

Independent auditor's report to the members of Cedar Strategic Holdings Ltd.

Report on the financial statements

We were engaged to audit the accompanying financial statements of Cedar Strategic Holdings Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Company and the Group as at 31 December 2014, the consolidated statement of 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.

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, Chapter 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 financial statements and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. *Consolidation of subsidiaries*

The consolidated financial statements of the Group contained the results of the following wholly owned subsidiaries, (i) Guizhou Cedar Huacheng Investment Management Co., Ltd, (ii) Guiyang Shunhe Real Estate Development Co., Ltd, (iii) Guizhou Shengxiang Investment Management Co., Ltd and (iv) Guizhou Huamao Assets Operation Management Co., Ltd (collectively known as PRC entities" or the "Investees") for the period from 1 January 2014 to 30 September 2014. No accounting records were furnished to the current management in Singapore for the period from 1 October 2014 to 31 December 2014 following the resignation of the entire finance team in the People's Republic of China ("PRC").

Due to the unavailability of the accounting records and the loss of control of the PRC entities as mentioned in (2), the current management eventually made full impairment provisions on (i) property, plant and equipment (RMB 72.8 million) and (ii) carrying amounts of the net current assets of RMB 15.6 million, comprising gross current assets of RMB 489.7 million and gross current liabilities of RMB 474.1 million, based on the management accounts of the PRC entities as at 30 September 2014, as disclosed in Note 16 to the financial statements.

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (Cont'd)

Basis for Disclaimer of Opinion (cont'd)

1. *Consolidation of subsidiaries (cont'd)*

Accordingly, we were unable to obtain sufficient appropriate audit evidence over the completeness of liabilities incurred, existence and ownership of assets, accuracy and presentation of financial numbers as reported and disclosed, including the amount of impairment losses made to reflect the reported amounts in the consolidated statement of comprehensive income and the consolidated statement of cash flows for the financial year ended 31 December 2014.

FRS 110 – *Consolidated Financial Statements* requires the consolidation of the investees from the date the Company gains control of the investees and ceases when the Company loses control over the investees. Based on the findings noted in (2), we were unable to conclude when the control over the PRC entities was lost.

2. *Loss of control of PRC entities*

On 24 September 2014, the shareholding, shareholders, legal representative and other related information of Guizhou Huamao Assets Operation Management Co. Ltd have been changed from Guizhou Cedar Huacheng Investment Management Co., Ltd (“Cedar Hua Cheng”), the current immediate holding company, to Ms Ji Lei, a related party of Mr Ji Yu Dong (“JYD”), where the latter is purported to be the sole shareholder of Talented Creation International Limited (“TCI”), together with two other third party individuals.

On 13 July 2015, the shareholding, shareholders and other related information of Guiyang Shunhe Real Estate Development Co., Ltd have also been changed from Cedar Hua Cheng to two third party individuals. All these changes were made without knowledge from ex-management.

On 19 November 2015, the current Board was informed by the ex-Non-Executive Chairman that he does not possess any documents or company seals of Guizhou Cedar Huacheng Investment Management Co., Ltd and Guizhou Shenxiang Investment Management Co., Ltd. Furthermore, there is currently no management personnel in the two entities who are reporting to the current Board.

Arising from the above, the current Board is of the view that the Company no longer has the practical ability to direct the relevant activities of the PRC entities and on this basis, the PRC entities ceased to be legal subsidiaries of the Company by 31 December 2014. We have not been able to obtain satisfactory explanations from the ex-management of the Company concerning the reasons of the said modifications as well as the loss of control over the PRC entities. Consequently, we were unable to satisfy ourselves on the Company's rights and ownership over the PRC entities as at the balance sheet date.

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (Cont'd)

Basis for Disclaimer of Opinion (cont'd)

3. *Beneficial owner of TCI*

JYD appeared to be treated interchangeably with TCI for the purposes of granting authorisation and receiving payments in numerous instances. The Company's announcement dated 22 May 2013 in relation to the acquisition of Trechance Holdings Limited ("Trechance") states that Ms Ji Lei as the beneficial owner of TCI. This was not consistent with TCI's Register of Members which indicated that the sole shareholder of TCI is JYD. Accordingly, we were unable to ascertain who the beneficial owner of TCI is and whether it was appropriate for the ex-management to consider TCI as being interchangeable with JYD. Furthermore, we noted inconsistencies in the various documents furnished, which granted an ex-key management personnel of the Company, authority to approve certain critical documents on behalf of JYD or TCI, as mentioned in (10) below.

