ORIENTAL GROUP LTD.

(Company Registration Number: 200401998C)
(Incorporated in the Republic of Singapore)

UPDATE ON SPECIAL AUDIT AND INDEPENDENT REVIEW

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**") for compliance with the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.*

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

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1. INTRODUCTION

The board of directors ("**Board**") of Oriental Group Ltd. (the "**Company**" together with its subsidiaries, the "**Group**") refers to the Company's announcements on SGXNET dated 19 January 2016, 15 March 2016, 13 June 2016, 12 July 2016, 15 September 2016, and 15 November 2016 (collectively, the "**Previous Announcements**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Previous Announcements.

2. UPDATE ON SPECIAL AUDIT ON SINGAPORE IRREGULARITIES

2.1 The Company had appointed RSM Corporate Advisory Pte Ltd (formerly known as Stone Forest Corporate Advisory Pte Ltd) as the Special Auditor to carry out a review relating to the Irregularities within the Group's Singapore operations ("**Special Audit**").

2.2 The Special Auditor has completed the Special Audit and the report on its findings has been submitted to the SGX-ST, Sponsor, and the Board. An executive summary of the Special Audit report ("**Executive Summary**") is annexed to this announcement.

Summary of key findings of Special Auditor

2.3 A summary of the key findings of the Special Auditor is set out below:

Share placement in 2013

2.4 The Company had announced the completion of the issuance and allotment of placement of 179,166,667 shares for an aggregate consideration of S$21,500,000 on the SGXNET on 16 April 2013, even though it had not received an aggregate sum of S$9,640,000 from nine placees for the placement shares. The outstanding amounts were subsequently collected in FY2013, FY2014 and FY2016.

2.5 Consequently, erroneous accounting entries and disclosures were made by the Company which may potentially breach regulations and listing rules.

2.6 For more details on the findings of the Special Auditor on the Share placement in 2013, please refer to paragraph 1.2 of the Executive Summary.

Convertible loan notes issuance in 2015

2.7 The Company had announced the completion of the subscription and issuance of S$5,500,000 convertible loan notes on the SGXNET on 24 February 2015, even though it had not received an aggregate sum of S$1,250,000 from three noteholders for the convertible loan notes.

2.8 As at the date of this announcement, the payment of S$500,000 from one noteholder is untraceable, and the sum of S$250,000 is still due and owing from another noteholder.

2.9 Consequently, erroneous accounting entries and disclosures were made by the Company which may potentially breach regulations and listing rules. The Special Audit report had also highlighted other irregularities relating to the collection of monies and unauthorised redemption of convertible loan notes issued by the Company in FY2015.

2.10 For more details on the findings of the Special Auditor on the Convertible loan notes issuance in 2015, please refer to paragraph 1.3 of the Executive Summary.

Share placement in 2015

2.11 The Company had announced the completion of the issuance and allotment of placement of 50,000,000 shares for a consideration of S$5,000,000 on the SGXNET on 13 August 2015, even though it had not received a sum of S$1,500,000 from one placee for the placement shares.

2.12 Consequently, erroneous accounting entries and disclosures were made by the Company which may potentially breach regulations and listing rules. The Special Audit report had also highlighted other irregularities relating to the issue of shares and collection of monies relating to this share placement. In particular, shares were issued via a separate vehicle set up to facilitate the transfer of shares from a named placee to three separate unnamed placees.

2.13 For more details on the findings of the Special Auditor on the Share placement in 2015, please refer to paragraph 1.4 of the Executive Summary.

Transactions with GL Engineering

2.14 The Company had purchased steel related goods (GI Pipes, sheet piles and 3A piles) for a total of S$650,000 from GL Engineering Pte Ltd ("**GL Engineering**") without approval of the Board.

2.15 Goods amounting to S$250,000 were subsequently returned to GL Engineering while another portion of goods were subsequently sold back to GL Engineering for S$42,500, at a loss of S$7,500.

2.16 The Special Auditor raised concerns over the rationale, non-delivery and existence of the goods due to various irregularities noted from their review. As at the date of this announcement, the Company still has ownership of approximately S$350,000 of goods, which physical existence cannot be verified or confirmed as GL Engineering has not provided its confirmation to the Company's auditors.

2.17 For more details on the transactions with GL Engineering, please refer to paragraph 1.5 of the Executive Summary.

Purchase of IT equipment and PIC claims

2.18 Payments totalling S$145,040 had been made in full by the Company and Oriental Investments Group Pte Ltd ("**OIG**"), a wholly owned subsidiary of the Company, even though most of the items purchased have not been delivered to the Company and OIG to date.

2.19 The Special Auditor also raised concerns over the Productivity and Innovation Credit Scheme ("**PIC**") claims made by the Company and OIG using invoices which had been back-dated and for IT equipment which (i) has yet to be delivered, (ii) cannot be located, (iii) purchased in a different year and/or (iv) belonging to another entity.

2.20 For more details of the purchase of IT equipment and PIC claims , please refer to paragraph 1.6 of the Executive Summary.

