

CEDAR STRATEGIC HOLDINGS LTD.

(Incorporated in the Republic of Singapore)

(Company Registration No. 198003839Z)

RELEASE OF THE SPECIAL AUDIT REPORT BY THE SPECIAL AUDITOR

Unless otherwise mentioned, capitalised terms used herein shall have definitions as ascribed to them in the previous announcements of the Company dated 14 April 2015 (Announcement Reference: SG150414OTHREXC6), 3 July 2015 (Announcement Reference: SG150703OTHRUGFC), 21 July 2015 (Announcement Reference: SG150721OTHRY7LF), 2 September 2015 (Announcement Reference: SG150902OTHRP7KG) and 25 September 2015 (Announcement Reference: SG150925OTHRMQ0Q) (collectively, the “**Previous Announcements**”).

1. BACKGROUND

- 1.1 On 14 April 2015 the previous Board of the Company announced that they intended to appoint a special auditor to, *inter alia*, review and/or ascertain the accounts and transactions of the Group and whether there are any irregularities in the accounts and transactions of the Group for FY2013 and FY2014, and voluntarily suspended the trading of the shares of the Company in connection therewith.
- 1.2 On 11 June 2015, Mr Christopher Chong, our current Chairman, submitted a requisition for and on behalf of himself and two other requisitioning Shareholders, asking for an extraordinary general meeting (“**EGM**”) at which they intended to change the entire Board. The Company did not call for the EGM within the timeline stipulated by the requisitioning Shareholders. Mr Chong therefore started a shareholders’ action to convene an EGM to remove the entire Board. After the start of the action, the directors of the then Board agreed to step down and appoint Mr Chong and two other competent professionals as the new Board.
- 1.3 On 24 June 2015, the new Board was appointed. The new Board discovered that the Company had significant debts and no money as its S\$200,000 bank deposit was effectively blocked. The new Board thus started looking for monies and on 3 July 2015 signed two Placement Agreements and two Investment Agreements. On 3 July 2015, the new Board also appointed the special auditor.

2. APPOINTMENT OF THE SPECIAL AUDITOR AND SCOPE OF ENGAGEMENT

- 2.1 As stated in the Previous Announcements, the special auditor, Baker Tilly Consultancy (Singapore) Pte Ltd (the “**Special Auditor**”) was appointed by the Board of the Company to conduct an independent review of the disbursements of the Company and its subsidiaries, namely Trechance Holdings Limited (“**Trechance**”) and its subsidiaries (collectively, “**Trechance Group**”) and Futura Asset Holdings Pte Ltd (“**Futura**”), for FY2013 and FY2014.
- 2.2 The Board wishes to announce that the Special Auditor has on 24 November 2015 issued its special audit report (the “**Special Audit Report**”) to the Board. The Executive Summary of the Special Audit Report (the “**Executive Summary**”) is attached to this Announcement as Annex A.
- 2.3 In order to understand the disbursements of the Group in context, the Special Auditor analysed the Company’s following transactions:
 - (a) Divestment of the titanium dioxide business (“**Titanium Dioxide Divestment**”);

- (b) Acquisition and proposed divestment of Trechance Group (“**Acquisition and Proposed Divestment of Trechance**”);
- (c) Acquisition and divestment of Yess Le Green Pte. Ltd. (“**YESS**”) and West Themes Pte. Ltd (“**WT**”) (collectively “**YESS+WT**”);
- (d) Acquisition of Futura (the “**Futura Transactions**”);
- (e) Severance payments; and
- (f) Disbursements.