4. *Related party transactions*

FRS 24 - *Related Party Disclosures* requires the disclosure of significant related party relationships, transactions and outstanding balances in the accompanying financial statements. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the completeness, existence and accuracy of related parties and transactions with related parties as disclosed in Note 22 to the financial statements due to missing accounting and financial records of the PRC entities based on the reasons cited in (1). Consequently, we were unable to establish whether any significant related party information has been omitted from the financial statements of the Group and the Company for the financial year ended 31 December 2014.

In addition, the Group made certain payments on behalf of an ex-key management personnel during the financial year, which met the definition of "interested person transactions" in accordance with Rule 904 of the Catalist Rules. These interested person transactions totalled S\$1.47 million (equivalent to RMB 7.1 million as disclosed in Note 22 to the financial statements) approximated 3% of the Group's latest audited net tangible assets as at 31 December 2013, have not been approved by the ex-Audit Committee and the ex-Board of the Company. Consequently, it may constitute a breach of Rule 905 of the Catalist Rules, which requires immediate announcement of the interested person transactions.

5. *Impairment losses recognised on the cost of investment in subsidiaries and amounts due from subsidiaries*

As at 31 December 2014, the current management fully impaired its cost of investment in subsidiaries as well as amounts due from its subsidiaries amounting to RMB 22.5 million and RMB 204.9 million, as disclosed in Notes 5 and 8(A), respectively, in the Company's statement of comprehensive income. The accounting and financial records of the subsidiaries were not available based on the reason cited in point 1.

Accordingly, we were unable to satisfy ourselves as to the appropriateness of the carrying amounts of the Company's investment in subsidiaries and the amounts due from subsidiaries as at 31 December 2014 as well as the impairment losses recognised in the Company's statement of comprehensive income for the financial year ended 31 December 2014.

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (Cont'd)

Basis for Disclaimer of Opinion (cont'd)

6. *Recoverability of amount due from New Inspiration Development Limited ("New Inspiration")*

Included in trade and other receivables (Note 8(B)) in the Group and the Company's statement of financial position as at 31 December 2014 was the remaining consideration receivable of RMB 7.0 million (equivalent to S\$ 1.5 million) arising from the disposal of subsidiaries in FY2013.

The Settlement Agreement referred to in Note 8(B) to the financial statements was not approved by the then-Board of Directors as at that point of time. In addition, conflicts of interest arose as part of the settlement process. The Company has not obtained control over the assets referred to in Note 8(B) to the financial statements. On this basis, we were unable to obtain sufficient appropriate audit evidence on the recoverability of the consideration receivable as at 31 December 2014.

7. *Impairment loss recognised on amounts due from TCI*

As at 31 December 2014, the current management fully impaired the consideration receivable from TCI amounting to RMB 189.9 million, as disclosed in Notes 8(A) and 16, respectively, in the consolidated statement of comprehensive income. We were unable to satisfy ourselves as to the appropriateness of the impairment losses recognised in the consolidated statement of comprehensive income for the financial year ended 31 December 2014.

8. *Remuneration matters*

During the financial year ended 31 December 2014, management recorded retrenchment benefits, bonus and other salary related costs amounting to approximately RMB 4.4 million (Company: RMB 3.7 million) paid/payable to its ex-executive directors and ex-key management personnel of the Company and its subsidiary in the statement of comprehensive income. The Group paid retrenchment benefits, bonus and other salary related costs of RMB 3.0 million (Company: RMB 2.3 million) in October 2014. We were unable to obtain sufficient appropriate audit evidence to determine that such retrenchment benefits have been appropriately approved.

9. *Supporting accounting documents*

Other than those already mentioned in other paragraphs in our basis of disclaimer of opinion, we have not been able to obtain satisfactory explanations from the ex-management concerning a series of payment transactions of (i) at least RMB 147,000 in FY2014, where we cannot determine whether such transactions were incurred in the ordinary course of business of the Group and the Company and (ii) payments of at least RMB 4.0 million that were without proper supporting accounting and approval documents.

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (Cont'd)

Basis for Disclaimer of Opinion (cont'd)

10. *Use of Share Proceeds and Settlement of Consideration Payable*

In June 2014, the Company raised gross proceeds amounting to S\$4.6 million pursuant to the issuance of 1,277,777,777 new subscription shares at an issue price of S\$0.0036 per share to 3 investors. The proceeds were intended to repay the consideration payable arising from the acquisition of Trechance in FY2013.

Only S\$1 million has been received by the Company. S\$3.6 million of the gross proceeds were purportedly used to settle the outstanding bond issued to TCI as disclosed in Note 12 to the financial statements. We were unable to perform any substantive audit procedures and obtain sufficient appropriate audit evidence that the gross proceeds of S\$3.6 million were used to settle the outstanding bond as disclosed in Note 12 to the financial statements.