Potential breaches highlighted by Special Auditor

2.21 As a result of the above findings, the Special Auditor has also highlighted potential breaches of duties by former directors and/or officers and also potential breaches of law and/or SGX Catalist Rules during the term of the former management, Mr Lee Wan Sing (former executive director and Chief Executive Officer of the Company) and Mr Lee Ong (former Group Financial Controller of the Company) ("**Former Management**"). A summary of these breaches are set out below:

Potential breaches of duties by former directors and/or officers

2.22 An extract of the Executive Summary highlighted several potential breaches of duties by Former Management:

"xiv) Lee Wan Sing and/or Lee Ong had deliberately caused the inaccurate announcements on the completion of the 2013 Share Placement, 2015 CLNs and 2015 Share Placement to be released. Subject to legal opinion, these acts are possibly fraudulent;

xv) Lee Wan Sing and Lee Ong did not properly and adequately handle the cash of S$500,000 received from Lim Soon Huat for the 2015 CLNs which led to the sum being unaccounted for;

xvi) Lee Ong intentionally and Lee Wan Sing without reasonable diligence allowed Lim Soon Heng and Vincent Pang Kay Joo's CLNs to be redeemed without proper Board approval and before the noteholders made payments for the CLNs;

xvii) Lee Wan Sing, Lee Ong and [Ong Wee Chuan] caused OGL to inappropriately enter into the Richard Ong Loan Agreement purportedly for the guarantee of a payment to an undisclosed party for the CLNs issued in 2012. No actual loan was given to the Company;

xviii) Lee Wan Sing informed and represented to the Board and the general public that Ong Boon Kiat was a share placee in the 2015 Share Placement exercise when he was aware that he was not a genuine placee. In fact, Lee Wan Sing was instrumental in seeking permission from Ong Boon Kiat to use his name;

xix) Lee Wan Sing failed to carry out sufficient due diligence and research into the trading of the GI Pipes, used sheet piles and FSP Type 3A piles, and obtaining competitive quotes before deciding to purchase the stocks from GL Engineering;

xx) Lee Wan Sing failed to secure and safeguard the Company's interests in the stocks purchased from GL Engineering by not taking delivery of the stocks. Even though the stocks were not delivered, a Goods Received Note was issued by OGL to confirm the receipt of the GI Pipes;

xxi) Lee Wan Sing instructed S.E.A.SS to back-date their invoices for the purpose of making PIC claims. Subject to legal opinion, this act was probably fraudulent;

xxii) Lee Wan Sing instructed and/or allowed full payment to be made by OGL and OIG to S.E.A.SS for the purchase of IT equipment but did not take delivery of the items;

xxiii) Lee Wan Sing (and possibly Lee Ong) instructed and/or allowed staff to carry out work for the benefit of other companies not related to OGL using OGL's resources. One of these companies include Patek which was previously related to Lee Wan Sing. We are not certain if other companies were also related to them;

xxiv) Lee Wan Sing and Lee Ong did not maintain an effective oversight of the work carried out by the staff by failing to review and check that the records were accurately and properly updated on a timely basis; and

xxv) Lee Wan Sing and Lee Ong had in many instances shown little or no regard towards the law, corporate governance, risk management as well as his fiduciary duties and obligations."

Potential breaches of law and/or SGX Catalist Rules

2.23 The Special Auditor has also in its report highlighted several actions of the Company during the term of the Former Management that may potentially have amounted to breaches of law and/or SGX Catalist Rules. These include, *inter alia*, the following:

(a) Submission of inaccurate and/or false PIC claims using invoices which had been back-dated and for IT equipment which (i) has yet to be delivered, (ii) cannot be located, (iii) purchased in a different year and/or (iv) belonging to another entity;

(b) Making false announcements on the completion of the share placements in 2013 and 2015 and the subscription and issuance of convertible loan notes in 2015 when the Company had not received payments from some of the placees and noteholders. In this regard, the Special Auditor mentioned in its report that the Board advised that they had relied on the Former Management's representations that all aspects of the above-mentioned corporate actions were in order when the Former Management sought the Board's approval for the release of the respective completion announcements and as such, the Board might have been deceived by the Former Management.

(c) Allotment of shares to placees in the share placements in 2013 and 2015 before payments were received from them; and

(d) Misstatements of the Group's financial statements for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 as a result of poor book-keeping practices.

