

CACOLA FURNITURE INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands)

Company Registration No. 179492

**RESPONSE TO SGX-ST'S QUERIES ON THE UNAUDITED FINANCIAL STATEMENTS
ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015**

The Board of Directors of Cacola Furniture International Limited (the "**Company**", and together with its subsidiaries, the "**Group**") would like to respond to the questions raised by the SGX-ST on 12 February 2016 in relation to the Company's announcement on 5 February 2016 in relation to the unaudited financial statements of the Company for the year ended 31 December 2015.

SGX-ST's Question 1

We refer to page 1 of the Results Announcement. We note that there is "Non-recurring exceptional items" of RMB 6.281 million. Please provide breakdown of this amount.

Company's response:

As disclosed in note 4 of item 1(a) in the results announcement, the Company announced on 30 September 2015 that it had terminated the sale and purchase agreement ("**SPA**") with the vendor, Sharp Year Ventures Limited, for the acquisition of the entire equity interest in Goyes Group ("**RTO**") as a result of the market conditions not being conducive for raising funds to satisfy the cash consideration, which was a condition precedent of the SPA (the "**Termination**").

Following the Termination, the Company decided to write off all the professional and related prepayments for the RTO exercise, including retainers and prepayments to onshore and offshore legal advisers, the independent valuer and reporting accountants, financial advisers, sponsors, consultants, market researchers, RTO fund providers as well as other direct related expenditures. In the opinion of the board of directors, these expenditures were non-recurring and non-operating in nature. Therefore, they were included in the line item of "non-recurring exceptional items" presented in the income statement of the Company for the FY2015.

	RMB'000
RTO funding related fee and charges	1,625
Reporting accountants' fee and financial due diligence	1,442
Legal advisor (onshore)	1,259
Legal advisor and restructuring (offshore)	547
Valuation and market research	528
Financial advisors	575
Other related expenditures directly attributable to RTO	305

	6,281
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SGX-ST's Question 2

We refer to page 3 of the Results Announcement. We note that “Non-current assets” is nil for FY2015. Please provide the following information:-

- (a) Why “Non-current assets” that consist of “Property, plant and equipment” is nil for FY2015.
- (b) When did the Company sell off all its fixed assets and whether shareholders’ approval has been obtained for the disposal.
- (c) How does the Company manufacture its goods for sale.
- (d) How did the Company generate so much revenue without corresponding increase in trade and other payables or fixed assets.

Company’s response:

- (a) For accounting purposes, the carrying amount of property, plant and equipment had been fully impaired in FY2014 after management’s impairment test, performed in accordance with the relevant accounting standards and guidelines. The Company’s auditor and independent valuer concurred with the computation method and outcome.

Please refer to note 4 of the FY2014 audited financial statements and the comparative figures as disclosed in note 2 of item 1(a) of unaudited annual results for FY2015. Below is an extraction from note 4 of FY2014 audited financial statements:

Management performed impairment testing of the Group’s sole cash-generating unit, which is the design, manufacturing and sale of panel furniture. The recoverable amount of the cash-generating unit was determined from value in use calculation based on cash flow projections from formally approved budgets covering a five-year period, using an anticipated declining revenue growth rate of 3%, a pre-tax discount rate of 20%, and a negative terminal growth rate of 3%.

Based on the recoverable amount of RMB nil, the Group’s property, plant and equipment (excluding motor vehicles) were fully impaired. The impairment loss of RMB 13,548,000 was recognised in the consolidated statement of profit or loss and other comprehensive income under “other expenses” for the financial year ended 31 December 2014.

- (b) The Company did not dispose of any of its fixed assets.
- (c) The principal activity of the Company is investment holding and it does not manufacture any of its goods for sale. The products are manufactured by its operating subsidiary, Dongguan Cacola Furniture Co., Ltd, a company established in the People’s Republic of China (“PRC”), by utilising its existing production plant and related operating facilities located in the PRC.

(d) i) Trade and other payables and accruals

	2015 RMB'000	2014 RMB'000
Trade payables	13,047	5,859
Accruals and other payables	14,491	18,865
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	27,538	24,724
	=====	=====

Trade payables increased from RMB5.9m as of 31.12.2014 to RMB13.1m as of 31.12.2015, as a result of an increase in the consumption of wood and related raw materials.

ii) Fixed assets

The existing production plant and facilities have sufficient capacity to cope with the sales orders, as approved by the factory manager, who will assess the level of occupancy and utilisation of production before accepting orders placed by contracted customers *(For illustrative purposes only, the level of reported sales by the production plant and facilities in previous financial years were RMB 344m for FY2011 and 119m for FY2012).*

Where the Group's production plant and facilities' capacity was fully utilised, orders in excess of capacity were outsourced to other local operators.

