

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (formerly known as China Titanium Ltd.)

Report on the financial statements

We have audited the accompanying financial statements of Cedar Strategic Holdings Ltd. (formerly known as China Titanium Ltd.) (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial period from 1 October 2011 to 31 December 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 financial statements.

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

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (formerly known as China Titanium Ltd.) (cont'd)

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group for the financial period from 1 October 2011 to 31 December 2012.

Emphasis of matter

Without qualifying our opinion, we draw attention to Notes 2(a) and 8 to the financial statements, which provide disclosures on significant judgements made on the classification of assets or disposal group held for sale, and significant estimates used to measure the fair value less costs to sell of the assets or disposal group held for sale and the sensitivity of reasonable possible changes in key assumptions which would cause the fair value less costs to sell of the assets or disposal group held for sale to be lower than the carrying amount.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan Grant Thornton LLP
*Public Accountants and
Certified Public Accountants*

Singapore, 18 March 2013

Notes to the financial statements

for the financial period from 1 October 2011 to 31 December 2012

1 General information

The financial statements of Cedar Strategic Holdings Ltd. (formerly known as China Titanium Ltd.) (the "Company") and its subsidiaries (the "Group") for the period from 1 October 2011 to 31 December 2012 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company is incorporated as a limited liability company and domiciled in the Republic of Singapore. With effect from 7 December 2012, the name of the Company was changed from China Titanium Ltd. to Cedar Strategic Holdings Ltd.

The registered office is located at 133 New Bridge Road #15-06, Chinatown Point, Singapore 059413.

The principal activities of the Company are those relating to investment holding. The principal activities of the subsidiaries are as stated in Note 5.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi which is the Group's functional currency. All financial information is presented in Renminbi and rounded to the nearest thousand, unless otherwise stated.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

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2(a) Basis of preparation (cont'd)

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are detailed below:

Critical assumptions used and accounting estimates in applying accounting policies

Impairment of subsidiaries

The Company assesses at the end of each reporting period whether there is any indication that the investments in subsidiaries may be impaired. If any indication exists, the investment is tested for impairment. The determination of the recoverable amount requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash generating units and an appropriate discount rate in order to calculate the present value of the future cash flows.

Impairment of intangible assets

Intangible assets are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered impairment loss. If any such indication exists, the assets are tested for impairment. The recoverable amounts of the assets are estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in statement of comprehensive income.

Management judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the growth rate and discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's results.

Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

Income tax

Significant judgement is involved in determining provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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2(a) Basis of preparation (cont'd)

Critical assumptions used and accounting estimates in applying accounting policies (cont'd)

Fair value less costs to sell of disposal group held for sale

Disposal group classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. In the event that the carrying amount of the disposal group is higher than its fair value less costs to sell, an impairment loss is recognised for any write-down of the disposal group to fair value less costs to sell.

Where there is no binding sale agreement or active market for the disposal group, fair value less costs to sell is based on the best information available to reflect the amount that the Group could obtain, from the disposal of the disposal group in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. This requires extensive use of accounting estimates. Significant components of fair value are estimated using assumptions including growth rate and discount rate. The amount of fair value and any impairment loss would differ if there are changes to the assumptions used and as a result affect the Group's profit or loss.

Critical judgements made in applying accounting policies

Intangible assets

In 2009, the Group acquired the rights to trade, market and distribute titanium dioxide related products manufactured by Daqing XinLong Chemical Company Ltd ("XL") in the People's Republic of China for a period of 20 years (referred to hereinafter as the "Economic Rights").

In connection with the acquisition, Jade Marketing & Distribution Pte Ltd ("JMD") was incorporated. The Company and BioMissile Medical Ltd own 51% and 49% interest in the issued share capital of JMD respectively. JMD incorporated a wholly-owned subsidiary, Daqing XinDe Chemical Marketing & Distribution Ltd ("XD"), for the intended purpose of trading, marketing and distribution of titanium dioxide related products manufactured by XL for a period of 20 years.

Management had evaluated the facts and circumstances and concluded that the Group had acquired a separately identifiable intangible asset. Accordingly, the costs relating to the acquisition of the Economic Rights were capitalised. The useful life of the Economic Rights is determined to be 20 years as this is the length of time that management expects the benefits of the Economic Rights to flow to the Group.

