the target date on which the Company intends to file the legal suit and the estimated timeline for the entire legal process in China.

c. The Company stated that "neither the legal counsel nor the Board is able to confirm the actual amount recoverable until the finalization of the legal suit". Please disclose (i) the basis how the receivable of $6.69 million was determined; (ii) why the legal counsel is unable to determine the amount outstanding based on the legal terms and the Company's accounting records; (iii) what is the Company's accounting policy for impairment of trade and other receivables; and explain how the financial statements provide a true and fair view of the financial performance and financial position of the Company under such circumstance.

Company's response

a. The Company would like to clarify that it had on 8 June 2022, in its response to SGX-ST query number 4, mentioned that the recoverability process was hindered by the lock down imposed in the city of Shanghai, China. Prior to that, it was unable to contact the purchaser despite several attempts. The Company had also engaged a legal counsel to analyse the strength of the case before deciding whether to commence legal proceedings. The decision to initiate legal proceeding was postponed because of the lock down. The Company re-initiated the recoverable process immediately after the lifting of the lock down in Shanghai in late 2022 with a new legal counsel.

   The Company understands from its legal counsel that the limitation period to enforce a claim in China is three years. As the Company has yet to file a claim against the purchaser to recover the outstanding amount, the delay would not affect the recoverability of the receivables negatively.

b. In order to commence legal proceedings in China, the Company had to translate, notarize and legalize the following documents and transmit the same to its Chinese counsel:-

i. Certificate of incorporation upon conversion of the Company;
ii. Certificate of legal representative;
iii. Confirmation of address for service of legal documents;
iv. Passport of legal representative; and
v. Power of Attorney.

The Company would like to inform that the Company has engaged Kelvin Chia Partnership to organize the proceedings in China, as well as to instruct the Chinese law firm engaged by the Company, Tian Yuan Law ("Tian Yuan") on the Company's claim against the purchaser. It understands that it would need to serve a notification letter to the purchaser giving them seven (7) days to make payment from the date of the letter. The legal suit will be served on the purchaser if payment is not received from them after 7 days. At the date of this response, the Company is in the midst of going through a draft notification letter to be served on the purchaser. The entire timeline of the legal process would only be known after the service of the legal suit on the purchaser in China. The Company will update shareholders on this matter when there are further developments.

c. The amount of S$6.69 million was derived by subtracting the amount due to the purchaser recorded in Lorenzo Furniture (Kunshan) Co., Ltd ("Lorenzo Kunshan") totalling S$7.81 million from the Company's gain on disposal of the Lorenzo Kunshan amounted to S$14.5 million.

During the analysis stage of the case mentioned in paragraph (a) above, the Company discovered discrepancy in the amount due to the purchaser of S$7.81 million between the Group's records and those of the purchaser. The differences relate to certain amounts which the Company believes should be excluded. In addition, the Company is unable to access the accounting records of Lorenzo Kunshan to verify the purchaser's claim since the purchaser took control of the Company in June 2021. The exact amount could only be determined in Court when information from both parties is presented for verification.

The Company's accounting policy on impairment of trade and other receivables can be found on page 82 of its FY2020 Annual Report. They are produced below:-

For other receivables, the Group and the Company apply the general approach to determine ECL. ECL is measured as an allowance equal to 12-month ECL for stage-1 (low credit risk) assets, or lifetime ECL for stage-2 (deterioration in credit risk) or stage-3 (credit impaired) assets. An asset moves from stage-1 to stage-2 when its credit risk increases significantly and subsequently to stage-3 as it becomes credit-impaired. In assessing whether credit risk has significantly increased, the Group and the Company consider qualitative and quantitative reasonable and supportable forward-looking information. Lifetime ECL represents ECL that will result from all possible default events over the expected life of a financial instrument whereas 12-month ECL represents the portion of lifetime ECL expected to result from default events possible within 12 months after the reporting date.

For trade receivables, the Group applies the simplified approach and uses a provision matrix to calculate ECL. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with current market conditions and forward-looking information. The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast of economic conditions.

All transactions for a particular financial year are duly recorded in the year they occur. Any events happening after the balance sheet date are considered for any adjustments required to the amount at any financial year end. The Company is of the view that it has considered all transactions and information available when preparing its financial statements every financial year end.

The Company assesses the recoverability of its receivables on a yearly basis and impairment will be provided when there is an indication that the receivables are not collectible due to the financial position of its debtors. To the best of the Company's knowledge, the purchaser has a strong financial position and in view of this, has not make any impairment to the receivables. In addition, the Company financial statements are subjected to audit by independent auditors. All audit adjustments (if any) are incorporated in the financial statements. Accordingly, the Company believes that the financial statements (including the $6.69 million receivable from the purchaser) should provide a true and fair view of the financial performance and financial position of the Company.

