

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 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Group and the Company. 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 2020, the Group had a deficit in equity of \$10,692,841 (2019: \$7,330,087) and net current liabilities of \$22,883,720 (2019: \$20,200,398) while the Company had a deficit in equity of \$4,057,423 (2019: \$2,148,576) and net current liabilities of \$4,068,012 (2019: \$2,164,406). For the financial year ended 31 March 2020, the Group incurred a loss after tax of \$3,493,414 (2019: \$5,827,604) and a total comprehensive loss of \$3,362,754 (2019: \$5,781,182), respectively, and reported net operating cash inflows of \$3,389,857 (2019: net operating cash outflows of \$5,489,620). At the reporting date, the Group's current borrowings amounted to \$18,696,498 (2019: \$18,924,171).

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. Furthermore, some of the Group's financing arrangements had expired and the amounts outstanding were payable on 30 September 2016, 31 December 2016 and 31 March 2020. At the reporting date, no letter of extension on the repayment dates for these outstanding loans and borrowings at year end amounting to \$6,412,416 was obtained from the banks. Furthermore, management did not prepare cash flow projections for at least 12 months from the date of financial statements to evaluate the adequacy of cashflows for the Group to continue its operations and pay its liabilities as and when they fall due and to assess the appropriate use of the going concern assumption. Management also did not perform other assessment such as management's plans for future actions in relation to its going concern, in evaluating the Group's ability to continue as a going concern.

Notwithstanding the above, the directors have prepared the financial statements on a going concern basis. Based on the information available to us, we have not been able to obtain sufficient audit evidence to satisfy ourselves as to the appropriateness of the use of the going concern assumption in the preparation of the financial statements.

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(cont'd)

Basis for Disclaimer of Opinion (Cont'd)

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

Therefore, we are not able to form a view as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate since we are not able to obtain sufficient appropriate audit evidence on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the 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 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 liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

The auditor's report dated 22 January 2020 for the financial year ended 31 March 2019 included a similar qualification on this matter.

(2) Recoverability of amounts due from subsidiaries

As at 31 March 2020, the Company had non-trade amounts of \$814,810 (2019: \$1,058,290) (Note 11) due from subsidiaries.

These subsidiaries did not have sufficient accessible highly liquid assets to repay the amounts to the Company if demanded at the reporting date. Management did not perform an impairment assessment to determine the expected credit losses on the amounts due from subsidiaries. As at 31 March 2020, the Company did not recognise an impairment loss on these amounts which is a departure from Singapore Financial Reporting Standard (International) 9 *Financial Instruments*.

The auditor's report dated 22 January 2020 for the financial year ended 31 March 2019 included a similar qualification on this matter. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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(cont'd)

Basis for Disclaimer of Opinion (Cont'd)

- (3) Recoverable amount of non-financial assets and reversal of/and impairment losses

The Group had carried out an impairment assessment over its property, plant and equipment (Note 4), investment properties (Note 5), right-of-use assets (Note 6), land use rights (Note 7) and costs of investment in subsidiaries (Note 8) and identified 5 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)), the furniture business in Taiwan (Retail CGU (Taiwan)), rental income from the leasing of properties in China (Leasing CGU (China)) 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 was determined for the following assets:

1. Costs of investment in subsidiaries at the Company level for the Building Materials CGU, Retail CGU (Singapore) and Leasing CGU (China);
2. Plant and equipment and motor vehicles for Retail CGU (Singapore), Retail CGU (Malaysia) and Leasing CGU (China);
3. Investment property for the Leasing CGU (China); and
4. Right-of-use assets for the Retail CGU (Singapore), Retail CGU (Malaysia) and Leasing CGU (China).

Consequently, we were unable to satisfy ourselves by alternative means concerning:

- any reversal of brought forward impairment loss as of 31 March 2020 of \$34,988,360 (Note 8), if required, in the costs of investment in subsidiaries of those CGUs;
- any impairment losses and/or reversal of brought forward impairment loss as of 31 March 2020 of \$2,571,063 (Note 4), if required, in the plant and equipment and motor vehicles of those CGUs;
- any impairment losses, if required, in the investment property for the Leasing CGU (China); and
- any impairment losses, if required, in the right of use assets for those affected CGUs.

In the absence of other satisfactory evidence, we were thus unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the carrying value of the investments in subsidiaries of \$Nil (Note 8) plant and equipment and motor vehicles of \$167,980 (Note 4), investment property of \$5,970,685 (Note 5), and right of use assets of \$7,139,463 (Note 6) as of 31 March 2020.