Following the Group's successful acquisition of the entire registered capital of XL in February 2012, the economic rights previously acquired by the Group to trade, market and distribute titanium dioxide related products manufactured by XL ceased and accordingly, management wrote off the carrying amount of the economic rights acquired against the negative goodwill arising from the acquisition of XL as disclosed in note 21 to the financial statements.

Determination of functional currency

XD commenced business operations in 2010. XD's sales and purchases and cash flows are denominated in Renminbi. Except for XD, the rest of the entities in the Group have been inactive. In determining the Company's functional currency to be Renminbi, judgement is required to determine the currency that mainly influences the Company's operating, investing and financing activities. The functional currency of the Company is determined based on management's assessment of the currency that most faithfully represents the economic effects of the Company's underlying transactions, events and conditions.

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2(a) Basis of preparation (cont'd)

Critical judgements made in applying accounting policies (cont'd)

Classification of disposal group held for sale and discontinued operation

On 13 May 2011, the board of directors announced that the Company received an offer from Imagine Un Limited ("IUL"), a company listed on the Australian Stock Exchange, to acquire the Company's 51% interest in the issued share capital of Jade Marketing & Distribution Pte. Ltd. On 23 August 2012, the board of directors announced that instead of the Divestment, the Company has entered into an Equity Transfer Agreement dated 16 August 2012 with Trechance Holdings Limited, Talented Creation International Limited ("TCI") and Mr. Ji Yu Dong ("JYD"). JYD is a major shareholder of Hua Cheng Group of Companies, which is a major property developer group based in Guizhou Province, PRC. Pursuant to the Equity Transfer Agreement, the Company agreed to transfer to TCI all its beneficial interest and title in its 51% equity interest in JMD and 100% interest in JRE as well as its rights and obligations under the previous proposed divestment for a consideration of RMB 180 million.

Notwithstanding the changes with regards to the proposed divestment of JMD and JRE to IUL, the board of directors considered the criteria to classify as disposal group held for sale and discontinued operation continued to be met at that date for the following reasons:

- (i) The plan to divest the Group's titanium dioxide business in the trading segment has not changed, and management has subsequently entered into negotiations with TCI to sell the disposal group in the segment; and
- (ii) The disposal group is available for immediate sale in their present condition to TCI, subject only to usual and customary terms and conditions precedent pertaining to the offer from TCI.

If the criteria are no longer met, any resulting impairment loss, depreciation and amortisation arising from the remeasurement of the disposal group as detailed in the accounting policy on "Disposal group held for sale" would affect the Group's statement of comprehensive income.

Share option expenses

The Group measures equity-settled share option expenses by reference to the fair value at the date of the grant. Judgement is required in determining the most appropriate valuation model for the share option expenses, depending on the terms and conditions of the grant. For share options, management is also required to use judgement in determining the most appropriate inputs to the valuation model, including the expected life of the option, volatility and dividend yield.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

2(b) Interpretations and amendments to published standards effective in 2012

On 1 October 2011, the Group adopted the amended FRS that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required in accordance with the transitional provisions in the respective FRS. This includes the following FRS which are relevant to the Group:

Reference	Description
FRS 12	Deferred Tax – Recovery of Underlying Assets
FRS 107	Disclosures – Transfers of Financial Assets

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8 Disposal group held for sale

On 13 May 2011, the board of directors announced that the Company received an offer from Imagine Un Limited ("IUL"), a company listed on the Australian Stock Exchange, to acquire the Company's 51% interest in the issued share capital of JMD.

The Company and BioMissile Medical Ltd ("BML") owns 51% and 49% interest in the issued share capital of JMD respectively. JMD owns the entire issued share capital of Daqing XinDe Chemical Marketing & Distribution Ltd ("XD"), which is the sole distributor of the titanium dioxide produced by Daqing XinLong Chemical Company Ltd ("XL").

The owners of XL and BML have agreed to sell their respective interests in XI and BML to IUL. As IUL intends to acquire the whole of the titanium dioxide business, IUL made an offer to the Company to acquire its 51% equity interest in JMD.

In view of the impending changes in the ownership structure of XL and BML, the board of directors decided to accept the offer from IUL and committed to a plan to sell the Company's 51% equity interest in JMD. Accordingly, the assets and disposal group relating to the titanium dioxide business within the trading segment are classified as held for sale.

