



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Lorenzo International Limited

Security: Lorenzo International Limited

Meeting details:

Date: 31 December 2018

Time: 10.30 a.m.

Venue: 23 Neythal Road, Blk B, #04-03 Singapore 628588

Company Description

Lorenzo International Limited, an investment holding company, engages in the design, manufacture, assembly, distribution, and retail of furniture under the Lorenzo brand name. The company operates in two segments, Furniture Business and Building Materials. It produces furniture under two product categories, leather and wood-based. The company also offers seater and L-shaped sofas, and recliners; coffee and corner tables, and TV consoles; shoe racks, hall tables, chest of drawers, hall cabinets, and display racks; dining tables, cabinets, and chairs; and accent and bedroom furniture. In addition, it act as an original design manufacturer to design and manufacture furniture under customers' brand, and manufacture based on customers' designs; and a contractor for construction projects. Further, the company supplies and installs granite, marble, limestone, travertine, quartz, onyx, and tiles for individual retail customers and project and property developments; trades in sofa sets, and wood-based furniture and accessories; manufactures and supplies wooden frames; and provides management services. It has operations in Singapore, Malaysia, Taiwan, China, and internationally. Lorenzo International Limited was founded in 1983 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=51E)

1. On 14 December 2018, at 11:09 a.m., the company requested for a suspension of the trading of the company's shares with immediate effect. The board referred to the announcement dated 13 December 2018 entitled "Auditor's Comments of Accounts" regarding the issuance by the Auditors of a disclaimer of opinion in respect of the audited financial statements of the Group for FY2018 (the "Disclaimer of Opinion").

The Disclaimer of Opinion relates to, inter alia, the group's ability to continue as a going concern.

The board has stated that, in light of the Disclaimer of Opinion and pursuant to Rule 1303(3) of the SGX-ST Listing Manual, it is recommending the suspension of trading of the shares of the company with immediate effect. Rule 1303(3) relates to the suspension of trading by the Exchange where the issuer is unable to continue as a going concern or unable to demonstrate to the Exchange and its shareholders that it is able to do so.

In the annual report, the directors have stated that, in their opinion, "*having regard to the financial support from directors cum shareholders of the company, there are reasonable grounds to believe that the group and the company will be able to continue operations and meet their liabilities as and when they fall due*" (page 32 of the annual report – Directors' Statement).

(i) Can the board clarify if the suspension of the trading of the company's shares was directed by the Exchange?

As disclosed in Note 2a (page 46 – Basis of preparation), "*a director cum shareholder of the Company had provided a financial undertaking to the Group and Company to provide the necessary financial support to the Group and the Company to continue operations and meet their liabilities as and when they fall due within the next 12 months from the reporting date.*"

(ii) Please identify the director cum shareholder who is providing the financial undertaking.

(iii) Kindly elaborate further on the quantum and period of financial support provided by the director cum shareholder in the financial undertaking.

(iv) Can the board/management help shareholders understand how it is engaging the Exchange to seek the resumption of the trading of the company's shares? What are the conditions or prerequisites for the resumption of the trading of the company's shares?

2. Would the board/management provide shareholders with better clarity on the following matters? Specifically:

(i) Key value drivers: The group reported revenue of \$31.8 million in FY2018 and achieved a gross profit margin of 45.3% for the financial year. However, the net loss after tax increased to \$(10.8) million in FY2018 from \$(9.2) million in FY2017. The group has recognised additional allowance for stock obsolescence and impairment for doubtful operating receivables in FY2018 for both the

furniture and building material businesses. **Would the board/management elaborate further on the key value drivers of the group's businesses? Given the scale of the group's operations, the level of competition in the market and the changes in consumers' consumption and buying patterns, has the board evaluated the profitability and the long term viability of the group's core businesses?**

- (ii) **Business restructuring:** The group has consolidated its three showrooms in Singapore to just the Pioneer North showroom (at Neythal Road) and has brought back the co-founder as the Chief Operating Officer. The group has also acquired Brezza Living Sdn Bhd in Malaysia while disposing Supreme Furniture (Kunshan) Co., Ltd in China. **For the benefit of both new and long standing shareholders, can the board/management provide shareholders with a holistic overview of the group's restructuring plans? What are the immediate priorities in the next 12-18 months? What are management's strategies to improve operational efficiency and profitability of the group? When does management expect the core business to be profitable?**
- (iii) **Building material:** Given that revenue in the segment dropped to \$0.8 million in FY2018 and losses have increased by \$(1.1) million to \$(2.0) million, would management be carrying out a strategic review of the building material segment?
- (iv) **Medical vendor:** The group has written down the entire \$2.8 million deposit that it has paid to a third party vendor for the proposed acquisition of a new medical business during the financial year ended 31 December 2015. Following a query by the Exchange, on 18 December 2018, the company has further announced that it continues to closely monitor the legal and financial status of Straitsworld and Michael Chan and may take up legal proceedings against Straitsworld as a last resort if an amicable solution cannot be reached. **Is the company aware that a cheque for \$1 million made by Mr Chan to another listed company was dishonoured upon presentation in December 2018? Who is leading the negotiation with Michael Chan/Straitsworld? Would the company be enforcing its legal rights to reclaim the \$2.8 million deposit?**

3. On 13 December 2018, the company announced that the independent external auditors of the company have, in their Independent Auditors' report dated 30 November 2018, issued a disclaimer of opinion in respect of the audited financial statements of the Group for the financial year ended 31 March 2018.

The auditors have not expressed an opinion on the accompanying financial statements as they have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

The basis for disclaimer of opinion included:

- Appropriateness of going concern assumption
- Inventories

- Amount due from a customer
- Valuation of amounts due from subsidiaries
- Recoverable amount of non-financial assets and reversal of/and impairment losses
- Amount due to contract customers
- Acquisition of Brezza Living Sdn Bhd

The full details of the Disclaimer of Opinion could be found on pages 35 to 39 of the annual report.

In the Directors' statement, the directors have stated that, in their opinion, "*the accompanying financial statements of the Company and its subsidiaries (the "Group") and the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2018 and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date in accordance with the provisions of the Singapore Companies Act, Cap 50 (the "Act") and Singapore Financial Reporting Standards.*" (page 32)

- (i) Would the directors, especially the independent directors who are also audit committee members, help shareholders understand the basis of their opinion (as shown above) given the significance of the matters described by the independent auditors in the Disclaimer of Opinion?**
- (ii) Can the audit committee members help shareholders understand their individual and collective efforts at facilitating the external auditors in resolving the issues as described in the Disclaimer of Opinion?**
- (iii) What improvements will the board/audit committee be making to the group's audit plans, internal accounting controls and reporting functions?**

In addition, on 13 December 2018, the company announced that there are material differences between the unaudited results (first announced by the company on 5 July 2018) and the audited financial statements for FY2018 after the finalisation of audit. Loss after tax increased from \$(9.5) million to \$(10.8) million. The company disclosed 24 notes to the announcement explaining the material differences. Reasons given included:

- Reclassification of provision for stock obsolescence from Other operating expenses to Cost of sales amounting to S\$1.24 million
- Under-accrual of cost of sales by \$0.27 [million] in the unaudited financial statement
- Reclassification to Other operating income amounting to S\$3.24 million
- Overstatement of gain on subsidiary company in the unaudited financial statements by S\$0.46 million

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 and Financial Reporting Standards in Singapore ("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.

- (iv) How can shareholders get the assurance from management that the financial statements are prepared in accordance with the Act and FRSSs?**
- (v) Has the audit committee evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (vi) Would the members of the audit committee help shareholders understand their recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**