

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 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

Please provide a breakdown of the Group's administrative expenses and other operating expenses for both Q1 ended 30 June 2023 and Q1 ended 30 June 2022, and explain the movement for each item.

Company's response

The breakdown of the Group's administrative expenses and other operating expenses for both Q1 ended 30 June 2023 and Q1 ended 30 June 2022 are provided below:

Administrative expenses

	Q1FY2024	Q1FY2023	Movement
	S\$'000	S\$,000	S\$'000
Audit fees	62	60	2
Directors' remuneration	33	22	11
Directors' fees	32	21	11
Employees' salary and related expenses	831	930	(99)
Professional and legal fee	-	9	(9)
Rental of premises	302	(30)	332
MIS support	24	24	-
Others – including insurance, upkeep of vehicles, maintenance of premises etc.	340	366	(26)
	<u>1,624</u>	<u>1,402</u>	<u>222</u>

- The increase in directors' remuneration was due to under accrual of directors' remuneration in Q1FY2023;
- The increase in directors' fee was due to the appointment of an additional director during Q1FY2024;
- The reduction of employees' salary and related expenses arose from fewer employees in employment in the Group during Q1FY2024;
- The decrease in professional and legal fee was due to no incurrence of such fees in Q1FY2024;
- The increase of rental charges was due to over recognition of rights of use assets in its Malaysia and Taiwan business units in Q1FY2023 before the audit for both units were completed;
- The decrease in other section arose from prudent management of cost by the Group.

Other operating expenses

	Q1FY2024	Q1FY2023	Movement
	S\$'000	S\$,000	S\$'000
Depreciation of property, plant and equipment	22	35	(13)
Amortisation of right-of-use assets	290	691	(401)
Allowance for stock obsolescence	2	-	2
(Gain)/Loss on foreign exchange difference	(230)	33	(263)
Allowance for impairment of operating receivables	171	91	80
Miscellaneous	-	2	(2)
	<u>255</u>	<u>852</u>	<u>(597)</u>

- i. The reduction in depreciation of property, plant and equipment (“PPE”) was mainly attributable to PPE reaching its estimated useful lives during the previous financial year;
- ii. The reduction of amortisation of right-of-use assets was due to the expiration of the leases during the previous financial year;
- iii. There was no allowance for stock obsolescence in Q1FY2023;
- iv. The movement in the foreign exchange difference was due to gain on foreign exchange difference in Q1FY2024 compared to a loss on foreign exchange difference in Q1FY2023;
- v. The increase was due to higher allowance required for impairment of operating receivables in Q1FY2024;
- vi. There were no such miscellaneous expenses in Q1FY2024.

SGX-ST's Query 2

Please provide a breakdown of the Group's right of use assets and explain the movement between 31 March 2023 and 30 June 2023. To also disclose the details of the underlying assets.

Company's response

The breakdown as well as the details of the Group's right of use assets and the movement between 31 March 2023 and 30 June 2023 are provided below:-

	Leases of premises	Leasehold buildings	Motor vehicle	Total
	S\$'000	S\$'000	S\$'000	S\$'000
<u>Cost</u>				
At 1 April 2023	4,459	3,970	100	8,529
Additions	-	-	-	-
Disposals	-	-	-	-
Translation difference	(177)	(248)	(6)	(431)
At 30 June 2023	<u>4,282</u>	<u>3,722</u>	<u>94</u>	<u>8,098</u>
<u>Depreciation</u>				
At 1 April 2023	2,945	1,070	72	4,087
Charge for the period	270	17	3	290
Disposals	-	-	-	-
Translation difference	(125)	(67)	(5)	(197)
At 30 June 2023	<u>3,090</u>	<u>1,020</u>	<u>70</u>	<u>4,180</u>
Net book value				
At 30 June 2023	<u>1,192</u>	<u>2,702</u>	<u>24</u>	<u>3,918</u>
At 1 April 2023	<u>1,514</u>	<u>2,900</u>	<u>28</u>	<u>4,442</u>

SGX-ST's Query 3

We note that other receivables include the amount due from the disposal of foreign subsidiary amounting to approximately S\$6.69 million.