On 15 February 2012, the Company entered into a supplemental deed with IUL, pursuant to which Jade Real Estate Pte Ltd, a wholly owned subsidiary of the Company, acquired the entire registered capital of XL and a 60% economic interest in XL from the shareholders of XL for a cash consideration of RMB 43,069,022, funded through a bank overdraft included in the borrowings of RMB67.6 million under "liabilities classified as held for sale" on page 34. Under the deed, at the completion of the divestment, JMD shall in turn acquire the entire issued share capital of JRE from the Company for an amount of RMB 43,069,022. Management consequently classified the assets and liabilities recorded in the books of XI as "disposal group held for sale" on the basis that XL was acquired exclusively with a view of resale to IUL.

On 23 August 2012, the Board announced that, instead of the Divestment, the Company has entered into an equity transfer agreement dated 16 August 2012 ("Equity Transfer Agreement") with Trechance Holdings Limited, Talented Creation International Limited ("TCI") and Mr Ji Yu Dong as well as the deed of novation dated 16 August 2012 with TCI, IUL, BML, JMD, JRE, XI, XD and the guarantors. Trechance Holdings Limited is incorporated in Hong Kong Special Administrative Region while TCI is incorporated in British Virgin Islands. Pursuant to the Equity Transfer agreement, the Company has agreed to transfer to TCI all its beneficial interests and title in its 51% equity stake in JMD and 100% stake in JRE, as well as its rights and obligations under the previous proposed divestments for a consideration of RMB 180 million.

Notwithstanding, the change with regards to the proposed divestment of JMD and JRE ("the disposed group") to IUL, management is of the view that the criteria to classify the assets and liabilities of the disposed group as held for sale continued to be met as at 31 December 2012 since the disposal group is available for immediate sale in its present condition, subject to only customary terms and conditions precedents and the sale of the disposal group is highly probable and the equity transfer is expected to be completed in February 2013.

On 22 February 2013, the board of directors announced that the Company has completed the equity transfer to TCI of all its interest and title in its 51% equity stake in JMD and 100% interest in JRE.

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8 Disposal group held for sale (cont'd)

As at 31 December 2012, the assets of the Company, and the disposal group comprising assets and liabilities of the Group, are as follows:

	2012 RMB'000	2011 RMB'000
The Group		
Assets		
Intangible assets	1,023	34,238
Plant and equipment	141,263	27
Inventories	3,951	-
Trade and other receivables	1,618	52,722
Cash and cash equivalents	120	74
Assets classified as disposal group held for sale	147,975	87,061
Liabilities		
Trade and other payables	(26,215)	(260)
Borrowings	(67,625)	-
Liabilities classified as disposal group held for sale	(93,840)	(260)
The Company		
Intangible assets	-	34,238
Subsidiary	28,839	28,839
Assets classified as disposal group held for sale	28,839	63,077

Following the Group's successful acquisition of the entire registered capital of XL, the economic rights previously acquired by the Group and the Company to trade, market and distribute titanium dioxide related products manufactured by XL ceased and accordingly, management wrote off the carrying amount of the economic rights amounting to RMB34.2 million in the Company's statement of comprehensive income and set off the economic rights written off against the negative goodwill arising from the acquisition of XL in the Group's statement of comprehensive income during the current financial period (see Note 21).

The fair value less costs to sell was determined by independent professional valuers based on the income approach, using financial budgets for the year from 2013 to 2017 approved by management.

Cash flows were projected using the anticipated growth rate of approximately 3%. The growth rate used was based on historical and expected future growth of the industry and did not exceed the current estimated long-term average growth rate for the business in which the assets and disposal group operate. A pre-tax discount rate of 18% was applied to the cash flow projections.

Based on the valuation, the fair value less costs to sell of RMB 308.2 million was determined to be higher than the carrying amount of the assets and disposal group held for sale of RMB 28.8 million and RMB 54.135 million respectively. Accordingly, no impairment loss on the remeasurement of the assets or disposal group to the lower of the carrying amount and fair value less costs to sell has been recognised in statement of comprehensive income.

If the growth rate applied to the cash flows decreases/increases by 1% from the estimate, the fair value less costs to sell of XL would decrease/increase by RMB 16.607 million and RMB 18.973 million respectively.

If the pre-tax discount rate applied to the cash flows increases/decreases by 1% from the estimate, the fair value less costs to sell of XL would decrease/increase by RMB 23.352 million and RMB 26.732 million respectively.