

Independent auditor's report to the members of Lorenzo International Limited

Report on the financial statements

We have audited the accompanying 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 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility 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 Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independent auditor's report to the members of Lorenzo International Limited (Cont'd)

Basis for qualified opinion

Valuation of non-financial assets (Retail CGU)

We draw your attention to Notes 4, 5, 6 and 9 to the financial statements:

- (a) The carrying values of investments in subsidiaries and amounts due from subsidiaries of the Retail Cash-Generating Unit (CGU) at the Company level amounted to \$25,371,628 (2014: \$25,371,628) and \$3,209,270 (2014: \$4,542,480) respectively as at 31 December 2015.
- (b) The aggregate carrying values of property, plant and equipment and land use rights of the Group relating to Retail CGU amounted to \$22,281,040 (2014: \$24,515,523) as at 31 December 2015.

Management determined the recoverable amounts for the cost of investments in subsidiaries, amounts due from subsidiaries, property, plant and equipment and land use rights (collectively the Assets) of the Retail CGU at the end of the reporting period using the higher of the fair value less cost to sell and value-in-use basis of computation. The value-in-use is computed based on their estimated future cash flows discounted to the present values using pre-tax discount rates as determined by management. An impairment loss is required based on the value-in-use basis of computation of the recoverable amounts of the Assets but management did not recognise any impairment losses in the profit or loss for the financial year ended 31 December 2015.

The management is of the opinion that the fair value less cost to sell of the Assets will be higher than the respective carrying values of the Assets at the reporting date and concluded that no impairment loss is required on the Assets.

As of the date of this report, we have yet to receive the valuation reports on the Retail CGU's property, plant and equipment whereby the recoverable amounts of the Assets will be prepared based on the fair value less cost to sell method. In the absence of any alternative evidence available to us, we are unable to determine if any adjustments will be required to the Assets at the reporting date.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs above, the consolidated financial statements of the Group and the statement of financial position of the Company as at 31 December 2015 are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date.

Emphasis of matter

The Group incurred a net loss of \$18.8 million (2014: profit of \$3.5 million) and has net operating cash outflows of \$1.2 million (2014: \$4.1 million) for the financial year ended 31 December 2015; and as at that date, the Group's and the Company's accumulated losses amounted to \$13.9 million (2014: retained earnings of \$4.8 million) and \$10.3 million (2014: retained earnings of \$143,935) respectively. In addition, the Group's current liabilities exceeded the current assets by \$6.6 million (2014: positive working capital of \$6.7 million) as at 31 December 2015.

Independent auditor's report to the members of Lorenzo International Limited (Cont'd)

Emphasis of matter (Cont'd)

The total equity of the Company of \$26.2 million as at 31 December 2015 was also higher than the total equity of the Group of \$15.6 million, and as of that date, the Group had a negative cash and cash equivalents of \$3.8 million in the consolidated statement of cash flows.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as going concerns. On the basis that

- (a) the Group has cash balances of \$2.7 million which can be used for daily working capital purposes;
- (b) the liabilities owing to the banks totalling \$18.9 million will be partially repaid from the possible sale of certain properties of the Group with a carrying value totalling \$16.1 million;
- (c) subsequent to the reporting date, the Company has completed the placement of 60,000,000 ordinary shares of the Company at a price of \$0.02 each share, resulting in additional funds of \$1.2 million; and
- (d) the Group has prepared a profit and cash flow forecast for the next 12 months after the reporting date indicating that there will be sufficient cash balances taking into account the above factors.

The directors are, therefore, of the view that the going concern assumption is appropriate for the preparation of these financial statements and that debts owing will be paid as and when they fall due as the directors believe that the Group and the Company will be able to generate sufficient operating cash flows. Our opinion is not qualified in respect of this matter.

The accompanying financial statements do not include any adjustments relating to the realisation and classification of asset amounts that may be necessary if the Group and the Company are unable to continue as going concerns. Should the going concern assumption be inappropriate, adjustments would have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No adjustments have been made in the financial statements in respect of these.