The auditor's report of the Group for the financial year ended 31 March 2019 dated 22 January 2020 included a similar qualification on this matter. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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(cont'd)

Basis for Disclaimer of Opinion (Cont'd)

- (4) Incremental borrowing rates applied in the recognition of right-of-use assets and lease liabilities

On adoption of SFRS(I) 16 *Leases* with effect from 1 April 2019, the Group was required to recognise a right-of-use asset and a lease liability at commencement for all leases for which it was the lessee, except for short-term leases and leases of low-value assets when such recognition exemptions were applied. The Group recognised a lease liability at the present value of the remaining lease payments using the Group's incremental borrowing rate for the underlying lease asset; and recognised a right-of-use asset, on a lease-by-lease basis, at an amount equal to the lease liability.

In determining the incremental borrowing rate, management did not take into consideration the risk-free rate and the credit spread specific to the leases as well as the remaining lease term for each relevant lease in determining the appropriate incremental borrowing rate. As a result, there was an overstatement of the right-of-use assets and lease liabilities by \$103,681 and \$93,905 respectively as at 31 March 2020, and an overstatement of depreciation expense by \$10,476 and an understatement of interest expense by \$20,252 arising from the differential in the incremental borrowing rates applied for the financial year ended 31 March 2020.

- (5) Disposal of subsidiary, Lorenzo Furniture (Kunshan) Co., Ltd ("Kunshan")

As disclosed in Note 8 to the consolidated financial statements, between 20 March 2018 and 15 July 2019, the Group entered into multiple agreements including 框架协议 i.e. Framework agreement; 股权转让协议 i.e. Share transfer agreement and 股权转让协议之补充协议 i.e. Supplemental agreement to the Share transfer agreement (collectively the "transfer agreements"), with 上海昆昊木业有限公司 ("Kunhao" or the "Purchaser") in relation to the disposal of 100% equity interest of its subsidiary, Kunshan, (the "Share Transfer"), for a consideration of RMB 88 million less the total indebtedness of Kunshan.

As stipulated under the Share transfer agreement, the conditions precedent to the share transfer were as follows:

- i. Approvals, internal and external approvals, including but not limited to the approval of the Singapore Exchange Securities Trading Limited ("SGX-ST"), and approval of the Company's shareholders at a general meeting to be convened and/or its board of directors in respect of the Share Transfer;
- ii. Approval of the board of directors and/or the board of shareholders of Kunshan in accordance with the Articles of Association in respect of the Share Transfer; and
- iii. Approvals of and registrations and filings with the relevant People's Republic of China ("PRC") governmental authorities in relation to the Share Transfer.

However, all of the above conditions precedent were not met by 20 April 2019 where the Group was required to transfer 100% equity interest in Kunshan to Kunhao pursuant to the Framework agreement. On 15 July 2019, the Group entered into a supplemental agreement to the Share transfer agreement with Kunhao where the original conditions precedent were replaced with a new condition precedent requiring Kunshan to have legal title and ownership over the land-use right and properties at No. 9 Dongyuan Road, Kunshan City [昆山市淀山湖镇东苑路 9 号的土地使用权和房屋产权] prior to its transfer to Kunhao. Kunhao obtained an order of the Chinese Court in PRC (the "Chinese Court") to enforce its legal right under the transfer agreements to transfer the entire equity interest in Kunshan to Kunhao with effect from 18 June 2021 (the "Disposal Date").

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

(cont'd)

Basis for Disclaimer of Opinion (Cont'd)

(5) Disposal of subsidiary, Lorenzo Furniture (Kunshan) Co., Ltd (“Kunshan”) (Cont'd)

(5.1) Non-current Assets Held for Sale and Discontinued Operations

The disposal of Kunshan constituted a Major Transaction under Chapter 10 of the Listing Manual of the SGX-ST (“Listing Manual”). Accordingly, the disposal is conditional upon the approval of shareholders of the Company under Rule 1014 of the Listing Manual (the “Listing Manual”). On 15 July 2019, the Group entered into a supplementary agreement with Kunhao which did not include the approval of shareholders of the Company for the Share Transfer in accordance with the Listing Manual requirements as a condition precedent.

SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations* requires non-current assets and disposal groups to be classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for disposal if their carrying amounts will be recovered principally through disposal, by sale or otherwise, rather than through continuing use.

As described in Note 8, the Group had entered into transfer agreements with Kunhao in respect of the transfer of 100% equity interest in Kunshan to Kunhao. However, the Group management did not evaluate whether the disposal of Kunshan constituted a disposal group and discontinued operations in accordance with the requirements of *SFRS(I) 5 Non-Current Assets Held for Sale and Discontinued Operations* for the financial year ended 31 March 2020. As such, we were unable to determine whether any adjustments on the carrying amounts of the assets and related disclosure information might be necessary for the year ended 31 March 2020.

(5.2) Provisions

In accordance with the condition under the Framework agreement which was legally binding and enforceable, the Group was required to transfer 100% equity interest in Kunshan to Kunhao by 20 April 2019. Otherwise, a penalty of RMB18 million would be payable to Kunhao for a breach of contract. Thus, there existed a present obligation for the Group to pay the penalty of RMB18 million and it was probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate of the amount of the obligation could be made. Based on the judgement passed by the Chinese Court, the Group was liable to pay RMB18 million arising from the non-performance under the contract.