2.4 The Special Auditor noted that the composition of the Company’s Board of Directors varied during the period from 1 January 2013 to 31 December 2014 and has segregated and defined the Board of Directors for the respective periods as follows:

- (i) 1 January 2013 to 15 October 2014: Board Trechance (comprising Dr In Nany Sing Charlie (“**Charlie**”), Chan Ee Kum (“**Spencer**”), Peng Weile, Yin Zhenwei Joyce, Yang Luoqing, Zhao Yanshi, Chua Cheow Khoon (“**Michael**”), Azman Hisham bin Jaafar (“**Azman**”), Huang Chuan, Tay Hun Kiat and Teo Moh Gin)
- (ii) 16 October 2014 to 23 June 2015: Board Futura (comprising Charlie, Spencer, Yang Luoqing, Michael, Azman, Huang Chuan, Tay Hun Kiat and Teo Moh Gin)
- (iii) 24 June 2015 to date of the Special Audit Report: Current Board (also described above as the new Board)

3. KEY OBSERVATIONS BY THE SPECIAL AUDITOR AND ACTIONS BEING TAKEN BY THE CURRENT BOARD

(A) The Titanium Dioxide Divestment

3.1 Whilst the Company has divested its titanium dioxide manufacturing and distribution business (Titanium Dioxide Business) to Talented Creation International Limited (“**TCI**”) for a consideration of RMB180 million receivable from TCI (“**RMB180 Million Receivable**”), the Special Auditor observed that the RMB180 Million Receivable remains uncollected and recommends that the Company seeks to recover the same.

3.1A *The Current Board appointed Drew & Napier LLC (“**Drew & Napier**”) as its legal advisor. Whilst the Company and Drew & Napier are reviewing RMB180 Million Receivable with a view of attempting to recover all or part of the amount, there is no visibility at this point as to whether the Company is able to recover all or part of the RMB180 Million Receivable. The Current Board will assess the costs and benefits of the action(s) available to the Company in connection with this matter before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board’s decision accordingly.*

(B) The Acquisition and Proposed Divestment of Trechance

3.2 The Company intended to enter the real estate business in the People’s Republic of China (“**PRC**”) and either announced or recorded:

- (a) on 22 May 2013, the proposed acquisition of the entire issued share capital of Trechance and all of TCI's subsidiaries in the Huacheng Group in PRC from TCI for a consideration of SGD936.2 million ("**Proposed RTO**"); and
 - (b) on 25 August 2013, the termination of the Proposed RTO, and the proposed acquisition of a reduced number of assets in the Trechance Group ("**Trechance Acquisition**") for RMB22.5 million ("**Trechance Acquisition Consideration**") from TCI, with the Trechance Acquisition Consideration to be satisfied by the Company's issue of the following to TCI:
 - (i) 128,576,982 new shares in the Company at the issue price of SGD0.007 for each share; and
 - (ii) SGD3.6 million of 5% coupon bonds maturing on 29 October 2015.
- 3.3 The Special Auditor is however unable to locate Board minutes that demonstrated Board Trechance had deliberated the acquisition of Trechance Group. Although there were informal Board meetings and email communications amongst Board Trechance and the then management of the Company ("**Management**"), there appeared to be no signed financial, legal due diligence and valuation reports on the acquisition of Trechance for the Special Auditor's review.
- 3.3A *The Current Board will be seeking Drew & Napier's further advice on the course(s) of action available to the Company in connection with this matter. The Current Board will assess the costs and benefits of such action(s) before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*
- 3.4 On 25 August 2014, the Company and TCI entered into a Second Supplemental Agreement to revise the terms of the Trechance Acquisition Consideration as follows:
- (i) the Company would pay TCI SGD900,039 in cash ("**Cash Consideration**"); and
 - (ii) the SGD3.6 million bonds ("**Bond**") issued by the Company would now mature earlier on 29 August 2014 instead of 29 October 2015.
- 3.5 The Special Auditor observed that:
- (a) Management paid SGD752,095.94 of the SGD900,039 Cash Consideration to Ji Yu Dong ("**JYD**") in January 2014 before Board Trechance's approval of the Second Supplemental Agreement on 25 August 2014, and that Board Trechance approved the Cash Consideration and early redemption of the SGD3.6 million Bonds by 14 months when the Group had the RMB180 Million Receivable owing from TCI and a RMB155 million receivable owing from JYD following the Trechance Acquisition (collectively "**RMB335 Million Receivable**");
 - (b) the Company may still be liable to TCI for SGD210,000 (out of the SGD900,039 Cash Consideration) as this sum of monies was paid to Sinowealth Capital Limited ("**SWC**") instead of TCI (purported at the instructions of JYD) as the Company is unable to locate any confirmation from TCI that Cedar is no longer liable for this SGD210,000 tranche of the Cash Consideration following such payment to SWC; and
 - (c) there is a SGD62,056.94 discrepancy between the actual payment of SGD962,095.94 made and the Cash Consideration of SGD900,039 which was the amount stated in the Company's announcement dated 25 August 2014 and the Second Supplemental Agreement dated 25 August 2014 respectively.