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, 16 May 2016

Notes to the financial statements for the financial year ended 31 December 2015

4 Property, plant and equipment

	Office equipment \$
The Company	
<u>Cost</u>	
At 1 January 2014	42,179
Additions	-
At 31 December 2014	42,179
Additions	63,878
Disposal	(2,067)
At 31 December 2015	103,990
<u>Accumulated depreciation</u>	
At 1 January 2014	40,860
Depreciation	640
At 31 December 2014	41,500
Depreciation	1,534
Disposal	(115)
At 31 December 2015	42,919
<u>Net book value</u>	
At 31 December 2015	61,071
At 31 December 2014	679

	Leasehold properties \$	Factory buildings \$	Plant, machinery and equipment \$	Motor vehicles \$	Total \$
The Group					
<u>Cost</u>					
At 1 January 2014	8,414,061	14,140,969	17,949,652	4,233,086	44,737,768
Additions	219,298	-	1,244,318	668,060	2,131,676
Disposals	-	-	(1,440,539)	(750,953)	(2,191,492)
Translation differences	(121,992)	270,511	38,955	(17,784)	169,690
At 31 December 2014	8,511,367	14,411,480	17,792,386	4,132,409	44,847,642
Additions	-	-	875,981	217,329	1,093,310
Disposals	-	-	(456,164)	(151,719)	(607,883)
Translation differences	(820,383)	311,088	(839,762)	(172,582)	(1,521,639)
At 31 December 2015	7,690,984	14,722,568	17,372,441	4,025,437	43,811,430
<u>Accumulated depreciation</u>					
At 1 January 2014	1,138,628	3,436,408	11,184,891	2,740,361	18,500,288
Depreciation	134,589	722,819	1,852,399	663,016	3,372,823
Disposals	-	-	(942,424)	(436,201)	(1,378,625)
Translation differences	(13,814)	65,734	34,795	(6,460)	80,255
At 31 December 2014	1,259,403	4,224,961	12,129,661	2,960,716	20,574,741
Depreciation	130,732	728,931	1,580,088	500,856	2,940,607
Impairment losses	-	-	288,773	137,226	425,999
Disposals	-	-	(243,909)	(143,913)	(387,822)
Translation differences	(101,516)	91,200	(623,899)	(145,961)	(780,176)
At 31 December 2015	1,288,619	5,045,092	13,130,714	3,308,924	22,773,349

4 Property, plant and equipment (Cont'd)

The Group	Leasehold properties \$	Factory buildings \$	Plant, machinery and equipment \$	Motor vehicles \$	Total \$
<u>Net book value</u>					
At 31 December 2015	6,402,365	9,677,476	4,241,727	716,513	21,038,081
At 31 December 2014	7,251,964	10,186,519	5,662,725	1,171,693	24,272,901

As at 31 December 2015, the net book value of property, plant and equipment acquired under finance leases amounted to \$497,944 (2014 - \$755,969) and \$101,410 (2014 - \$673,823) in respect of motor vehicles and office equipment, respectively.

As at 31 December 2015, the Group's leasehold properties with carrying amount of \$6,402,365 (2014 - \$7,251,964) are mortgaged to financial institutions to secure bank borrowings (Note 14).

Impairment testing of property, plant and equipment and land use rights and cost of investments in and amounts due from subsidiaries (Note 4, Note 5, Note 6 and Note 9)

The Group's cash-generating units ("CGUs") were identified according to the operating subsidiaries in the retail, export, licensing retail systems and building materials operating segments (namely the "Retail" and "Building Materials" segments).

As at 31 December 2015, under the requirements of FRS 36, Impairment of Assets, the losses for the past few years and negative operating cash flows for the current year were indicators of impairment which requires management to perform impairment testing of the property, plant and equipment and land use rights and cost of investments in and amounts due from subsidiaries (the "Assets"). The carrying amounts of the Assets are set out in Note 4, Note 5, Note 6 and Note 9.

The Group carried out a review of the recoverable amount of the Assets. The recoverable amount is the higher of fair value less costs to sell and value-in-use. The review led to the recognition of an impairment loss of \$425,999 (2014: \$Nil) mainly for plant and equipment at the Group level and \$4,882,732 (2014: \$Nil) for the cost of investments at the Company level in relation to the Building Materials CGU.

Impairment loss on the Building Materials CGU

The value-in-use calculation is a discounted cash flow model using cash flow projections based on the most recent financial budgets approved by the Board of Directors covering the five-year period ending 31 December 2020. Cash flows belong the five-year period are extrapolated using the estimate rates stated below:

	<u>Retail CGU</u>		<u>Building Materials CGU</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	%	%	%	%
Average growth rate	-	10.0	0 to 2	10.0
Discount rate (Pre-tax)	-	11.6	11.0	21.1
Terminal growth rate	-	3.0	1.5	3.0

4 Property, plant and equipment (Cont'd)

Impairment testing of property, plant and equipment and land use rights and cost of investments in and amounts due from subsidiaries (Note 4, Note 5, Note 6 and Note 9) (Cont'd)

Impairment loss on the Building Materials CGU (Cont'd)

These assumptions were used for the analysis of Building Materials CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations of the market developments. The weighted average growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments. The terminal growth rate used for the CGU does not exceed management's expectation of the long term average growth rate of the industry and country in which the CGU operates.