SGX-ST's Query 2

In response to Query 4, the Company stated that:

a. "Items 1 and 9 could be only resolved when it has repaid all the bank borrowings". Please disclose how will the Company be able to repay the bank borrowings as and when they fall due. Please set out the basis for the Board's views and to substantiate with details.

b. Pending repayment of its short term obligations when they fall due, please elaborate on the Board's efforts taken to-date to assess and resolve the outstanding intra-group financial guarantee contract liabilities in the financial statements, as highlighted by the auditors.

c. "Items 5, 6 and 7 should be resolved by the completion of the audit for the financial year ended 31 March 2022." Please specify the steps taken to resolve each of these outstanding issues, and explain how would the issues be resolved if the Company does not have the relevant documentary evidence to provide to the auditors.

d. "Item 4 should be resolved if the Company's auditors are able to communicate the borrowing rates to use for calculation of right of use assets timely". Please disclose whether the Company has engaged to its auditors for the purpose of resolving the matter, the date on which the Company reached out to the auditors and what was the auditor's response.

e. "It would be difficult to resolve items 2, 3, 8 and 10 as they were legacy issues brought forward from previous years." Please (i) disclose the years in which the issues were first raised by the auditors; (ii) what are the information / input required to resolve each of these issues and why the Company is / has been unable to provide them; and (iii) what are the actions taken / will be taken by the Company to ensure that the financial statements are unqualified in all respects.

In your response, you should address the outstanding issues set out in the auditor's report point-by-point and be as detailed as possible with data to substantiate the views of the directors.

Company's response

a. The Company would like to inform that the financial arrangements had expired in 2016 and 2020. The bank borrowings were initially classified as both current and non-current liabilities. It was reclassified wholly as current liabilities because no letter of extension was obtained from the bank in 2016. The Group had already settled a significant portion through the sale of its Singapore property in 2021. It has also sought indulgence from the banks in Singapore through its financial advisor, KPMG that was appointed in 2018 to review the financial position of the Company. To date, the banks have not demanded payment from the Company despite no letter of extension was provided. The banks had been informed that their outstanding borrowings would be repaid from the sale proceeds of Lorenzo Kunshan. The banks are being updated regularly on the progress of the recoverability process.

The auditor had also mentioned in Item 1 under the Appropriateness of going concern assumption on the non-preparation of cash flow projections. The Company would like to clarify that it actually monitor the cash flow of the Singapore business units on a daily basis to ensure that it is able to meet its short term operating requirements. The Management believes that this is more practical compared to a preparation of cash flow forecast to monitor cash flow for companies with cash flow constraints.

As for the non-provision of intra-group financial guarantee contract liabilities under Item 9, the Company had never been required to make any provision in the financial statements of previous years. The requirement to provide for such contract liabilities arose in FY 2020 from the adoption of SFRS (I) 9 Financial Instruments. The Board and management are working with the auditor to resolve this outstanding matter in the next financial audit.

b. The intra-group financial guarantee contract liabilities arose from the corporate guarantees provided to the banks for financing arrangements between the banks and the Company's subsidiaries in Singapore. Such contract liabilities would be discharged upon full payment of the bank borrowings. The Board are looking at all possible options to raise funds to repay the outstanding bank borrowings. One of them is the recoverability of the proceeds from the sale of Lorenzo Kunshan, another would be sourcing for new investors for the Company.

c. Item 5 and 6 relate to outstanding issues in regard to Lorenzo Kunshan. As Lorenzo Kunshan was considered disposed during financial year ended 31 March 2022 ("FY 2022"), Item 5.1 on reclassification of non-current asset to asset held for sale will not be required as it would already be disposed of in FY 2022. However, the reclassification will be carried out for the financial year ended 31 March 2021("FY 2021").

For Item 5.2 under Provision, the amount of RMB18 million would be taken into account in calculating the Group's gain on sale of subsidiary in FY 2022. The financial statements of Lorenzo Kunshan need not be audited as it is no longer part of the Group. Accordingly, Item 5.3 relating to incomplete books and records and Item 6 relating to Inventories of Lorenzo Kunshan would no longer be outstanding issues in FY 2022.

d. Item 4 on Incremental borrowing rates applied to the recognition of right-of-use assets and lease liabilities arose from the late completion of financial audit of the Company. The FY 2020 audit for both the Group's Malaysia and Taiwan business units were completed after their financial year end. The auditors have calculated the right-of-use assets and lease liabilities based on the borrowing rates in the respective countries which differ from the rate ascertained by the Company's auditor. The requirement to use a similar rate for the Group was only communicated to the auditors of the Malaysia and Taiwan units after they have completed their audit. The management has spoken to the Company's auditor to communicate their requirements earlier to the auditors in Malaysia and Taiwan.