SGX-ST's Question 3

We refer to page 3 of the Results Announcement. We note that "Trade and other receivables" has increased by 110.6% from RMB5.269 million in FY2014 to RMB11.095 million in FY2015. Please provide breakdown and elaborate on nature of material items and other receivables.

Company's response:

	2015 RMB'000	2014 RMB'000
Trade receivables	10,774	4,973
Other receivables and deposits	321	296
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	11,095	5,269
	=====	=====

Trade receivables (before permanent audit adjustments and reallocation) as of 31.12.2015 amounted to RMB10.8m. These were current receivables accrued in Q3 and Q4 of FY2015 which were neither past due nor impaired and with no historical default. The increase in trade receivables is in line with the increase in revenue and trade payables (as disclosed in response 2(d) above) for FY2015.

SGX-ST's Question 4

We refer to page 5 of the Results Announcement. We note that there is "Non-recurring exceptional items" of RMB3.143 million. Please explain what this item is and reason for the significant amount.

Company's response:

Page 5 of the results announcement is the statement of cash flows of the Group for FY2015.

The item of RMB3.143m is the portion of the RMB6.281m non-recurring exceptional items (as detailed in response 1 above) settled by cash in FY2015.

SGX-ST's Question 5

We refer to page 10 of the Results Announcement. We note the statements that "our total revenue increased by 162.8% compared to FY2014, back to normal level before the tightened credit policy introduced by Chinese Government for property market. The policy has been relaxed from the 2nd half of FY2015, as a result, our sales orders have been recovered and better utilization rate of our factory has been revealed". Please provide the following information:-

- (a) To elaborate what were the factor which led to the increase in demand to "normal level" and what is the "normal level" referred to.
- (b) To elaborate on these policies which were relaxed in 2nd half of 2015.

Company's response:

- (a) The "normal level" refers to an average utilisation rate of over 50 to 60%, as was reported in the FY2011 and FY2012 periods. The increase in demand was a result of the relaxation of Chinese government policies in relation to the property market (as detailed in response 5(b) below).
- (b) The policies include:
 - i. at the national level, a relaxation of rules curbing foreigners from buying homes and a cut in interest rates¹; and
 - ii. at the provincial level, a reduction in the minimum down payment for a mortgage (for example, in Dongguan, the minimum down payment in 2015 was not less than 20% for a first home and not less than 30% for a second home, down from the minimum amounts in the 2011 to 2014 period of 30% and 60% respectively).

¹ See, for example, <http://www.scmp.com/property/hong-kong-china/article/1854480/beijing-gives-property-market-extra-push-amid-plunge>

SGX-ST's Question 6

We refer to page 11 of the Results Announcement. We note that the Company has entered into a convertible loan agreement with a lender pursuant to which the Lender has agreed to extend a loan in the aggregate principal amount of S\$1,000,000 to the Company, at a simple interest rate of 6% per annum. Please provide the following information:-

- (a) To disclose and quantify the financing costs incurred in such Convertible Loan financing incurred in FY2015.
- (b) To explain why such financing costs were not evident in Financial Cost which amounted to nil for FY2015.

Company's response:

- (a) The interest for the convertible loan of S\$1,000,000 for FY2015 is RMB17,984. The annual (simple) interest rate is 6% on the outstanding amount due.
- (b) The financing costs are reflected in the financial statements as part of the "non-recurring exceptional items".

There is no exact definition or terminology for exceptional items in the applicable accounting and reporting standards, however, it can be understood that:

Special or non-recurring items of the same nature, are costs or profits that arise from outside the usual course of the Company's operation/business which are required to be disclosed separately in order to provide a better view of the accounts. Typically, such items will be material items which individually or, if of a similar type and/or nature, in aggregate, need to be disclosed separately on the face of the income statement or in notes to the financial statements by virtue of their size (materiality) or incidence because of their relevance to understanding the entity's financial performance.

As such, all RTO directly related expenditures including but not limited to interest and related introductory fees arising from the RTO fund raising activities (i.e. convertible loan which is designated for RTO usage only) are classified and included in the line item of non-recurring exceptional items (as these expenditures would not incur if there was no RTO exercise and it is outside the usual course of the Group's operation).

By Order of the Board

ZHOU MIN ZONG
CHIEF EXECUTIVE OFFICER

15 February 2016