The above-estimates are particularly sensitive in the following areas:

- (a) An increase of two percentage point in the discount rate used would have increased the impairment loss by \$Nil (2014 - \$1,677,000).
- (b) A 2% decrease in future grow margin would have increased the impairment loss by \$Nil (2014 - \$402,000).

The recoverable amounts for Building Materials CGU have been estimated to be lesser than the carrying amounts of the operational CGU, and an impairment loss of \$425,999 (2014: \$Nil) on plant and equipment at the Group level and \$4,882,732 (2014: \$Nil) of impairment loss on cost of investments at the Company level is required as at 31 December 2015.

Impairment testing on the Retail CGU

- (a) The carrying values of investments in subsidiaries and amounts due from subsidiaries at the Company level of the Retail CGU amounted to \$25,371,628 (2014: \$25,371,628) and \$3,209,270 (2014: \$4,542,480) respectively as at 31 December 2015.
- (b) The aggregate carrying values of property, plant and equipment and land use rights of the Group relating to Retail CGU amounted to \$22,281,040 (2014: \$24,515,523) as at 31 December 2015.

Management determined the recoverable amounts for the cost of investments in subsidiaries, amounts due from subsidiaries, property, plant and equipment and land use rights (collectively the Assets) at the end of the reporting period using the higher of the fair value less cost to sell and value-in-use basis of computation. The value-in-use is computed based on their estimated future cash flows discounted to the present values using pre-tax discount rates as determined by management. An impairment loss is required based on the value-in-use basis of computation of the recoverable amounts of the Assets but management did not recognise any impairment losses in the profit or loss for the financial year ended 31 December 2015.

The management is of the opinion that the fair value less cost to sell of the Assets will be higher than the respective carrying values of the Assets at the reporting date and concluded that no impairment loss is required on the Assets.

The valuation report based on the fair value less cost to sell method is presently not made available as of the date of this report.

Notes to the financial statements for the financial year ended 31 December 2015

5 Land use rights

	2015 \$	2014 \$
The Group		
Cost:		
At 1 January	1,596,341	1,584,301
Translation differences	34,459	12,040
At 31 December	1,630,800	1,596,341
Accumulated amortisation:		
At 1 January	347,353	309,147
Amortisation	32,989	32,292
Translation differences	7,499	5,914
At 31 December	387,841	347,353
Net book value:		
At 1 January	1,248,988	1,275,154
At 31 December	1,242,959	1,248,988
Represented by:		
Current	32,989	32,292
Non-current	1,209,970	1,216,696
	1,242,959	1,248,988

Impairment testing of land use right of Retail CGU

There were indicators of impairment as the Group's subsidiaries incurred losses for the past few years. Management performed impairment testing based on the procedures described in Note 4 and no impairment losses were considered necessary as at 31 December 2014. See Note 4 for details of 2015 impairment testing.

6 Subsidiaries

	2015 \$	2014 \$
The Company		
Unquoted equity investments, at cost	34,988,360	34,988,360
Accumulated impairment losses:		
At 1 January	(4,734,000)	(4,734,000)
Impairment loss	(4,882,732)	-
At 1 January and 31 December	(9,616,732)	(4,734,000)
	25,371,628	30,254,360
<u>Comprising carrying amount of:</u>		
Retail CGU	25,371,628	25,371,628
Building Materials CGU	-	4,882,732
	25,371,628	30,254,360

Impairment testing of investment in subsidiaries

The recoverable amount of the subsidiary, as a cash-generating unit, was determined based on the value-in-use calculation. The recoverable amount was determined to be higher than the carrying amount of the cost of investment and no impairment loss was necessary at 31 December 2014. See Note 4 for details of 2015 impairment testing.

