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 following in response to the queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") to the Company in relation to the Company's results announcement for the half year financial period ended 30 September 2017 (the "**HY2018 Results Announcement**"):

SGX-ST's Query 1

It was disclosed on page 6 of the HY2018 Results Announcement that revenue for Furniture segment had decreased by S$4.5 million in HY2018. Please provide a discussion on the significant factors that led to the significant decrease in revenue in Furniture segment.

Company's response

The decrease in sales in the Furniture segment is driven primarily by the fall in sales in Singapore, Malaysia, China and export markets. Changing consumer tastes in favour of lower quality and lower priced furniture is believed to be major headwinds for the Company to sustain sales in these markets.

SGX-ST's Query 2

It was disclosed on page 6 of the HY2018 Results Announcement that the increase in other operating expense of S$1.3 million was mainly attributable to the retrenchment cost incurred in relation to the Group's production plants in China. Please provide necessary background to explain why retrenchment cost was so significant at S$1.3 million.

Company's response

The Group has two production plants in China, one held by Supreme Furniture (Kunshan) Co., Ltd ("**Supreme Kunshan**") and the other one held by Lorenzo International (Kunshan) Co., Ltd. ("**Lorenzo Kunshan**"). Both Supreme Kunshan and Lorenzo Kunshan have been loss-making throughout the previous years and the Company decided to shut down the two production plants in order to stem out the losses. Hence, all the workers in the two production plants totaling 162 persons were laid off.

Under the applicable labour laws in China ("**PRC Labour Laws**"), the amount of severance that must be paid to an employee being laid off is based primarily on that employee's wages and years of employment. The PRC Labour Laws provide that for each year (which is any period longer than six (6) months) the employee has worked for the employer, the employee will be entitled to one month's wages. For any period of employment of less than six (6) months, the employee will be entitled to half a month's wages. Of the 162 persons that were laid off, 63 were long-term employees who had been employed by the Group for eight (8) years and above. As a result, the total retrenchment cost had amounted to S$1.3 million.

SGX-ST's Query 3

It was disclosed on page 7 of the HY2018 Results Announcement that the increase in trade and other payables of S$7.2 million to S$21.7 million as at 30 September 2017 was attributable to, *inter alia*, the accruals of retrenchment cost in relation to the Group's production plants in China.

a. Please reconcile the increase of S$7.2 million to the disclosed retrenchment cost of S$1.3 million per question 2 above.
b. Please provide further details on the retrenchment exercise in China and the operation

status of the production plants in China. Please specify the affected production plants.

c. Please provide a discussion on how this retrenchment exercise will impact the Company's operations.

Company's response

a. The retrenchment cost of S$1.3 million formed part of the increase of S$7.2 million. The other part was attributable to delay in payments of operating payables as explained in the HY2018 Results Announcement.
b. As explained in response 2 above, the two production plants in China have ceased operations from August 2017.
c. The cessation of the two production plants in China will not impact the Company's operations as it still has a production plant in Malaysia and the availability of Original Equipment Manufacturers ("**OEM**") to manufacture the furniture products.

SGX-ST's Query 4

It was disclosed on page 7 of the HY2018 Results Announcement that the lower inventories was due to higher provision for stock obsolescence made during the financial period ended 31 March 2017. Please explain the correlation between the higher provision in the last financial period ended 31 March 2017 and the decrease in inventories in the current financial period ended 31 March 2018 and provide an aging schedule of the inventories.

Company's response

The Company would like to clarify that the lower inventories was mainly due to a reduction in purchases of inventory for the six (6)-month period ended 30 September 2017.

SGX-ST's Query 5

We refer to the disclosures made in paragraph 13 of the HY2018 Results Announcement in relation to the rental expenses paid and payable to a firm of which a director of the Company is a member. The Company mentioned that these rental expenses are an exception that falls under Rule 916(1) of the Listing Manual as the relevant tenancy agreement(s) provide for tenancy periods not exceeding 3 years and the terms of each such tenancy agreement are supported by independent valuation. Pursuant to Rule 916 of the Listing Manual, the exceptions are not required to obtain shareholder approval under Rule 906 of the Listing Manual. However, the Company is still required to comply with Rule 905 of the Listing Manual in making an announcement of the relevant interested person transactions with specific disclosures required under Rule 917 of the Listing Manual. Please disclose the relevant details required under Rule 917 of the Listing Manual.