The ex-management paid S\$752,096 of the Cash Consideration as disclosed in Note 21 to the financial statements, to JYD in January 2014 prior to the approval of the Second Supplemental Agreement by the then-Board on 25 August 2014.

The ex-management paid S\$210,000, being the remaining portion of the Cash Consideration as disclosed in Note 21 to the financial statements to one of the investors instead of TCI on 16 September 2014. We have not sighted any written instructions from TCI or JYD for the payment to be remitted to the investor.

Payments totalling S\$962,095 were made during the year to settle the amounts arising from the acquisition of Trechance. The Company announced on 25 August 2014 that an amount of S\$900,039 was paid to settle the consideration payable. There was a discrepancy of S\$62,056 between the actual payment made and the amount stated in the announcement. We have not been able to obtain satisfactory explanations from the ex-management concerning the discrepancy noted.

In addition, conflicts of interest arose in the execution of the above transactions. Accordingly, we were unable to satisfy ourselves as to whether the liabilities arising from the outstanding bond and the Cash Consideration payable, as disclosed in Notes 12 and 21 to the financial statements, have been appropriately discharged as at the balance sheet date. Arising from this, it may constitute a breach of Rule 704(30) of the Catalist Rules in relation to the accuracy of the announcement made on the use of the share placement proceeds dated 29 August 2014.

11. *Non-compliance with disclosure requirements under respective FRSs*

Management has not complied with the respective FRSs in relation to the respective Notes 3, 6, 7, 8, 14, 15, 16, 17, 19, 24 and 26 in the consolidated financial statements as required by the respective FRSs, which include but not limited to FRS 1 - *Presentation of Financial Statements*, FRS 16 - *Property, Plant and Equipment*, FRS 18 - *Revenue*, FRS 24 - *Related Party Disclosures*, FRS 33 - *Earnings Per Share*, FRS 36 - *Impairment of Assets*, FRS 39 - *Financial Instruments: Recognition and Measurement* and FRS 108 - *Operating Segments*.

Independent auditor's report to the members of Cedar Strategic Holdings Ltd. (Cont'd)

Basis for Disclaimer of Opinion (cont'd)

11. *Non-compliance with disclosure requirements under respective FRSs (cont'd)*

We were unable to obtain sufficient audit evidence over the completeness, existence and accuracy of the disclosures made in the consolidated financial statements as the accounting and financial records of these PRC entities were not available and the consolidated financial statements were also not prepared in accordance with FRS 110 - *Consolidated Financial Statements*.

Furthermore, there were certain non-disclosures of information as required by the respective FRS, which included but not limited FRS 12 - *Income Taxes*, FRS 16 - *Property, Plant and Equipment* and FRS 36 - *Impairment of Assets*, which was not in accordance with the relevant FRSs.

12. *Appropriateness of going concern assumptions of the Group and the Company*

We draw attention to Note 2(a) to the financial statements. The Company had announced on 9 April 2015 that trading in its shares was halted and on 14 April 2015, trading of the Company's shares was subsequently suspended. As at 31 December 2014, the Group and the Company reported a surplus in net assets of RMB 3.1 million and RMB 4.8 million respectively, despite registering net losses and net operating cash outflows of RMB 253.0 million and RMB 38.4 million (The Company: Net losses of RMB 244.1 million and net operating cash outflows of RMB 27.0 million) respectively for the financial year then ended. The surplus in net assets comprised mainly the consideration receivable of RMB 7.0 million as mentioned in (6) above.

The announcement dated 25 February 2015 stated that Futura Asset Holdings Pte Ltd ("Futura") is operational and is expected to contribute to the Group's financials in FY 2015. We were unable to obtain sufficient audit evidence to verify this assertion.

The viability of the Group and the Company's operations to a large extent is highly dependent on (A) the receipt of the remaining consideration receivable and (B) the resumption of trading of the Company's shares, which is subject to the approval from SGX-ST, which would allow the management to raise fresh funds to meet the Group's and the Company's operational needs. The above-mentioned conditions cast doubt on the Group and the Company's ability to continue as a going concern.

There are material uncertainties that may cast doubts about the Group's and the Company's ability to continue as a going concern as we were unable to obtain sufficient appropriate audit evidence on the recoverability of the consideration receivable and whether SGX-ST would approve the resumption of trading of the Company's shares that would enable management to raise fresh funds to meet the Group's and the Company's operational needs.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

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Other matters

Based on the findings note in the preceding paragraphs, under such circumstances, we brought some of these discrepancies to the attention of the relevant authorities in accordance with the statutory obligations imposed on us as auditors of the Company.

Report on other legal and regulatory requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore
24 November 2015