- 3.5A *The Current Board will be seeking Drew & Napier's further advice on the course(s) of action available to the Company in connection with this matter. The Current Board will assess the costs and benefits of such action(s) before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*
- 3.6 The Company entered into a subscription agreement dated 14 February 2014 to raise SGD4.6 million in gross proceeds through the issue of 1,277,777,777 new ordinary shares. The Special Auditor was unable to ascertain if SGD3.6 million of these proceeds had been paid to the Company and if SGD3.6 million was paid to JYD to extinguish the whole of the Bond. Furthermore, the Special Auditor observed that there was no evidence that Board Trechance had approved payments of advisory fee amounting to SGD36,000 to each to Alice Chong ("**Alice**"), Cheong Wei Keat and Spencer in respect of the aforesaid share placement.
- 3.6A *Drew & Napier have advised the Current Board that unless there is evidence of the payment of the share placement proceeds, there may be a prima facie breach of Singapore law. The Current Board is also liaising with Drew & Napier as to the actions that need to be taken. The Current Board will assess the costs and benefits of such action(s) available to the Company in connection with this matter before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*
- 3.7 The Company announced on 25 February 2015 its intention to dispose of Trechance Group for a consideration of RMB1,000 to avoid non-performance penalties of up to approximately RMB200 million imposed by the PRC government should the Company fail to complete its real estate projects before 2016 ("**Potential Government Penalty**").
- 3.8 Independent of the Special Audit, the Current Board appointed Shanghai Yuan Tai Law Offices ("**Yuan Tai**") to undertake a review of Trechance. Yuan Tai brought to the attention of the Current Board in October 2015, who in turn brought to the Special Auditor's attention, that Guizhou Huamao Assets Operation Management Co., Ltd ("**Guizhou Huamao**") and Guiyang Shunhe Real Estate Development Co., Ltd ("**Guiyang Shunhe**") were no longer the Company's subsidiaries as at 24 September 2014 and 13 July 2015, respectively. The Special Auditor observed that the loss of Guizhou Huamao was not disclosed in the Company's third quarter results released on 6 November 2014.
- 3.8A *The Current Board announced the change in shareholders of Guizhou Huamao and Guiyang Shunhe on 12 October 2015. The Current Board is liaising with Yuan Tai and Drew & Napier as to the actions that need to be taken for this matter. The Current Board will assess the costs and benefits of such action(s) available to the Company in connection with this matter before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*

(C) The Acquisition and Divestment of YESS+WT

- 3.9 The Company had in 2013 entered the real estate business in Singapore and announced:
- (a) on 5 February 2013 that it had completed the acquisition of:
- (i) 2,500,000 ordinary shares in YESS, representing the total issued share capital of YESS ("**YESS Shares**"); and
- (ii) 500,000 ordinary shares in WT, representing the total issued share capital of WT ("**WT Shares**"),

from Mr. Stanley Lee Kiang Leng ("**Stanley**") for an aggregate consideration of SGD6,312,000 ("**YESS+WT Consideration**") comprising:

- (i) SGD2.0 million cash consideration;
 - (ii) SGD2.0 million 5% coupon bond issued by the Company;
 - (iii) the Company's issuance of 289,000,000 shares at an issue price of SGD0.008 per share; and
 - (iv) the Company's issuance of 250,000,000 warrants with each warrant carrying the right to subscribe for one (1) share in the Company at an exercise price of SGD0.008; and
- (b) on 30 November 2013 that it had disposed its entire equity interest in YESS+WT to Yess Management International Pte Ltd ("**Yess Management**") for an aggregate consideration of SGD2.5 million ("**YESS+WT Divestment Consideration**"). Yess Management was solely owned by Stanley. In addition, Stanley agreed to cancel the SGD2.0 million 5% bond issued by the Company arising from the acquisition of YESS+WT.
- 3.10 The Special Auditor observed that there was a sale consideration receivable of SGD1.5 million ("**SGD1.5 Million Receivable**") from YESS Management resulting from the divestment of YESS+WT, which was to be secured by a pledge over properties of WT ("**Property Assets**") and subsequently by a pledge of Stanley's personal property. A settlement agreement dated 31 October 2014 ("**Settlement Agreement**") was however entered into between New Inspiration Development Limited ("**New Inspiration**") and Yess Management such that New Inspiration would assume the liability for the SGD1.5 Million Receivable owing to the Company in place of Yess Management. In consideration, it was agreed that New Inspiration would become the legal owner of WT and in turn, the Property Assets. However, the Special Auditor noted that the legal owner of WT as at 22 September 2015 is Joel Liu ZhengYi ("**Joel**"), and not New Inspiration.
- 3.11 The Special Auditor noted that Alice, the then Chief Financial Officer of the Company, signed a letter dated 1 December 2014 ("**Indemnity Letter**") stating that she was fully authorised by Charlie, the then Chairman of the Company, as well as the Company and New Inspiration to enter into the Indemnity Letter on all of their behalf with regards to the settlement of the SGD1.5 Million Receivable. It was stated in the Indemnity Letter that Charlie and/or New Inspiration (as the case may be) are now obligated to repay the Company the SGD1.5 Million Receivable in place of Yess Management.
- 3.11A *The Current Board notes that New Inspiration is involved in a High Court action against Joel. The Current Board notes that Joel has sold one of the Property Assets and has transferred certain monies out of WT. The Current Board have, through Drew & Napier, sent a demand letter to Charlie to inform him, inter alia, that the Company will look to him to repay the SGD1.5 Million Receivable if it is unable to recover the same.*
- 3.12 The Special Auditor noted that the Company is unable to locate any written documentation that could evidence Board Futura's approval of both (i) the assignment of the SGD1.5 Million Receivable from Yess Management to New Inspiration and/or Charlie; and (ii) Alice's entering into the Indemnity Letter. Furthermore, the Special Auditor observed that they have not obtained any satisfactory explanation as to why Management would expose the Company to the credit risk of New Inspiration and Charlie as opposed to a valid claim on Yess Management and secured by the a pledge over the Property Assets. There are also contradicting representations

made by Charlie and Alice with regard to Alice's authority to enter into the Indemnity Letter – Charlie had represented that he had never authorised Alice to enter into the Indemnity Letter on his behalf, while Alice represented that she had acted upon Charlie's instruction.

3.12A *The Current Board will be seeking Drew & Napier's further advice on the course(s) of action available to the Company in connection with this matter. The Current Board will assess the costs and benefits of such action(s) before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*

3.13 The Company also paid Spencer a consultancy fee in respect of the YESS+WT Acquisition amounting to SGD315,600. SinoWealth Financial Ltd ("**SWF**") has authorised the consultant fee to be paid to Spencer on 1 February 2013. However, the Company is unable to locate any written evidence between the Company and SWF to support the payment to SWF for consultancy service(s) rendered.

3.13A *The Current Board will be seeking Drew & Napier's further advice on the course(s) of action available to the Company in connection with this matter. The Current Board will assess the costs and benefits of such action(s) before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*

(D) The Acquisition of Futura

3.14 The Company announced on 8 December 2014 that it had on 5 December 2014 completed the acquisition of a 100% equity interest in Futura for a consideration of SGD0.1 million. The Special Auditor observed that the Company is unable to locate any written evidence to demonstrate that the Board Futura had undertaken investment due diligence process when contemplating the acquisition of Futura.

