

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 announcement dated 7 December 2020 under Proposal Disposal of Lorenzo Furniture (Kunshan) Co., Ltd.

SGX-ST’s Query 1

*We refer to Lorenzo International Limited (the “**Company**”) announcement in relation to the proposed disposal of the Company’s entire shareholding interest in its wholly-owned subsidiary, Lorenzo Furniture (Kunshan) Co., Ltd. for an aggregate consideration of RMB 88 million to Shanghai Kunhao Wood Industry Co., Ltd. Please disclose the concerns surrounding the proposed disposal and whether the independent directors have taken any actions to verify the veracity of the transactions. Please disclose the steps taken by the Audit Committee to safeguard the interest of the Company and its public shareholders.*

Company’s response

The Company would like to highlight that a first draft circular was submitted to SGX-ST on 4 October 2019 for its review pursuant to Rule 1204 of the Listing Manual. The Company responded to the first two sets of questions raised by SGX-ST on 29 October 2019 and 13 November 2019 on 31 October 2019 and 19 November 2019 respectively. A further two set of questions were raised by SGX-ST on 20 November 2019 and 21 November 2019. On 29 November 2019, the Company received an outcome letter from SGX-ST advising that it is returning the first draft circular for the Company to respond to the third and fourth set of questions.

The Company submitted a revised draft circular (“Second Circular”) including the responses to the third and fourth set of questions raised in the first draft circular, to SGX-ST for its review on 7 October 2020. The Company responded to a further two sets of questions on 22 October 2020 and 27 October 2020 that were raised on 20 October 2020 and 23 October 2020 respectively.

On 16 November 2020, the Company received an outcome letter from SGX-ST advising that it was unable to clear the Second Circular until the Audit Committee of the Company has completed its independent investigations into the concerns raised by SGX-ST as follows: -

- a. The Proposed Disposal is a legal binding agreement;
- b. The Company putting in place adequate safeguards for the payment of the Purchase Consideration that will ensure that the Company will receive the full amount of consideration for the sale of the China Subsidiary; and
- c. The Audit Committee having completed an independent investigation into and taken appropriate actions where necessary in relation to:
 - i. The veracity of Proposed Disposal and the parties involved;
 - ii. Amounts due to the trade and other creditors of Lorenzo Kunshan of approximately S\$0.94 million; and
 - iii. Payments made by Uhin Holding Pte Ltd to trade and other creditors of Lorenzo Kunshan on behalf of Lorenzo Kunshan between 2012 and 2017 amounting to approximately S\$5.46 million.

The Audit Committee would like to advise that the Company is currently reviewing a draft engagement letter from KPMG Forensic Services with a view to engage them to carry out the special investigation to address the concerns stipulated above.

The Audit Committee will review the findings from the special investigation and work with all the relevant parties to tighten internal controls, if required, to safeguard the interests of the Company and its public shareholders.

SGX-ST's Query 2

In the Company's announcement on the 16 November 2020, the Company disclosed that "The Company would be engaging a legal counsel to represent it in the said lawsuit". Please disclose if the Audit Committee is the party selecting, engaging and working with the legal counsel on its engagement and terms of reference. To disclose what the Audit Committee has done to verify the veracity of the lawsuit and in the appointment of the legal counsel to ensure that the legal counsel will defend the Company's interest in view of the concerns surrounding the proposed disposal.

Company's response

The Company wishes to clarify that the Management of the Company is the party selecting, engaging and working with the legal counsel on the terms of reference. The Audit Committee would like to emphasize that handling of lawsuit and appointment of legal counsel for that purpose are part of the operational duties of the Management of the Company. The Audit Committee and the Board of Directors have been kept abreast of all relevant developments relating to the lawsuit and the engagement of legal counsel to defend the Company against the lawsuit. In the absence of any other salient facts, the Audit Committee and the Company's Management views the lawsuit as a serious matter and will defend its position with all available resources.

SGX-ST's Query 3

On 7 December 2020, the Company disclosed that it had engaged Shanghai Shenyu Law Firm to represent it in the lawsuit stipulated in the announcement dated 16 November 2020. To disclose whether Shanghai Shenyu had been informed of the concerns raised in question 1 in relation to the proposed disposal. If not, please ensure that the Audit Committee provides the relevant information to Shanghai Shenyu Law Firm and to work with Shanghai Shenyu Law Firm to ensure that the Company's interest is safeguarded.

Company's response

The Company would like to clarify that the lawsuit by the Purchaser of Lorenzo Kunshan was for delay in the completion of the sale of Lorenzo Kunshan. The special investigations on the concerns raised in question 1 in relation to the proposed disposal will further delay the completion of the disposal. Shanghai Shenyu Law Firm has been informed of the non-clearance of the Second Circular and the Company is working closely with the legal counsel to ensure that the best outcome is achieved for the Company.

SGX-ST's Query 4

On 7 December 2020, the Company also disclosed that Shanghai Shenyu Law Firm advised that the proposed disposal of Lorenzo Furniture (Kunshan) Co., Ltd would be in force in the event that the Court judges in favour of the Purchaser notwithstanding that approval has not been obtained from the relevant authority and shareholders of the Company in Singapore. To provide the name, details and track record of the lawyer(s) providing this advice. To also disclose their track record in defending listed issuers and in similar court cases with similar transaction sizes and how their track record is appropriate for this advice.

