

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED

### Report on the Audit of the Financial Statements

#### Disclaimer of Opinion

We were engaged to audit the financial statements of Lorenzo International Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 March 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the period from 1 January 2016 to 31 March 2017, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for Disclaimer of Opinion

##### (1) Appropriateness of going concern assumption

As discussed in Note 2(a) to the financial statements, as at 31 March 2017, the Group had net current liabilities of \$7,908,895 (31 December 2015: \$6,636,719) while the Company has a net current asset of \$2,460,290 (31 December 2015: \$776,143). The Group and the Company incurred a loss after tax of \$9,180,636 (year ended 31 December 2015: \$18,765,508) and \$1,767,523 (year ended 31 December 2015: \$10,489,418) and a total comprehensive loss of \$9,684,725 (year ended 31 December 2015: \$20,039,950) and \$1,767,523 (year ended 31 December 2015: \$10,489,418) respectively, and the Group had a negative net operating cash flows of \$603,581 for the financial period from 1 January 2016 to 31 March 2017 (year ended 31 December 2015: \$1,217,275).

The matters set out above and in Note 2(a) to the financial statements indicate the existence of a material uncertainty which cast a significant doubt on the Group's and the Company's ability to continue as a going concern. 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. Management had assessed the assumptions of the use of going concern by performing a profitability and cash flow projection for the next 12 months based on the sales and related forecast and the ability to source for re-financing of borrowings. Furthermore, a director cum shareholder of the Company had provided a financial undertaking to the Group and the Company to provide the necessary financial support to the Group and the Company to continue operations and meet their liabilities as and when they fall due within the next 12 months from the reporting date.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

### Basis for Disclaimer of Opinion (Cont'd)

#### (1) Appropriateness of going concern assumption (Cont'd)

The cash flow projection for the next 12 months from the reporting date prepared by management resulted in a deficit in net cash outflows. If the Group and Company are unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which may differ significantly from the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group and Company may have to provide for further liabilities that may arise and to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. Notwithstanding that a letter of financial undertaking had been provided by the director cum shareholder of the Company, we were unable to verify ourselves the accuracy and completeness over his personal liabilities and indemnities and thus the financial ability to render such financial support to the Group and the Company. Therefore, we are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

#### (2) Inventories

For two of the subsidiaries of the Group, the management asserted that they had conducted a physical count of the inventories as of 30 May 2017 and 14 August 2017 for each of the subsidiaries respectively. For these physical stock counts on 30 May 2017 and 14 August 2017, management did not involve the audit engagement team. Subsequent to the physical stock count, management had identified and adjusted for an aggregate difference of \$410,863 between the inventory listing and the general ledger as at 31 March 2017 for both subsidiaries. As part of our audit procedures over inventories, we had carried out a physical stock count on a sampling basis on 5 June 2017 and 19 August 2017 for each of the subsidiaries respectively. No material movement in inventories was noted between the physical counts conducted on 30 May 2017 and 5 June 2017; and 14 August 2017 and 19 August 2017, for each of the subsidiaries respectively. Based on the samples selected, we performed an inventory roll-back to the inventories as at 31 March 2017 using the inventory listings prepared by management as of 30 May 2017 and 14 August 2017 for each of the subsidiaries respectively. Discrepancies were noted between our sample count and the inventory listings furnished by management for these two subsidiaries. During our physical stocktake observation on 5 June 2017 and 19 August 2017, it was observed that there was no proper tagging or markings on the inventories against the product or item description on the inventory listing to facilitate the specific identification. Hence we were unable to establish with certainty over the ownership of the inventories.

Consequent to our inventory roll-back testing procedures, management did not carry out a physical re-count to the remaining of the inventory items on the stock listing as of 30 May 2017 and 14 August 2017. We are unable to satisfy ourselves with regard to the incomplete reconciliations prepared by management to reconcile the differences between the inventory roll-back to 31 March 2017 and the general ledger as at 31 March 2017. Management asserted that they would continue with this reconciliation subsequent to the date of this audit report. Owing to the significant differences noted from our sample count and that no physical re-count was performed by management to update the entire inventory listing as of 30 May 2017 and 14 August 2017, coupled with the absence of the proper identification over inventories, we were unable to satisfy ourselves by alternative means concerning the quantity and ownership of the inventories held at 31 March 2017 and their aggregated carrying amounts of \$1,388,459 as at 31 March 2017. As the quantity and ownership of the inventories recorded for both subsidiaries cannot be ascertained satisfactorily, we were thus unable to establish the completeness and accuracy over the valuation and costing of these inventories as at 31 March 2017.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