- a. Please disclose whether the Company has taken any legal actions to recover such amount from the purchaser and the details of such actions and the status of such claims and collectability; and*
- b. Please disclose the Board's assessment of the recoverability of such receivables, and provide the basis for the Board's view.*

Company's response

- a. The Company has instructed its legal counsel to commence legal proceedings against the purchaser of the disposed foreign subsidiary for the outstanding balance due by the purchaser. It has supplied all information to the legal counsel and has also discussed the strength of the case with them. The legal counsel has advised that there is a breach of contract on the purchaser's part as no payment has been made to date. They would be filing the suit in the Chinese Court after finalising some documentation. The Company will update shareholders when there is further development to the matter.
- b. The Board is of the view that the receivables are recoverable based on the advice from the legal counsel. However, neither the legal counsel nor the Board is able to confirm the actual amount recoverable until the finalization of the legal suit.

SGX-ST's Query 4

Please provide an update on the efforts taken to resolve each of the outstanding issues as set out under the "basis for disclaimer of opinion" section of the independent auditor's report issued for the Group's financial statements for the financial year ended 31 March 2020. Please also provide a confirmation from the Board that the impact of all outstanding issues on the financial statements have been fully disclosed.

Company's response

The Company would like to inform that there were ten outstanding issues as set out in the "basis for disclaimer of opinion" section of the independent auditor's report issued for the Group's financial statements for the financial year ended 31 March 2020 ("FY 2023"). They are listed below as follows:-

1. Appropriateness of going concern assumption;
2. Recoverability of amount due from subsidiaries;
3. Recoverable amount of non-financial assets and reversal of/and impairment losses;
4. Incremental borrowing rates applied in the recognition of right-of use assets and lease liabilities;
5. Disposal of subsidiary, Lorenzo Furniture (Kunshan) Co., Ltd ("Kunshan");
6. Inventories;
7. Revenue recognition;
8. Amount due to contract customers;
9. Provision of intra-group financial guarantee contract liabilities – Company level; and
10. Provision for claim and damages.

The Company is working continuously with the auditors to resolve the outstanding issues. Of the ten issues, item 1 to 3 and 8 were brought forward from previous financial years. Item 5 and 6 relates to the disposed subsidiary in Kunshan and the rest were newly included in FY 2020.

The Company is of the view that Item 1 and 9 could only be resolved when it has repaid all the bank borrowings of its Singapore subsidiaries. Item 5, 6 and 7 should be resolved by the completion of the audit for financial year ended 31 March 2022. 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. The Company believes it would be difficult to resolve Items Item 2, 3, 8 and 10 as they were legacy issues brought forward from previous years.

The Company would like to clarify that resolution of the issues would also depend on the risk profile of the audit partner and the time line to comply with the relevant legislations.

The Board would like to confirm that to the best of its knowledge, the impacts of all the outstanding issues on the financial statements have been fully disclosed.

SGX-ST's Query 5

Please provide an update on the status of the Company's exit offer proposal. In your response, please set out the steps taken by the Board to-date in procuring an exit offer.

Company's response

The Company would like to inform that it has held meetings with shareholders that hold shareholdings of four (4) percent or more of the total shares of the Company upon receipt of the notification of delisting from SGX.

The shareholders that the Company has met up with together with their feedback and reasons for not making an exit offer are detailed below:-

Shareholders	No. of shares held	Shareholding percentage (%)	Feedback	Reason for not making an exit offer
Ding Lei	125,600,000	28.59	a. Unable to reach him despite many attempts to contact him. b. As at the date of this reply, the Company has managed to contact Mr. Ding Lei regarding the exit offer.	a. Not applicable as the Company is unable to contact him. b. Mr. Ding has indicated that he is no longer interested in the Company's business and has requested that BD Corporation Pte Ltd make an exit offer.
BD Corporation Pte Ltd	45,579,800	10.37	Have other business commitments to meet and difficulty to raise funds under current economic environment.	Does not possess sufficient financial resources to make an exit offer.
Bernice Huang Shuzhen	21,000,000	4.78	Only a shareholder of the Company and not involved in running the business.	Not involved in running the business.
Chiang Tin Tiah	21,000,000	4.78	Only a shareholder of the Company and not	Not involved in running the business.

			involved in running the business.	
Chung Kim Yew	20,496,200	4.66	Difficulty in raising funds under current economic environment.	Insufficient financial resources to make an exit offer.
Lye Kim Chye	17,933,800	4.08	Only a shareholder of the Company and not involved in running the business.	Not involved in running the business.

The Board has also discussed the option to place the Company under voluntary liquidation but do not see this as a viable option as its business units in Malaysia and Taiwan were profitable. It believed that the optimal option is to have a white knight take-over the Company so that its shares can be traded again but was informed by SGX-ST that this option is not possible. The Company 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.

By Order of the Board

Lim Pang Hern
Executive Director
28 August 2023