The Company would like to inform that the audit for both FY 2021 and 2022 for Malaysia and Taiwan units have been duly completed. Management is working with the auditor to resolve this outstanding issue.

e. Item 2 was on the recoverability of amounts due from subsidiaries. This outstanding issue first appeared in the auditor's report in the financial year ended 31 March 2017 ("FY 2017"). The Company does not regard the amount due from subsidiaries to be payable on demand. These amount acts as an equity loan and could be converted to share capital in the subsidiary if required.

Item 3 on recoverability amount of non-financial assets and reversal of/and impairment losses also first appeared in the auditor's report in FY 2017. As at 31 March 2020, all investment in subsidiaries except its Taiwan business unit and the non-financial assets in the Group's Singapore business units have been fully impaired. As impairment has been fully provided for, the Company do not see any added value to compute value-in-use using estimated future discounted cash flows as it has no intention to reverse the impairment until it is able to resolve its going concern issue and sustain the profitability of the Group's financial performance.

Item 8 on amount due to contract customers first appeared in the auditor's report for the year ended 31 March 2018. This relates to the inability of the auditor to ascertain the opening balance amount of S$109,993 at 31 March 2018. The Group is unable to provide the required information to the auditor as it was lost when the subsidiary relocated office twice during 2016 and 2017. The management has done its best to find the missing documents but to no avail.

The incident mentioned in Item 10 on provision for claim and damages arose in 2011. Builder Shop became a subsidiary of the Group in 2012. It is the second defendant to the case and is jointly and severally liable for the sum stated in Item 10. The Group understands that the first defendant is currently appealing against the judgement. It also understand that Builder Shop would only be required to pay if the first defendant is unable to pay the whole damages. As the Group is uncertain of the exact amount that it would be liable, it thus did not provide for these claims and damages.

The business of Builder Shop was adversely affected by the incident and accordingly, its operations has been wound down gradually.

The Company understands that the auditor would not give an unqualified audit report as long as the going concern outstanding issue remains.

SGX-ST's Query 3

In relation to the Company' response to Query 5:

a. The Company stated that the Board does not see voluntary liquidation as a viable option as its business units in Malaysia and Taiwan were profitable. Please (i) quantify the revenue and net profit contributions from the Group's businesses in Malaysia and Taiwan in the past 3 financial years; and (ii) if these business units are contributing positively to the Company's financials, to explain why the Company is unable to provide an exit offer in its own capacity or to sell off these operations to provide the exit offer.

b. The Company stated that it is continuously exploring all possible options to procure an exit offer failing which, it may have to delist from the Mainboard without an exit offer. We remind the Company that pursuant to Listing Rules 1306 and 1309, it must provide a cash exit offer and such offer must be fair and reasonable as opined by an independent financial adviser. Please outline the Company's action plan to comply with the exit offer requirement. If the Company is unable to procure an exit offer, to specify what would be its alternative proposal(s).

Company's response

a. The revenue and net profit contributions from the Group's businesses in Malaysia and Taiwan in the past 3 financial years are stipulated below:-

	Malaysia S$'000	**Taiwan** S$'000
Revenue		
FY 2020	11,914	12,371
FY 2021	11,361	11,107
FY 2022	9,930	11,000

Net Profit/(loss) before tax		
FY 2020	(614)	484
FY 2021	632	670
FY 2022	1,509	1,312

From the above table, save for FY2020 where a loss of S$614,000 was recorded by the Malaysia unit, both units were contributing positively to the Group's bottom line.

Since 2016, when all banking facilities in Singapore were withdrawn by the banks, the Malaysia and Taiwan units were operating without any financial support from the holding company in Singapore. Any profits earned by the two units are ploughed back for their operational use. For Taiwan, royalty fees and dividends are paid to Singapore to finance the operations in Singapore. Accordingly, the positive results of the two business units are only sufficient to sustain the operations of the two countries.

As a substantial portion of the Group's liabilities were secured bank borrowings, any proceeds from either winding up or disposal of business units will be first utilised to repay the secured bank borrowings. In order to make an exit offer, the Company will need to source for a potential buyer to acquire the businesses at a price where there is still sufficient cash available after repayment of the Singapore bank borrowings. However, it is really difficult to source for one who is willing to pay the required price in this current economic climate.

b. The Company has mentioned in our response on 28 August 2023 that it may be the best interest of all shareholders for a white knight to invest in the Company and its shares can resume trading status but was told by SGX-ST that this is not possible as notification of delisting has already been issued to the Company. Accordingly, the remaining options available to the Company is to either convince one of its current shareholders to make an exit offer or to source for investors that are willing to buy out some shareholders and make an exit offer.

By Order of the Board

Lim Pang Hern
Executive Director
5 September 2023