Company's response

The legal counsel from Shanghai Shenyu Law firm, representing the Company for the lawsuit is Miss Victoria Yang. Miss Yang is an attorney at law in China and a senior attorney of Shanghai Shenyu and has over 10 years of legal practice in China.

Miss Yang was formerly in charge of legal affairs of a group of companies in Hong Kong and is the legal consultant of a listed company in China. Her areas of scope include mergers and acquisition, contract disputes and construction and real estate development disputes. Miss Yang has represented several Chinese group of companies in construction contract related dispute, equity and acquisition project and economic contract disputes.

Her profile can be found under the website of Shanghai Shenyu at www.sylegal.com.

SGX-ST's Query 5

Please disclose details of Shanghai Shenyu Law Firm, its reputation, size and track record, its terms of reference, how the Company was introduced to the law firm and who in the Company dealt with the lawyer and law firm to obtain this advice, his name and designation, scope of work and responsibilities of this liaison and how the full situation of the Company was communicated to the lawyer.

Company's response

The details of Shanghai Shenyu Law Firm can be found on its website www.sylegal.com.

Shanghai Shenyu has 4 partners, 13 practicing lawyers and 5 assistant lawyers and administrative staff. It is a comprehensive law firm and has undertaken a large number of civil and commercial litigation and non-litigation cases in marine and maritime, international trade, foreign investment, bank insurance, intellectual property rights, economic contracts etc.

Shanghai Shenyu was recommended by a business associate of our Executive Director, who has engaged the law firm for their business in China. Mr. Teo Kok Meng, Chief Financial Officer of the Company, was tasked with the responsibility to liaise with the legal counsel on the said lawsuit. All relevant information and documents relating to the lawsuit are communicated to the lawyer by email and phone calls.

SGX-ST's Query 6

Please elaborate on the basis how Shanghai Shenyu Law Firm came to the conclusion that the proposed disposal would be in force notwithstanding that the relevant approval has not been obtained from the relevant authority and shareholders of the Company in Singapore.

Company's response

The Company would like to clarify that the applicable law for the Share Transfer Agreement ("Agreement") signed between the Purchaser and the Company in July 2019, is Chinese law. Under Chinese law, the Court will try the case based on the terms and conditions of the Agreement and relevant provision of Chinese law, without adopting relevant provisions and requirements of Singapore.

In view of the fact that the applicable law is Chinese law, Shanghai Shenyu opined that the proposed disposal would be in force notwithstanding that the relevant approval has not been obtained from the relevant authority and shareholders of the Company in Singapore.

SGX-ST's Query 7

Please explain the relationship between the purchaser Shanghai Kunhao Wood Industry Co., Ltd and the Company, whether the purchaser is connected or affiliated to the controlling shareholders, directors and/or management of the Company. Please also fully disclose all historical transactions between the purchaser and the Company

Company's response

The Company wishes to highlight that the Purchaser, Shanghai Kunhao Wood Industry Co., Ltd ("Shanghai Kunhao") is currently the sole tenant of the Property owned by Lorenzo Kunshan pursuant to a lease agreement dated 18 July 2017.

Shanghai Kunhao, has also extended loans which in aggregate amount to RMB 8.30 million between January 2018 and May 2018 for the settlement of retrenchment costs of workers of Lorenzo Kunshan (RMB 3.30 million) and repairs and refurbishment of buildings on the property (RMB 5.00 million) owned

by Lorenzo Kunshan. The Purchaser extended further loans which in aggregate amount to RMB 1.86 million between June 2018 to March 2019 for the repayment of bank loans.

The Company would like to clarify that Shanghai Kunhao is not an associate of any of the controlling shareholders, directors and/or management of the Company.

SGX-ST's Query 8

Please provide the independent directors' views on the situation of the Company and whether a special investigation will be/has been commissioned to investigate circumstances surrounding the lawsuits commenced on the Proposed Disposal. Please also elaborate on what actions have been taken/will be taking by the directors in protecting the interests of minority shareholders specifically relating to the Proposed Disposal.

Company's response

The rationale for the proposed disposal of Lorenzo Kunshan is to divest and realize a subsidiary which is loss-making and which is in a net liability position. The net proceeds from the disposal of Lorenzo Kunshan are intended to repay existing bank borrowings in both Singapore and China, loans extended by the Purchaser, trade and other creditors of Lorenzo Kunshan, outstanding fees due to professional service providers and lastly for working capital purposes.

The audit report of the Group had been disclaimed by the Group's auditors for FY2017 to FY 2019 due to the going concern issue faced by the Group. In addition, the Company's shares had been suspended from trading since December 2018. In view of the suspension, there is very limited avenue for the Group to raise funds except to realize its loss making subsidiary and real estate assets to overcome its going concern issue.

The appointment of special investigators for the concerns raised in Query 1 and the appointment of legal counsel to defend the lawsuit by the Purchaser will put further strain on the financial resources of the Group.

The Independent Directors are of the view that, in the absence of any other salient facts and in view of the Company's limited financial resources, it is not in the best interest of the Company and its shareholders to commission another special investigation to investigate the circumstances surrounding the lawsuit commenced by the Purchaser as the lawsuit arose because of the Company's inability to complete the sale since July 2019.

The Independent Directors opine that under current circumstances, the interests of minority shareholders are best served when the Company is able to resume its trading status after resolving its going concern issue. The Independent Directors will review the findings from the current special investigation and work with all the relevant parties to tighten internal controls, if required, to protect the interests of the minority shareholders.

By Order of the Board

Lim Pang Hern
Executive Director
11 December 2020