Notes to the financial statements for the financial year ended 31 December 2015

6 Subsidiaries (Cont'd)

Impairment testing of investment in subsidiaries (Cont'd)

	2015 \$	2014 \$
The Company – Building Materials CGU		
Cost of investment in a subsidiary	9,616,732	9,616,732
Recoverable amount	-	(4,882,732)
Impairment required	9,616,732	4,734,000
Impairment on cost of investment b/f	4,734,000	4,734,000
Current year impairment	4,882,732	-
Impairment on cost of investment c/f	9,616,732	4,734,000

The subsidiaries are:

The subsidiaries are:

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>		<u>Principal activities</u>
		2015 %	2014 %	
<u>Held by the Company</u>				
Uhin Holding Pte Ltd #	Singapore	100	100	Investment holding and trading of sofa sets, wood-based furniture and accessories
Lorenzo International (Kunshan) Co., Ltd. **	People's Republic of China	100	100	Manufacturing and sale of wood-based furniture
Builders Shop Pte Ltd #	Singapore	100	100	Investment holding and trading of building materials and contractors for construction
<u>Held by Uhin Holding Pte Ltd</u>				
Uhin Sofa Sdn Bhd *	Malaysia	100	100	Investment holding and manufacturing and sale of sofa sets
Supreme Furnishing Centre Pte Ltd #	Singapore	100	100	Retail sale of furniture
Uhin International Co., Ltd *	Republic of China	100	100	Retail sale of furniture
Lorenzo Furniture (Shanghai) Co., Ltd. **	People's Republic of China	100	100	Retail sale of furniture
<u>Held by Supreme Furnishing Centre Pte Ltd</u>				
Supreme Furniture (Kunshan) Co., Ltd. **	People's Republic of China	100	100	Manufacturing and sale of sofa sets
<u>Held by Uhin Sofa Sdn Bhd</u>				
Ginova Furnishing Sdn Bhd *	Malaysia	100	100	Investment holding and provision of management services
Monica Design Sdn Bhd *	Malaysia	100	100	Inactive
Uhin Wood Industries Sdn Bhd *	Malaysia	100	100	Manufacturing and supply of wooden frames
<u>Held by Ginova Furnishing Sdn Bhd</u>				
Ginova Marketing Sdn Bhd *	Malaysia	100	100	Retail sale of furniture

Audited by Foo Kon Tan LLP

* Audited by other firms of auditors

** Audited by Foo Kon Tan LLP for consolidation purposes

Notes to the financial statements for the financial year ended 31 December 2015

8 Inventories (Cont'd)

During the financial year ended 31 December 2014, a net amount of \$1,501,288 in respect of allowance for inventory obsolescence was reversed to the profit or loss due to the recovery of selling price and excessive provisions made in prior years. In the current financial year, allowance made for write-down of slow-moving inventories to net realisable value amounted to \$3,205,775.

During the current financial year, the Group wrote off inventories that were no longer used in production amounting to \$31,265 (2014 - \$80,547) (Note 20).

9 Trade and other receivables

	The Company		The Group	
	2015	2014	2015	2014
	\$	\$	\$	\$
Current				
Trade receivables				
- third parties	-	-	6,361,604	12,558,691
(A)	-	-	6,361,604	12,558,691
Less: Allowance for impairment				
At 1 January	-	-	113,509	303,251
Impairment loss recognised (Note 20)	-	-	2,579,444	87,223
Amounts utilised	-	-	(2,000)	(276,965)
At 31 December (B)	-	-	2,690,953	113,509
Net trade receivables (A)-(B)	-	-	3,670,651	12,445,182
Current				
Other receivables:				
Amounts due from customers for contracts				
work-in-progress (Note 10)	-	-	1,228,745	1,996,069
Other receivables	2,800,238	-	3,407,743	610,615
Less: Allowance for impairment on other				
receivables	(2,800,000)	-	(2,800,000)	-
Net other receivables	238	-	1,836,488	2,606,684
Lease deposits	99,000	99,000	1,089,543	2,630,395
Other deposits	31,330	-	229,499	251,167
Amounts due from subsidiaries (non-trade)	3,209,270	4,542,480	-	-
Total loans and receivables	3,339,838	4,641,480	6,826,181	17,933,428
Prepayments	45,452	86,030	595,428	773,159
Advances to suppliers	-	-	1,325,177	882,020
Tax recoverable	-	-	382,640	90,835
Total current trade and other receivables	3,385,290	4,727,510	9,129,426	19,679,442
Non-current				
Other receivables:				
Retention sums receivable	-	-	574,726	486,386
Total non-current other receivables	-	-	574,726	486,386

Non-trade amounts due from subsidiaries, comprising mainly advances, are unsecured, interest-free and are to be settled in cash on demand.

