CACOLA FURNITURE INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands)
Company Registration No. 179492

RESPONSE TO SGX-ST'S QUERY ON ANNUAL REPORT FY2014

The Board of Directors of Cacola Furniture International Limited (the "**Company**") would like to respond to the questions raised by the SGX-ST on 21 April 2015 and 23 April 2015 in relation to the Company's annual report for FY2014 ("**Annual Report**") as follows:

SGX-ST's Question 1

Please disclose use of proceeds from the placement of shares in 2014.

Company's response:

As announced on 19 August 2014, the Company allotted and issued an aggregate of 74,117,000 new ordinary shares in the capital of the Company at S$0.027 per share ("**Placement**") to Mr. Liu Kit Nam ("**Mr. Liu**"). The proceeds of approximately S$2,001,000 raised from the Placement were utilised for the settlement of the outstanding unsecured borrowing of S$2,300,000 from Mr. Liu. with the remaining S$299,000 (RMB 1,469,000) to be repaid by the Company in cash.

SGX-ST's Question 2

Under Independent Auditors' Report on page 30-31 of the Company's annual report, please provide the following information:-

(a) To provide details on the breakdown of "prepayments of RMB 31,597,000" which were made to a contractor for the construction of a new megastore. To provide the identity and details of the contractor, financial standing and reputation of contractor and explain why the Company paid such a significant amount in advance. To provide details on the terms of the contract, size of the construction contract under the agreement, dates and payment.

(b) In respect of the auditors' findings on "Inventories", how does the Board satisfied itself with the internal controls. To reconcile Board's statement of internal controls with the findings of auditors. To elaborate and disclose basis for Board's views.

(c) For the Exchange's consideration under Rule 1303(3)(c) and noting the Independent Auditor's findings on "Going concern", please provide the following information:-

    (i) the Board's opinion if the Company will be able to operate as going concern and basis for the Board's view; and

    (ii) the Board's confirmation that all material disclosures have been provided for trading of the Company's shares to continue.

Company's response:

(a) Prepayments made for construction of property, plant and equipment relate to advance payments made to Dongguan City Juxing Decorative Advertising Co., Ltd (东莞市聚兴装饰广告有限公司) (formerly known as Dongguan City Juya Decorative Advertising Co., Ltd (东莞市新聚雅装饰广有限公司)) (the "**Contractor**") in 2012 for the construction of the new megastore located at Sukeng Road, Changlang Avenue, Changping County, Dongguan City, Guangdong Province, the People's Republic of China ("**PRC**"). The Contractor specialises in construction, design and decoration works for commercial and residential buildings in the local areas.

In view of the rising costs environment over the period in both materials and labour markets in PRC, the Management decided to tie up with a contractor at an earlier period to lock up replacement costs of the megastore, for the purpose of better capital management. After careful consideration and review, the Management decided to finalise the engagement with the Contractor based on the factual documentation available at the time of review, including but not limited to fee level (through tendering bids), quality and experiences (site visit of completed projects that the Contractor was involved) and reputation (with no negative complaints and comments).

Based on the agreement dated 10 September 2012 ("**Agreement**") entered with the Contractor, the construction of the new megastore was scheduled to be completed within six months from the date of the Agreement. Management was subsequently advised by a government authority in the PRC not to proceed with the construction of the new megastore as the surrounding infrastructure was damaged by the ongoing railway construction, and that the authority will not be liable for any further damage if Management decides to proceed with the construction of the new megastore.

The total sum of the Agreement is RMB47,395,000, to be paid according to the following schedule:

- 1/3 to be settled upon sign off agreement
- 1/3 to be settled two months after agreement date
- Balance to be settled upon completion of construction (subject to approval and acknowledgment by both parties)

In accordance with the terms of the Agreement, an aggregate of RMB 31,597,000 ("**Prepayment**"), comprising the first and second installments, were made to the Contractor on 12 September and 14 November 2012 respectively. Below is the summary of details for the prepayment (based on construction plan agreed by the Constructor and the management):

RMB	
615,000	Ground work (including set up and land clearance)
13,198,000	Steel and reinforcing
5,409,000	Construction
12,375,000	Design and Decoration (water pipe and electrical work)

Since the signing of the Agreement, the construction of the new megastore has been deferred for more than two years.

Currently, the Management is in discussion with the Contractor for a refund of the Prepayment. Although the Management believes they are in a good position to recover the amount, for the sake of prudence, the auditors' view was adopted to fully impair the

amount. Consequently, an impairment loss of RMB 31,597,000 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 auditors provided an audit qualification concerning insufficient appropriate audit evidence in terms of monthly production cost schedules or other supporting documentation to ascertain the appropriateness of the costs capitalised for work in progress and finished goods in accordance with IAS 2 *Inventories*.

The existing standard costing allocation method recognised by the Management is a costing method widely adopted by listed issuers engaged in the manufacturing industry, to account for both fixed and variable production overheads that are incurred in converting materials into finished goods on a systematic basis.

The Board is of the view that while the preparation of monthly costing schedule (i.e. monthly bill of material) is encouraged by the best practices guidelines, the current practice adopted by the Group since its IPO exercise is not contrary to the requirements of the relevant standards. In view of the current financial position of the Group where there are only limited types of product with straight forward standard computation formulas, the preparation of monthly costing schedule would involve unnecessary cost of preparation as there will be a need to employ additional resource.

The Board considered that the qualification concerning monthly costing of inventory falls within the financial reporting cycle of internal control and it didn't create the risk of misappropriation of the Group's assets.

The Board is of the view that the Group has maintained a sound system of risk management and internal controls in place as a whole, to safeguard shareholders' interest, given that:

- Management regularly reviews its internal control system;
- there are no significant weakness identified by the independent internal auditors; and
- the independent internal auditor has not highlighted to the Board any significant internal control weakness.

(c)(i) On 2 October 2014, the Company entered into a conditional unsecured facility in respect of S$40 million, and a conditional multi-tranche placement agreement to allot and issue ordinary shares in the capital of the Company for an aggregate amount of up to S$45 million ("**Funding**"). At the Extraordinary General Meeting of the Company held on 13 April 2015, the Funding was approved by the Company's shareholders.

In the opinion of the Directors, the Funding will enable the Group and the Company to meet their liabilities as and when they fall due.

(c)(ii) The Board confirms that all material disclosures have been provided for trading of the Company's shares to continue.

BY ORDER OF THE BOARD

ZHOU ZHUO LIN
CHIEF EXECUTIVE OFFICER
23 April 2015