Company's response

The Company wishes to inform the shareholders that the following tenancy agreements had been entered into:

(a) a tenancy agreement entered into between Builders Shop Pte Ltd ("**BSPL**"), a wholly-owned subsidiary of the Company, and Manufacture Element Prefabricate Pte Ltd ("**MEPL**") in respect of the premises situated at 23 Neythal Road, Singapore 628588 Block B #05-04 and Driveway ("**A Premises**") ("**Tenancy Agreement A**"); and

(b) a tenancy agreement entered into between BSPL and MEPL in respect of the premises situated at 23 Neythal Road, Singapore 628588 Block B #01-01A and Driveway ("**B Premises**") ("**Tenancy Agreement B**"),

(c) a tenancy agreement entered into between the Company and MEPL in respect of the premises situated at 23 Neythal Road, Singapore 628588 Block B #04-02 to #04-04 ("**C Premises**") ("**Tenancy Agreement C**", and together with Tenancy Agreement A and B, collectively the "**Tenancy Agreements**").

Mr Lim Pang Hern, a Director of the Company, holds an effective equity interest of 55.8% in

MEPL. Accordingly, MEPL is an associate (as defined under the Listing Manual) of Mr Lim Pang Hern and is treated as an interested person for purposes of Chapter 9 of the Listing Manual.

Details of the Tenancy Agreements

Pursuant to Tenancy Agreement A, BSPL will lease the A Premises for a period of three (3) years. The estimated rental fee payable for the duration of this lease is S$784,800. The A Premises occupies a floor area of 21,800 square feet and is currently used by BSPL as a warehouse. The rental fees were arrived at after arms' length negotiations between the parties and is computed based on a fixed rate.

Pursuant to Tenancy Agreement B, BSPL will lease the B Premises for a period of three (3) years. The estimated rental fee payable for the duration of this lease is S$230,400. The B Premises occupies a floor area of 4,000 square feet and is currently used by BSPL as its office premises. The rental fees were arrived at after arms' length negotiations between the parties and is computed based on a fixed rate.

Pursuant to Tenancy Agreement C, the Company will lease the C Premises for a period of three (3) years. The estimated rental fee payable for the duration of this lease is S$3,139,200. The C Premises occupies a floor area of 87,200 square feet and is currently used by the Company and its subsidiaries (other than BSPL) as office premises and warehouse space. The rental fees were arrived at after arms' length negotiations between the parties and is computed based on a fixed rate.

Rationale for the Tenancy Agreements

The Tenancy Agreements have been assessed to be in the interests of the Group after taking into consideration the preferential rental rate and the consolidation of the Group's operations in one single location.

*Tenancy Agreements as interested person transactions ("**IPTs**") and Rule 916(1) of the Listing Manual*

The estimated aggregate rental fees for the A Premises, the B Premises and the C Premises payable for the entire three (3)-year duration of the leases is S$4,154,400 and represents 44.55% of the Group's latest audited net tangible assets ("**NTA**"). The latest audited NTA as at 31 March 2017 was S$9,325,266.

Each lease is for a period not exceeding three (3) years and the terms of each of the Tenancy Agreements are supported by independent valuation reports from Century 99 Pte Ltd (the "**Valuation Reports**"). Based on the Valuation Reports, the rental rates charged by MEPL to the Group are below prevailing market rates.

Pursuant to Rule 916(1) of the Listing Manual, a listed issuer is not required to comply with Rule 906 of the Listing Manual to obtain shareholders' approval with respect to entering into, or renewal of a lease or tenancy of real property of not more than three (3) years if the terms are supported by independent valuation. As each of the Tenancy Agreements is for a term of three (3) years and the terms herein are supported by the Valuation Reports, the entry into the Tenancy Agreements thus fall within the exception under Rule 916(1) of the Listing Manual.

Total value of all IPTs

The entry into the Tenancy Agreements with MEPL are the only IPTs (excluding transactions which are less than S$100,000) of the Group for the current financial year-to-date.

Accordingly, the total value during the current financial year-to-date of all transactions with MEPL (excluding transactions which are less than S$100,000), which also constitute all of the IPTs of the Group so far, is S$901,000, representing 9.7% of the Group's latest audited NTA.

Interest of Directors and Controlling Shareholders

Save as disclosed herein, none of the Directors or controlling shareholders of the Company has any direct or indirect interest (other than through their respective shareholdings in the Company), in the Tenancy Agreements.

By Order of the Board

Lim Pang Hern
Executive Director / Deputy Chairman
21 November 2017