3.14A *Whilst the acquisition was completed on 8 December 2014, the Current Board noted that the Company had no control over the assets of Futura. The Current Board has rectified this and taken control of Futura. Upon taking control, the Current Board determined that Futura has undertaken no business and is unlikely to undertake any business. The Current Board will be seeking Drew & Napier's further advice on the course(s) of action available to the Company in connection with this matter. The Current Board will assess the costs and benefits of such action(s) before deciding on the course of action to be taken and will keep all Shareholders updated on the Current Board's decision accordingly.*

(E) Severance Payments

3.15 The Special Auditor observed that the Company paid several executive directors and key management between seven (7) to fourteen (14) months of bonus and severance related payments (collectively "**Severance Payments**") for less than one (1) year of employment with the Company but there is no documentation to demonstrate that the Nominating and Corporate Governance Committee or the Board had approved the termination of the aforesaid directors and key management executives. Further, the announcements made by the Company state that these directors and key management had resigned and were not terminated.

3.15A *Drew & Napier have advised the Current Board that they may be able to clawback part of the Severance Payments. The Current Board will seek to clawback the Severance Payments to the extent possible.*

(F) Disbursements

3.16 The Special Auditor noted that Charlie had loaned HKD6,888,140.00, or SGD1,157,670.60, to Trechance on 17 July 2013. In addition, the Group recorded amounts owing to Charlie for (i) 1% commission pertaining to the acquisition/investments undertaken by the Company; and (ii) his October 2014 salary and retrenchment benefits. The Special Auditor further noted that Charlie had reasoned that because the Group had owed him monies, he was entitled to direct the Group to make payments on his behalf against these balances. However, there was no documentary evidence or supporting document to indicate that Charlie was entitled to all the monies. Furthermore, the Special Auditor also noted that Alice also appeared to have made duplicate claims amounting to SGD3,827.40 using the same airfare and accommodation invoices.

3.16A *Drew & Napier have advised the Current Board that the Company may be able to clawback any overpayments that may have been made to Charlie and Alice (as the case may be). The Current Board will accordingly seek to clawback any such overpayments. Drew & Napier have also advised the Current Board that there may be other potential regulatory breaches and have recommended a course of action. The Current Board will keep all Shareholders updated on the actions it will take in connection with this matter.*

4. RECOMMENDATIONS AND GOING FORWARD

4.1 The Special Auditor has, in its Special Audit Report, noted weaknesses and/or lapses in corporate governance, internal controls and possible non-compliance with the Catalist Rules and has advised the Current Board to seek legal advice and follow up on the various matters noted in the Special Audit Report. Please refer to Annex A of this Announcement for details of the recommendations in the Executive Summary.

4.1A The Company notes the weaknesses and/or lapses in corporate governance, internal controls and possible non-compliance with the Catalist Rules as well as the list of recommendations as outlined in the Special Audit Report. The Current Board has appointed Baker Tilly Consultancy (Singapore) Pte Ltd ("**Baker Tilly**") to review and evaluate the adequacy and effectiveness of the system of internal controls, work procedures and processes. This review is to ensure that the internal controls are adequate to safeguard the shareholders' investment, the Company's assets and ensure the integrity of the Company's financial statements. Upon the completion of the review, the Current Board would look into the recommendations made by Baker Tilly and take necessary steps to further strengthen and enhance the internal controls. Baker Tilly will also be assisting the Current Board to implement an enterprise risk management ("**ERM**") for the Group. Where relevant, the Company shall also be arranging for training and/or refresher courses for the benefit of its executive officers as well as directors to ensure that they are up-to-date with the Catalist Rules as well as any other changes to pertinent rules and regulations.

4.2 To reiterate, the Current Board is actively looking at the current issues facing the Company, including the issues raised by the Special Auditor, and has appointed various professionals, including Drew & Napier and Yuan Tai to look into the various matters, including but not limited to taking legal actions or reporting the incident(s) to the relevant authorities, if required.

5. UPDATE ON THE TRADING SUSPENSION OF THE COMPANY'S SHARES

5.1 With the release of the Special Audit Report as well as the steps and/or actions taken by the Current Board to address the observation raised by the Special Auditor, the Company will be separately submitting a resumption proposal to the SGX-ST (through the Company's Sponsor, Stamford Corporate Services Pte Ltd) in due course.

5.2 The Company will keep its Shareholders informed on any updates relating to the resumption proposal.

By Order of the Board

Christopher Chong
Non-Executive Chairman
23 November 2015

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, Stamford Corporate Services Pte Ltd, for compliance with the relevant rules of the SGX-ST. The Company's Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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