

CACOLA FURNITURE INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands)

Company Registration No. 179492

RESPONSE TO THE SGX-ST'S QUERIES ON THE COMPANY'S ANNUAL REPORT 2015

Capitalised terms used in this announcement shall, save as otherwise defined, have the same meanings ascribed to them in the Company's Annual Report 2015 (the "Annual Report 2015").

The Board of Directors of Cacola Furniture International Limited (the "**Company**") refers to the Company's announcement on 15 March 2016 in relation to the Annual Report 2015.

The Singapore Exchange Securities Trading Limited ("**SGX-ST**") has on 28 March 2016 requested the Company to provide further information in respect of the Annual Report 2015. The queries by the SGX-ST and the Company's corresponding answers are set out below:

SGX-ST's Question 1

Guideline 9.2 of the Code of Corporate Governance 2012 (the "**Code**") states that the company should fully disclose the remuneration of each individual director and the CEO on a named basis. For administrative convenience, the company may round off the disclosed figures to the nearest thousand dollars. There should be a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable. We note that the Company has disclosed the name and remuneration of each individual director and the CEO in band of S\$250,000 on page 16 of the Company's annual report. However, the Company did not disclose a breakdown of each director's and CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives. In this respect, please make disclosures on the breakdown of each director's and the CEO's remuneration or otherwise explain the reason(s) for the deviation from the Code recommendation.

Company's response:

As disclosed in the Annual Report 2015, the current executive Board members (including the current CEO) have consented to waive their remuneration and allowances for FY2015. The Board considers the key management personnel of the Group to be the directors of the Company and it is not meaningful to disclose a breakdown where remuneration is zero.

SGX-ST's Question 2

Guideline 9.3 of the Code states that the Company should disclose in aggregate the total remuneration paid to the top five key management personnel (who are not directors or the CEO). We note for FY2015, the key management of the Group were Yeo Kan Yen Alvin, Zhou Zhuo Lin and Zhou Min Zong on page 16 of the Company's annual report. As required by Rule 1207(12) of the Listing Manual, please make disclosures of the aggregate total remuneration paid to the 3 key management as recommended in guideline 9.3 of the Code or otherwise explain the reason(s) for the deviation from the following Code recommendations.

Company's response:

The Board considers the key management personnel to be the directors of the Company. The key executives disclosed in page 16 of the Annual Report 2015 are directors of the Company and details of their remuneration have been set out above. The monthly salary of the highest paid individual of the Group other than directors of the Company is RMB 5,500, and the Board considers the disclosure of such information as not material or meaningful.

SGX-ST's Question 3

We note on page 18 of the Company's annual report that in the absence of Chief Finance Officer or equivalent, the Board has received assurance from the CEO and the Vice-Chairman and Executive Director that (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and (ii) regarding the effectiveness of the Company's risk management and internal control systems. Please explain why there is no assurance from CFO or equivalent and when will the Company recruit a suitable CFO as required under Listing Rule 103(1) for the Group's accounting function.

Company's response:

The CEO was re-designated from the role of finance director (equivalent to the role of CFO) after FY2015 on 1 February 2016. The Board does not consider that the re-designation would affect any of the financial and internal control activities for the current period reported on, given that there is an internal control system in place with various pre-set authorisation for the Group's activities. This ensures that the Group's activities will not be materially affected by the departure of any individual.

The financial statements are approved by the Board as a whole, based on its assessment of the financial reporting system and due diligence on the Group.

The major roles of the financial director include (but are not limited to) i) financial reporting, ii) monitoring internal control systems, iii) managing investor relations and iv) overseeing daily accounting and finance-related operations. The Board had made the following human resources arrangements in order to utilise the Group's resources:

- a) the role of financial reporting and daily accounting and finance-related operations taken up by the financial manager;
- b) the role of monitoring internal control systems taken up by the CEO with assistance from the financial manager; and
- c) the managing of investor relations taken up by Vice Chairman with assistance from the finance manager.

The Board is comfortable with the present arrangement but will search the market for a suitable candidate for the role of CFO.

SGX-ST's Question 4

We refer to page 27 of the Company's annual report and note that in the absence of sufficient

documentary evidence and alternative procedures, the auditors were unable to satisfy themselves as to the appropriateness of the carrying amount of the Group's inventories as at 31 December 2015. Please provide the following information:-

- (a) What are these inventories and provide breakdown.
- (b) Why are there no documentation evidence kept by Company on production or work in progress.
- (c) Why are auditors unable to assess net realizable value of these inventories.
- (d) How did the Company base its value of these inventories when there are no documentary records.
- (e) 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.

Company's response:

The qualification in the independent auditor's report in the Annual Report 2015 is mainly related to "monthly production cost schedules". There are no relevant standards or guidelines as to how often the production schedules should be prepared and what techniques for measurement of cost should be adopted, as there is no universal approach to dealing with various types of manufacturing businesses.

According to actual market practice, the costing system should be regularly reviewed and, if necessary, revised in the light of current conditions.

The Group adopts standard costing method with regular review by the management. The Board and management are of the view that the Group's products are not high-end products involving high levels of complexity or huge quantities of different raw materials consumed. From the point of view of an experienced operator, the Board considers that costs schedules prepared on a monthly basis will involve extra costs of preparation and will not be applicable/meaningful to the actual operation of the Group.

According to the relevant standard, estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. The Group has sales and procurement contracts in place with the agreed price and quantity of ordered products to deliver, as well as management authorised standard costing computation in place. As such, the Board considers this as the best piece of information available to determine what the inventories are expected to realise (ie Net realisable value).

