

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 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. 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 2019, the Group had negative equity of \$7,330,087 and net current liabilities of \$20,200,398 while the Company had deficit in equity of \$2,148,576 and net current liabilities of \$2,164,406. For the financial year ended 31 March 2019, the Group incurred a loss after tax of \$5,827,604 and a total comprehensive loss of \$5,781,182, and the Group had sustained net operating cash outflows of \$6,450,102.

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. Some of the Group's financing arrangements had expired and the amounts outstanding were payable on 30 September 2016 and 31 December 2016. At the reporting date, no letter of extension on the repayment dates for these outstanding loans and borrowings at year end amounting to \$5,510,045 was obtained from the banks. The management did not prepare cash flow projection to assess the going concern assumption.

If the Group and Company are unable to continue in operational existence for the foreseeable future, the Group and 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 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.

We are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

The auditor's report dated 30 November 2018 for the financial year ended 31 March 2018 included a similar qualification on this matter.

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Basis for Disclaimer of Opinion (Cont'd)

(2) Recoverability of amounts due from subsidiaries

The carrying values of amounts due from subsidiaries at the Company level amounted to \$1,058,290 (Note 9) as at 31 March 2019.

Management did not perform an assessment of impairment to determine the expected credit losses on the amounts due from subsidiaries. In the absence of any alternative evidence available to us, we were unable to determine if any adjustments would be required to the carrying value of the amounts due from subsidiaries recorded at the Company level as of 31 March 2019.

The auditor's report dated 30 November 2018 for the financial year ended 31 March 2018 included a similar qualification on this matter.

(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 property (Note 5), land use rights (Note 6) and costs of investment in subsidiaries (Note 7) 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 from properties in China (Leasing CGU) 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:

- Costs of investment in subsidiaries (Note 7) at the Company level for Building Materials CGU, Retail CGU (Singapore) and Leasing CGU; and
- Plant and equipment (other than leasehold properties) (Note 4) for Retail CGU (Singapore), Retail CGU (Malaysia) and Leasing CGU.

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

- any reversal of brought forward impairment loss as at 31 March 2019 of \$34,988,360 (Note 7), if required, in the costs of investment in subsidiaries of those CGUs; and
- any reversal of brought forward impairment loss as at 31 March 2019 of \$2,053,171 (Note 4), if required, or the impairment loss of \$517,892 (Note 4) made during the financial year in the plant and equipment (other than leasehold properties) of those CGUs.

Accordingly, we were unable to ascertain the valuation of the carrying book amount of investments in subsidiaries of \$Nil (Note 7) and the net book value of plant and equipment (other than leasehold properties) of \$190,102 (Note 4) of those CGUs respectively as at 31 March 2019.

The auditor's report dated 30 November 2018 for the financial year ended 31 March 2018 included a similar qualification on this matter.

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Basis for Disclaimer of Opinion (Cont'd)

(4) Amount due to contract customers

In the last financial year ended 31 March 2018, as reported in the auditor's report dated 30 November 2018, we were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves on (i) the existence, accuracy and valuation of the amount due to contract customers (Note 10) of \$109,993 as at 31 March 2018, which consist of contract cost incurred of \$5,879,299, attributable profit of \$1,441,635 and progress billings of \$7,430,927; and (ii) the completeness, occurrence and accuracy of the contract revenue and project cost of sales, if any, to be recorded in the statement of profit or loss for the financial year ended 31 March 2018.

In the statement of profit or loss for the financial year ended 31 March 2019, management has recognised revenue of \$260,862 (Note 3) comprising:

- (i) the amount due to customers of \$109,993 (Note 17) (comprising contract cost incurred of \$5,879,299, attributable profit of \$1,441,635 and progress billings of \$7,430,927); and
- (ii) a contract revenue amount of \$150,869.

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 current year's contract revenue of \$150,869 be recognised in.

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 Act and FRSs, 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 and the Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

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

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TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED

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 consolidated financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority 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 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 Ho Teik Tong.

Foo Kon Tan LLP
*Public Accountants and
Chartered Accountants*

Singapore, 22 January 2020