

CACOLA FURNITURE INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands)

Company Registration No. 179492

**RESPONSE TO THE QUERIES OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED
ON THE COMPANY'S THIRD QUARTER FINANCIAL STATEMENTS ANNOUNCEMENT FOR THE
PERIOD ENDED 30 SEPTEMBER 2016**

Capitalised terms used in this announcement shall, save as otherwise defined, have the same meanings ascribed to them in the Company's third quarter financial statements announcement for the period ended 30 September 2016 (the "**3Q 2016 Financial Statements**").

The Board of Directors of Cacola Furniture International Limited (the "**Company**") refers to the Company's announcement on 14 November 2016 in relation to the 3Q 2016 Financial Statements. The Singapore Exchange Securities Trading Limited ("**SGX-ST**") has on 21 November 2016 requested the Company to provide further information in respect of the 3Q 2016 Financial Statements. The queries by the SGX-ST and the Company's corresponding answers are set out below:

SGX-ST's Question 1

1) We refer to page 1 of the results announcement. Please provide the following information:-

(a) Explain why 'Revenue' has decreased for 3Q2016. In Company's announcement of 29 August 2016, Company disclosed that inventory amounted to RMB33.5 million and based on the existing management information, it is expected that current orders which to be delivered in the 2nd half of FY2016 will not be less than 1st half of FY2016, in terms of revenue. To reconcile.

(b) Explain reasons why 'Selling and distribution expenses' has increased by 17% when 'Revenue' has decreased by 33%.

Company's response :

(a) As discussed and disclosed in previous result announcements, the PRC Government had relaxed its tightening policies in the property market of the related provinces and areas since the 2nd half of 2015, as a result, the demand for our products and orders increased dramatically and was reflected in the revenue from 3Q 2015 onwards.

In order to facilitate the operation, our management team standardised and regularised the delivery lead time with contracted customers, for better management purposes. As such, the Group's revenue and cost of sales recognised in 3Q 2016 was comparably less than that recorded in 3Q 2015 but overall revenue and cost of sales for the nine months ended 30 September 2016 increased by 38% to RMB47.9 million compared to the same period in 2015.

Management expects total orders for 2nd half 2016 (in terms of revenue) will not be less than 1st half 2016 of RMB32.9million.

(b) Selling and distribution expenses increased by RMB65,000, representing a 17% increase compared to 3Q 2015.

The increase was related to travelling, hotel accommodation and business hospitality costs incurred for site visits and meetings with potential customers. The Group has yet to secure any new business with these customers, thus, the level of increase in selling and distribution expenses is not directly comparable to the trend of the revenue being recognised in 3Q2016.

SGX-ST's Question 2

2) We refer to page 3 of the results announcement. We note 'Trade and other payables and accruals' of RMB26.848 million is higher than Cost of sales for 3Q2016 of RMB12.954 million. Please provide the following information:-

(a) Breakdown and aging of 'Trade and other payables and accruals'.

(b) Explain underlying transactions for amounts relating to material items in other payables.

Company's response :

(a) (Expressed in RMB"000")

Amount due to a director (note 1)	2,609
Accrued salary and allowances (note 2)	4,731
Accrued expenses (including full provision for RTO professional fees) (note 2)	10,035
Trade payables (note 3)	9,473
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	26,848
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Note 1 – recurring amount since FY2015.

Note 2 – aged between 30-120 days.

Note 3 - 76% of the amount are current payables aged within 30-60 days and remaining 24% aged over 60 days.

(b) The majority of accrued expenses include professional fees for the proposed acquisition of the entire equity interest of a company to be incorporated by Sharp Year Ventures Limited (which was first announced on 10 April 2014) including, but not limited, to onshore and offshore legal advisers, reporting accountants, valuation, sponsor, independent financial adviser, financial consultant, market researcher and internal control review consultants. The Company announced the termination of the said acquisition on 30 September 2015. Please refer to the announcements made previously for further details.

The Company had, on 17 April 2016, entered settlement agreements with most of these creditors for settlement of outstanding professional fees, salaries and allowances, due to directors and officers. The exercise was subsequently completed on 25 October 2016. Thus, these accrued expenses will be capitalised and reflecting in the book of 4Q 2016.