The Group did not provide for this liability of RMB18 million in the consolidated statement of financial position as at 31 March 2020. This is not in compliance with SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

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(cont'd)

Basis for Disclaimer of Opinion (Cont'd)

(5) Disposal of subsidiary, Lorenzo Furniture (Kunshan) Co., Ltd ("Kunshan") (Cont'd)

(5.3) Incomplete books and records of Lorenzo Furniture (Kunshan) Co., Ltd ("Kunshan")

Subsequent to the Disposal Date, the accounting books and records of Kunshan were transferred to Kunhao. Both Kunshan management and its auditors were not allowed access to these financial records of Kunshan for the year ended 31 March 2020. Kunshan represented 25% of the Group's total assets, 21% of the Group's total liabilities, 1% of the Group's total revenue and 12% of the Group's loss after tax for the year ended 31 March 2020.

Accordingly, we were not able to complete our audit procedures as we were not able to obtain sufficient appropriate audit evidence over the account balances as at 31 March 2020 and the transactions and notes to the financial statements of Kunshan for the year then ended. Any adjustments that might have been found to be necessary might have a consequential significant effect on the Group's financial statements for the year ended 31 March 2020 and the related disclosures.

(6) Inventories

The carrying amounts of inventories in Lorenzo Furniture (Kunshan) Co., Ltd amounted to \$78,255 as at 31 March 2020.

Management did not perform a physical inventory count to ensure the existence of inventory as of 31 March 2020. We were thus unable to satisfy ourselves by alternative means concerning the inventory quantities held and the completeness, existence and accuracy of the carrying amount of inventories of \$78,255 and the associated allowance for inventory of \$1,418,254 as of 31 March 2020.

(7) Revenue recognition

During the financial year ended 31 March 2020, one of the subsidiaries of the Group initially recognised revenue from the sale of goods of \$400,000 and subsequently issued a credit note of \$64,545 for sales return.

In accordance with SFRS(I) 15 *Revenue from Contracts with Customers*, revenue is recognised when a performance obligation is satisfied by transferring a promised good or service to the customer, which is when the customer obtains control of the good or derived benefits from the usage of the service. Revenue from the sale of goods is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied and the customer obtains control of the goods.

Due to the lack of documentary evidence available to us, we were unable to ascertain the occurrence of revenue of \$335,455 recognised for the year ended 31 March 2020.

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(cont'd)

Basis for Disclaimer of Opinion (Cont'd)

(8) Amount due to contract customers

As highlighted in our auditor's report dated 22 January 2020, as a result of the qualification on the existence, accuracy and valuation of the amount due to contract customers of \$109,993 as of 31 March 2018, we were unable to determine whether the opening balances as at 1 April 2018 were fairly stated. We were unable to obtain sufficient and appropriate audit evidence to ascertain the appropriate accounting periods i.e. which financial year ended – whether 31 March 2019, 31 March 2018 or earlier, should the amount due to customers of \$109,993 and the prior year's contract revenue of \$150,869 be recognised in. Since opening balances of the carrying values of amount due to contract customers affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for the financial year ended 31 March 2019. Our audit opinion on the financial statements for the year ended 31 March 2019 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

(9) Provision of intra-group financial guarantee contract liabilities – Company level

As at 31 March 2020, the Company extended intra-group financial guarantees comprising corporate guarantees aggregating to \$12,900,000 to financial institutions in respect of banking facilities drawn down by its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the financial institutions if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Some of the subsidiaries' financing arrangements had expired and no extension for repayment was obtained from the financial institutions. Furthermore, these subsidiaries had also defaulted on the principal payments on their borrowings.

However, the management did not assess and provide for any intra-group financial guarantee contract liabilities. In the absence of other satisfactory evidence, we were thus unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy and completeness of the liabilities as at 31 March 2020.

(10) Provision for claims and damages

As disclosed in Note 30 to the consolidated financial statements, based on the judgement passed by the High Court of the Republic of Singapore on 19 April 2023, it is adjudged that the plaintiff is entitled to a sum of \$51 million for the costs of replacing the facade of a building tower and is entitled to a sum of \$2.6 million for the losses from the fall of the stone panel on 10 February 2011. Builders Shop Pte. Ltd., together with several other defendants, are jointly and severally liable for the sums above.

The Group did not evaluate and provide for these claims and damages in the consolidated financial statements for the year ended 31 March 2020. This is not in compliance with SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

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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 Singapore Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International), 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 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 to cease operations, or has no realistic alternative but to do so.

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

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 financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *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, in view of the significance of the matters referred to in the *Basis for Disclaimer of Opinion* section of our report, we do not express an opinion on whether 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.

The engagement partner on the audit resulting in this independent auditor's report is Chan Ser.

Foo Kon Tan LLP
*Public Accountants and
Chartered Accountants*

Singapore, 29 May 2023