### Basis for Disclaimer of Opinion (Cont'd)

#### (3) Recoverable amount of property, plant and equipment and land use rights and impairment losses

The Group had carried out an impairment assessment over its property, plant and equipment and land use rights and identified 4 main Cash-Generating-Units (CGUs), defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The CGUs identified were the furniture business in Singapore (Retail CGU (Singapore)), the furniture business in Malaysia (Retail CGU (Malaysia)), rental income from the leasing from properties in China (Leasing CGU) and the building material business (Building Materials CGU). The recoverable amount should be based on the higher of the fair value less cost to sell and value-in-use basis of computation. The value-in-use should be computed using the estimated future cash flows discounted to the present values using pre-tax discount rates. However, no recoverable amount based on the value-in-use computation was determined for Retail CGU (Singapore) and Leasing CGU. Consequently, we were unable to satisfy ourselves by alternative means concerning the impairment loss and carrying amounts of the property, plant and equipment and land use rights with a net carrying value of \$11,781,487 (31 December 2015: \$22,281,040) included in those CGUs for the financial period ended 31 March 2017 and 31 December 2015 respectively.

The auditors' report of the Group for the financial year ended 31 December 2015 included a similar qualification on this matter.

#### (4) Recoverable amount of cost of investments in subsidiaries and amounts due from subsidiaries and impairment losses at Company level

The carrying values of investments in subsidiaries and amounts due from subsidiaries of Retail CGU (Singapore) and Leasing CGU at the Company level amounted to \$25,371,628 (31 December 2015: \$25,371,628) and \$4,960,718 (31 December 2015: \$3,209,270) respectively as at 31 March 2017. The recoverable amounts of subsidiaries should be determined based on the higher of fair value less cost to sell and value-in-use calculation which required the Company to estimate the future cash flows expected from the subsidiaries (or CGUs, where appropriate) and an appropriate discount rate applied in order to calculate the present value of the future cash flows. However, no recoverable amount based on the value-in-use computation was determined for Retail CGU (Singapore) and Leasing CGU. As at the reporting date, there were indicators of impairment as the Company's subsidiaries incurred losses for the past few years. Management did not determine the amount and timing of future cash flows based on historical loss experiences for assets within similar credit risk using the effective interest rate. In the absence of any alternative evidence available to us, we were unable to determine if any adjustments would be required to the carrying value of the cost of investments in subsidiaries and the amounts due from subsidiaries recorded at the Company level as of 31 March 2017 and 31 December 2015 respectively.

The auditors' report of the Group for the financial year ended 31 December 2015 included a similar qualification on this matter.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

## Basis for Disclaimer of Opinion (Cont'd)

### (5) Revenue recognition and recognition of trade receivables

One of the subsidiaries of the Group had recognised sales of \$2,000,000 to an external customer for the financial period ended 31 March 2017 in respect of a delivery of goods on 3 March 2017. In accordance with the accounting standard FRS 18 *Revenue Recognition*, revenue from the sale of goods is recognised when the entity:

- (i) has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (ii) retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (iii) the amount of revenue can be measured reliably;
- (iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The credit term stated on the sales invoice was based on cash term. No payment was received from the customer following the delivery of goods and issuance of invoice in March 2017. Based on our subsequent receipts review, only cash payment of \$200,000 was collected from the customer on 18 August 2017 and the balance of \$1,940,000 (inclusive of Goods and Services Tax) remained outstanding for more than 150 days as of the date of this report. In view of the fact that the substantial portion of the sales consideration had not been recovered from the customer, we were unable to establish the certainty of the inflow of economic benefits associated with the transaction as well as the related trade receivables.

## Other Matter

We expressed a qualified opinion in our report dated 16 May 2016 on the financial statements of Lorenzo International Limited and its subsidiaries for the financial year ended 31 December 2015 on those matters set out in items (3) and (4) in the Basis of Disclaimer of Opinion section above.

## Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan LLP  
*Public Accountants and  
Chartered Accountants*

Singapore, 6 October 2017