SGX-ST's Question 3

3) We refer to page 3 and 11 of the results announcement. We note that sales amounted to RMB15.074 million in 3Q2016 but we note that inventory of RMB35.984 million is for orders to be delivered. Please provide details of order book and reasons for the significant increase in sales order.

Company's response :

The reason for the decrease in revenue in 3Q2016 compared to 3Q2015 is discussed in above response by Company to SGX-ST's question 1(a).

Our overall revenue for the nine months ended 30 September 2016 increased as compared to the same period in 2015 significantly, by 38%. Our sales order returned to normal levels before the tightening policies introduced by the PRC Government to cool down the property market. During the 2nd half of FY2015 the PRC Government introduced new relaxed policies for the property market, and as a result of such policies, our sales orders recovered a better utilisation rate of our factory.

Inventory balance as of 30 September 2016 was RMB36 million. Other than raw materials and work in progress, 53% of the carrying amount was related to finished goods to be delivered in next quarters (i.e. 4Q2016 and 1Q 2017). In normal circumstances, 1Q 2017 is a short operation quarter due to Chinese New Year holiday and higher inventory level would be maintained for both raw materials and finished goods according to the sales order.

SGX-ST's Question 4

4) We refer to page 3 and 11 of the results announcement. We note that 'Trade and other receivables' has increased by 42.3% from RMB11.07 million to RMB15.754 million. Please provide the following information:-

(a) Provide breakdown and aging schedule.

(b) Explain why customers are not paying for their purchase.

(c) Disclose whether Company has taken active steps to collect such outstanding debts. If so, disclose these.

(d) We note that the reason for increase in 'Trade and other receivables' was due to increase in credit sales during the period. Please provide reasons for the significant increase in credit sales.

Company's response :

(a) (Expressed in RMB'000")

Deposits, prepayment and other receivables (note 1)	7,750
Trade receivables (note 2)	8,004
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	15,754
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Note 1 – represents trade, rental, utilities and other deposits and prepayments and tax recoverable.

Note 2 – majority of trade receivables are current receivables with 30 – 90 days credit term.

(b) Not applicable. These are not past due or impaired.

(c) Not applicable. These are not past due or impaired.

(d) All the sales activities of the Group are on credit. The Group does not allow cash transactions for corporate governance purposes.

The Group has policies in place for credit terms allowed to customers, depending on the length of business relationship, nature of the transaction, average purchase amount, production cycle, payment history, background and financial strength of the customers.

The reason for the increase in the carrying amount of trade receivables as of 30 September 2016 was due to increase in credit sales in Q1-Q3 2016.

SGX-ST's Question 5

5) We refer to page 11 of the results announcement. We note the Company's statement that "the actual results for 3Q2016 are consistent with the commentary under paragraph 10 and the update announcements released by the Company in previous periods". We note that in the Company's 2Q2016 results, Company reported that "orders are back to normal level before the tightened credit policy ... sales orders have been recovered ... management is confident to maintain operating profit for the furniture business in order to enhance shareholders' value". We note that net profit amounted to RMB735,000 versus RMB4.756 million. How is this consistent with the commentary under paragraph 10? Please elaborate what is the "normal level before the tightened credit policy" and how has the 3Q2016 furniture business reflected to normal levels.

Company's response :

Net profit for 3Q2016 was RMB735,000, approximately 85% decrease as compared to 3Q2015 of RMB4.8 million. The main reason for the high net profit recorded in 3Q2015 was due to the significant write-backs of unknown/over-provision of accrued expenses brought forward from previous periods (i.e. administrative expenses for 3Q2016 RMB953,000 vs. negative administrative expense for 3Q2015 -RMB3.4m). These write-backs are non-trade in nature and not related to Government policy nor operating cycle/environment.

Increase in sales order as a result of the Government relaxing its tightening policies in the property market can be seen in the line items of revenue and net profit for the nine months ended 30 September 2016 (i.e. Revenue/net profit for the nine months ended 30 September 2016 and 2015: RMB47.9 million / RMB4.0 million and RMB34.8 million / RMB -938,000).

Management does not consider any statements made to the public are inconsistent.

The Group's operation suffered from the Government's tightening policy of the property market in previous periods. The average monthly reported revenue during these periods was approximately RMB2.5 million which was significantly lower than the budgeted average monthly revenue of RMB5 million, at normal operation level.

BY ORDER OF THE BOARD

Zhou Min Zong
CHIEF EXECUTIVE OFFICER

23 November 2016