Independent auditor's report to the members of Cacola Furniture International Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Cacola Furniture 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 December 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

<u>Management's Responsibility for the Financial Statements</u>

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

<u>Auditor's Responsibility</u>

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independent auditor's report to the members of Cacola Furniture International Limited (cont'd)

Bases for Qualified Opinion

(i) Opening balances

We expressed a qualified opinion in our independent auditor's report dated 10 April 2014 in respect of the financial statements for the financial year ended 31 December 2013 on the following matters:

- Stated on the face of the consolidated statement of financial position as at 31 December 2013 are inventories of RMB 16,656,000. We have not been able to obtain sufficient 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*. Arising from the aforesaid, we have also been unable to ascertain the net realisable value of inventories as at 31 December 2013. In the absence of sufficient documentary evidence and alternative procedures, we were unable to satisfy ourselves as to the appropriateness of the carrying amount of the Group's inventories as at 31 December 2013.

- Stated on the face of the consolidated statement of financial position as at 31 December 2013 are prepayments of RMB 31,597,000 which were made to a contractor for the construction of a new megastore, as disclosed in Notes 2(b) and 8 to the financial statements. Based on the agreement dated 10 September 2012 entered with the contractor, the construction of the new megastore was scheduled to be completed within six months from the date of the contract. We were given to understand that 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 has been damaged by the on-going railway construction, and that the authority will not be liable for any further damage if management decides to proceed with the construction.

  To date, management has put the construction of the new megastore on hold, pending advice from the relevant authorities in the PRC. We have not been able to obtain sufficient appropriate audit evidence in terms of supporting documentation on the financial condition of the contractor, to satisfy ourselves that the contractor is able to repay these amounts to the Group in full should the construction of the new megastore be aborted and the contract terminated. Consequently, we were unable to satisfy ourselves as to the appropriateness of the carrying amount of the Group's prepayments as at 31 December 2013.

In view of the significance of these matters, we are unable to determine whether the opening balances as at 1 January 2014 are fairly stated. Since the opening balances as at 1 January 2014 enter into the determination of the Group's results and cash flows for the financial year ended 31 December 2014, we are unable to determine whether any adjustments might have been found necessary in respect of the financial statements for the financial year ended 31 December 2014.

Our opinion on the financial statements for the financial year ended 31 December 2014 is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

Independent auditor's report to the members of Cacola Furniture International Limited (cont'd)

Bases for Qualified Opinion (cont'd)

(ii) Inventories

Stated on the face of the consolidated statement of financial position as at 31 December 2014 are inventories of RMB 19,338,000. We have not been able to obtain sufficient 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. Arising from the aforesaid, we have also been unable to ascertain the net realisable value of inventories as at 31 December 2014. In the absence of sufficient documentary evidence and alternative procedures, we were unable to satisfy ourselves as to the appropriateness of the carrying amount of the Group's inventories as at 31 December 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Bases for Qualified Opinion paragraphs above, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to present fairly, in all material respects, the state of affairs of the Group and of the Company as at 31 December 2014, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matters

(i) Going concern

We draw attention to Note 2(a)(i) to the financial statements. As at 31 December 2014, the Company had net current liabilities of RMB 36,569,000 (2013: RMB 32,177,000) and incurred net loss of RMB 13,839,000 (2013: RMB 13,790,000) for the financial year then ended, while the Group incurred net loss and net operating cash outflows of RMB 76,848,000 (2013: RMB 62,114,000) and RMB 31,907,000 (2013: RMB 32,823,000) respectively for the financial year then ended. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's and the Company's ability to continue as going concern. The preparation of the financial statements on a going concern basis is dependent on the ability of the Group and the Company to generate sufficient cash flows from operations and to raise new funds from equity or loans, to pay debts as and when they fall due.

As disclosed in Note 2(a)(iii) to the financial statements, the facility in respect of S$40 million and placement for an aggregate amount of up to S$45 million were approved by the Company's shareholders. At the date of this report, the Company is pending the receipt of funds from the facility and placement.

If the Group and the Company were unable to continue in operational existence, the Group and the 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 could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may need to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to the financial statements.

Independent auditor's report to the members of Cacola Furniture International Limited (cont'd)

Emphasis of Matters (cont'd)

(ii) Impairment of prepayments

We draw attention to Notes 2(b) and 8 to the financial statements. For the financial year ended 31 December 2014, the Group made impairment for prepayments amounting to RMB 31,597,000. These prepayments were made by the Group in 2012 for the construction of a new megastore, which has been deferred to date, resulting in the uncertainty of whether the outstanding prepayments can be recovered from the contractor if the construction of the new megastore does not materialise eventually.

The aforementioned significant judgement made by management had contributed 41% of the net loss incurred by the Group for the financial year ended 31 December 2014.

Our opinion is not further qualified in respect of the matters described in the Emphasis of Matters paragraphs above.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 13 April 2015