In view of the above, the Board does not believe that the Group does not have proper documentation, authorisation, costing system and supporting invoices in place for the procurement and inventory cycle. In addition, the costing system has not been changed since the

Company's Initial Public Offering ("IPO") in 2007 (when it was reviewed by industry experts such as the IPO internal control consultants, reporting accountants and financial advisers. It was also reviewed by the previous auditors and internal control auditors with no adverse opinion noted).

SGX-ST's Question 5

For the Exchange's consideration under Rule 1303(3)(c) and noting the Independent Auditor's findings on "Going concern" on page 28 of the Company's annual report, please provide the following information:-

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

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

Company's response:

The Board is of the view that the Company will be able to operate as a going concern due to the following:

- a) At the Extraordinary General Meeting of the Company held on 13 April 2015, the facility of S\$40 million and placement for an aggregate amount of up to S\$45 million were approved by the Company's shareholders. Subsequently, during the financial year, the Company allotted and issued an aggregate of 197,858,905 ordinary shares to Advance Opportunities Fund and its nominees under placement. Proceeds amounting to RMB 8,185,000 were obtained from the issue of shares.
- b) On 11 December 2015, the Company entered into a convertible loan agreement with a lender, pursuant to which the lender extended a loan in the aggregate principal amount of S\$1,000,000 to the Company. The loan is unsecured, bears interest at a fixed interest rate of 6% per annum, and is repayable by the Company immediately after five years from the date of disbursement of the loan. The loan is convertible into ordinary shares in the Company at a fixed conversion price of S\$0.00684 (at a fixed exchange rate of S\$1 : RMB 4.57 and HK\$1 : RMB 0.83) per share.

In the opinion of the Board, the existing facility and placement, as well as new loans, will enable the Group and the Company to meet their liabilities as and when they fall due, as the directors expect to be able to obtain funding from further issuance of equity or new loans, where necessary.

Management has prepared cash flow forecast of the Group and the Company and based on this, having regard to measures implemented to tighten controls over expenses, the Board believes that the Group and the Company have sufficient working capital and financial resources to enable them to meet their liabilities as and when they fall due and continue as a going concern for 12 months from the end of the reporting period.

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

SGX-ST's Question 6

We refer to page 28 and 53 of the Company's annual report on the prepayments of RMB 31,597,000 which were made to a contractor for the construction of a new megastore. Please provide the following information:-

- (a) Reason for the deferment of the construction of the new megastore and update status of this.
- (b) Reason why such a significant amount was prepaid.
- (c) Elaborate the "uncertainty" of whether the outstanding prepayments can be recovered from the New Contractor.
- (d) Has the Company taken any action to obtain refund.
- (e) Disclose the steps taken by the Company to assess its rights and obligations under the contract.
- (f) Disclose the size, background, financial standing of the contractor and whether the contractor has the ability to proceed with the construction or if refund is required.
- (g) Disclose the details of the contract agreement and whether deposit is refundable and whether this is an interested person transaction.

Company's response:

(a) The Group received the termination notice from the government authority in the People's Republic of China in November 2012, which was two months after the Group had signed the agreement on the building of the megastore with the Contractor. The damages caused by the subway construction were significant, as widely reported by authorities as well as local and Hong Kong media. These include damages and unevenness of the ground which were found in front of the site of the megastore, as well as in the city of Changping town, where the Group's factory is located. The construction had also damaged the household water pipes which further damaged the landscape.

The Group's local management is working closely with the local advisors to determine the entitlement and construction cost if the construction agreement is terminated. Local management is also working closely with the local authorities to determine a solution for an alternative plan, including but not limited to the relocation of the factory. There was also direct damage to the landscape of the Group's existing buildings, for which there is no insurance coverage.

(b) The construction of the new megastore was originally scheduled to last for 6 months. In view of the size of the project and considering the construction material to be employed up front, and the rapid increase in the cost of construction material, the Contractor had requested for the high portion of upfront payment.

(c) The Group's management is in the midst of discussions with the Contractor for a refund of the outstanding prepayments, taking into account the legal costs and possibility of remedy for the case. The Board considers that recoverability of the amount cannot be assured, and as a result,

an impairment was made against the carrying amount of the amount paid.

(d), (e) Based on the agreement dated 10 September 2012 (“**Agreement**”) entered into with the Contractor, the construction of the new megastore was scheduled to be completed within six months from the date of the Agreement. In accordance with the Agreement, an aggregate amount 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. Unfortunately, due to the reasons mentioned above, the construction of the new megastore has been deferred for more than two years since the signing of the Agreement.

Management has (1) actively liaised with the Contractor for the refund on a regular basis; and (2) consulted with local advisors and legal counsel to negotiate for the refund.

(f) 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**”) specialises in construction, design and decoration works for commercial and residential buildings in the local areas.

After careful consideration and review, the management decided to finalise the engagement with the Contractor based on the factual information 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 with) and reputation (no negative complaints and comments having been made). Accordingly, the Group was of the view that the Contractor was able to proceed with the construction.

The Group was not able to access the financial standing of the Contractor as this information is not public.

(g) The total sum of the Agreement is RMB 47,395,000, which was to be paid according to the following schedule:

- 1/3 to be settled upon execution of the Agreement;
- 1/3 to be settled within two months after the date of the Agreement; and
- the balance amount to be settled upon completion of construction (subject to approval and acknowledgment by both parties).

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

The current Agreement is silent on whether the deposit is refundable. However, Clause 13 of the Agreement states that the terms of the agreement may be re-negotiated with the consent of both parties, and this would allow for the deposit to be refunded, if the parties are in agreement.

For the avoidance of doubt, the Contractor is not an interested person according to the definition provided under Chapter 9 of the Listing Manual. Therefore, the transaction entered into between the Company and the Contractor pursuant to the Agreement is not an interested person transaction.

BY ORDER OF THE BOARD

ZHOU MIN ZONG
CHIEF EXECUTIVE OFFICER

30 March 2016