Notes to the financial statements for the financial year ended 31 December 2015

9 Trade and other receivables (Cont'd)

Impairment testing of amount due from subsidiaries

There were indicators of impairment as the Group's subsidiaries incurred losses for the past few years. Management performed impairment testing based on the procedures described in Note 4 and no impairment losses were considered necessary as at 31 December 2014. See Note 4 for details of 2015 impairment testing.

Trade and other receivables are denominated in the following currencies:

	The Company		The Group	
	2015	2014	2015	2014
	\$	\$	\$	\$
Current				
Singapore dollar	3,385,290	4,727,510	4,501,180	6,650,213
United States dollar	-	-	1,324,478	9,667,544
Malaysian ringgit	-	-	2,103,732	1,834,031
New Taiwan dollar	-	-	843,665	577,335
Renminbi	-	-	356,371	950,319
	3,385,290	4,727,510	9,129,426	19,679,442
Non-current				
Singapore dollar	-	-	574,726	486,386

Trade receivables are granted credit terms ranging from 30 to 60 days (2014 – 30 to 60) days.

The credit risk for trade receivables based on the information provided by key management is as follows:

The Group	2015	2014
	\$	\$
<u>By geographical area</u>		
Singapore	6,100,265	11,690,655
People's Republic of China	251,978	538,768
Malaysia	374,756	660,870
Other countries	209,331	154,784
	6,936,330	13,045,077

The ageing analysis of loans and receivables that are past due and not impaired as follows:

The Group	2015		2014	
	Gross	Impairment losses	Gross	Impairment losses
	\$	\$	\$	\$
Past due less than 30 days	932,094	-	7,287,470	-
Past due 31 to 60 days	316,010	-	2,509,373	-
Past due over 60 days	7,349,866	(5,490,953)	694,402	(113,509)
	8,597,970	(5,490,953)	10,491,245	(113,509)

Financial assets that are neither past due nor impaired (the Group)

As of 31 December 2015, loans and receivables of \$3,719,164 (2014 - \$7,555,692) are not past due and not impaired. Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due up to 60 days as they mainly arise from customers that have a good credit record with the Group.

Notes to the financial statements for the financial year ended 31 December 2015

9 Trade and other receivables (Cont'd)

Financial assets that are past due but not impaired (the Group)

As of 31 December 2015, loans and receivables of \$1,248,104 (2014 - \$9,796,843) are past due but not impaired. Based on historical records, the Group believes that no impairment allowance is necessary in respect of trade and other receivables past due up to 60 days. These receivables are mainly arising by customers that have a good credit record with the Group.

Financial assets that are past due and impaired (the Group)

As of 31 December 2015, loans and receivables of \$7,349,866 (2014 - \$694,402) are past due and impaired. In the year ended 31 December 2015, the Group assessed the recoverability of trade and other receivables past due and recognised an impairment loss of \$2,579,444 (2014: \$87,223) for trade receivables and \$2,800,000 (2014: \$Nil) for other receivables (see note below) respectively. The impaired trade and other receivables arise mainly due to those balances which are not considered to be collectible.

Impairment loss – other receivables

The Company paid a refundable deposit of \$2.8 million (2014: \$Nil) to a third party (the “Vendor”) for the proposed acquisition of a new medical business during the year ended 31 December 2015. The proposed acquisition plan did not materialise and as the Vendor is facing financial difficulties, the Company has provided for the entire deposit outstanding and recognised an impairment loss of \$2.8 million (2014: \$Nil) in the profit or loss as it is considered irrecoverable from the Vendor.

Please refer to Note 27 for details of credit risk and foreign currency risk exposures.

10 Contracts work-in-progress

The Group	Note	2015 \$	2014 \$
Contracts work-in-progress at end of the reporting period:			
Contract costs incurred and attributable profits		9,348,654	8,916,816
Less: Progress billings		(8,119,909)	(6,920,747)
		1,228,745	1,996,069
<i>Presented as:</i>			
Amounts due from customers (included in trade and other receivables)	9	1,228,745	1,996,069
(i) Contract revenue recognised during the year		5,045,424	4,761,662
(ii) Advances received on construction contracts		44,557	195,771
(iii) Retentions on construction contracts		574,726	509,151

11 Cash and cash equivalents

	The Company		The Group	
	2015 \$	2014 \$	2015 \$	2014 \$
Fixed deposits	-	-	360,586	1,304,939
Cash on hand	1	1	106,090	128,730
Cash at bank	7,945	2,235	2,267,079	6,658,122
	7,946	2,236	2,733,755	8,091,791