2.24 The Special Auditor has set out in the Special Audit report some of the relevant laws and/or Catalist Rules that may potentially have been contravened arising from the various breaches discovered by the Special Auditor. For ease of reference, the relevant extract from the Executive Summary is set out below:

"*Potential breaches arising from the issues highlighted above may include (but not necessarily limited to) the following:*

i) ***Section 76 of the Companies Act*** *prohibits the giving of financial assistance by a company to any person for the purpose of acquiring the shares in the company;*

ii) ***Section 157 of the Companies Act*** *requires a director to act honestly and use reasonable diligence in the discharge of his duties;*

iii) ***Section 199 of the Companies Act*** *requires every company to maintain proper accounting records and devise and maintain a system of internal accounting controls to safeguard against losses from unauthorised use / disposition and to ensure that transactions are properly authorised and recorded;*

iv) ***Section 201 of the Companies Act*** *requires every company to prepare financial statements to give a true and fair view of the financial position and performance of the company;*

v) ***Section 401(1) of the Companies Act*** *states that it is an offence for every officer of the corporation who knowingly authorises, directs or consents to such advertising, circulation or publication of any statement of the amount of its capital which is misleading, or if the amount of paid-up capital or the amount of any charge on uncalled capital is not stated as prominently as the amount of subscribed capital is stated;*

vi) ***Section 402 of the Companies Act*** *states that an officer of a corporation who, with intent to deceive, makes or furnishes, or knowingly and wilfully authorises or permits the making or furnishing of, any false or misleading statement or report to a director, auditor, member, etc., relating to the affairs of the corporation, shall be guilty of an offence;*

vii) ***Section 199 of the SFA*** *prohibits the making of a statement or disseminate information that is materially false or misleading, to induce the subscription, purchase or sale of securities or have the effect of raising, lowering, maintaining or stabilising the market price of securities;*

viii) ***Section 200 of the SFA*** *prohibits any person to fraudulently induce another person to deal in securities by making or publishing any statement, promise or forecast that he knows or ought reasonably to have known to be misleading, false or deceptive, by any dishonest concealment of material facts, by the reckless making or publishing of any statement, promise or forecast that is misleading, false or deceptive, or by recording or storing in, or by means of, any mechanical, electronic or other device information that he knows to be false or misleading in a material particular;*

ix) ***Section 201 of the SFA*** *prohibits any person to employ any device, scheme or artifice to defraud, engage in any act, practice or course of business which operates as a fraud or deception, make any statement he knows to be materially false, and omit to state a material fact necessary in order to make the statements made not misleading, in connection with the subscription, purchase and sale of any securities;*

x) ***Section 415 of the Penal Code*** *states that it is an offence to fraudulently or dishonestly deceive any person to deliver any property to any person, or intentionally induces the person to do or omit to do anything which he would not do or omit to do if he were not deceived, and which act or omission causes or is likely to cause damage or harm to any person;*

xi) ***Section 477A of the Penal Code*** *which states that the wilful conduct of any clerk, officer or servant to destroy, alter, conceal, mutilate or falsify any book, electronic record, paper, writing,*

valuable security or account which belongs to or is in the possession of his employer with intention to defraud shall be punishable;

xii) ***Rule 703(4) of the Catalist Rules*** *requires the observation of the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules which stipulates that the contents of announcements must be factual, clear and succinct (Item 27);*

xiii) ***Rule 705(5) of the Catalist Rules*** *requires directors to provide a confirmation that the interim financial statements as announced are not false or misleading;*

xiv) ***Rule 719(1) of the Catalist Rules*** *states that an issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks;*

xv) ***Rule 745 of the Catalist Rules*** *states that an issuer must ensure that its directors accept responsibility, collectively and individually for the issuer's compliance with the Catalist Rules;*

xvi) ***Section 37J of the Income Tax Act*** *provides that it is an offence to give false material information or omits material information to the Comptroller for the PIC Cash Payout scheme;*

xvii) ***Common law fiduciary duties of a director*** *including but not limited to:*

- *o Act in good faith*
- *o Act in the best interests of the company*
- *o Act with reasonable care, skill and diligence*
- *o Avoid conflicts of interest*
- *o Exercise powers with proper purpose*

xviii) ***Code of Corporate Governance*** *issued by the Corporate Governance Committee dated 2 May 2012 (the* ***"Code****") provides the guidelines on the maintenance of a sound system of risk management and internal controls to safeguard shareholders' interests and company's assets. Although OGL did provide a disclosure on its compliance with the requirements of the Code in its Annual Report as required under* ***Rule 710 of the Catalist Rules****, we note that the inadequacies of the internal controls were not identified nor disclosed in the Annual Report.*

While we note that Lee Ong was not a director, he as the Group's Financial Controller was an officer of the Company and hence in our view, owed duties including fiduciary duties, to OGL and OIG. By way of some of his actions as highlighted in this report, he was likely to have breached those duties."

2.25 For more information on the matters disclosed by the Special Auditor in its report, please refer to the Executive Summary.

3. UPDATE ON INDEPENDENT REVIEW OF PRC IRREGULARITIES

3.1 The Company had appointed the Independent Reviewer to carry out a review relating to the irregularities within the Group's PRC operations, including the Unauthorised Guarantees, Unauthorised Transactions and Prepayment Balance, details of which are set out in the Company's announcements dated 19 January 2016, 15 March 2016, and 13 June 2016.

3.2 The Independent Reviewer has concluded its review and reported its findings to the Board, a summary of which is set out below.

Unauthorised Guarantees

3.3 Based on the findings of the Independent Reviewer, the present status of the legal proceedings in the PRC against the Company's wholly-owned subsidiaries, JYCS and XHRC, remains substantially the same as that announced by the Company on 19 January 2016 and 13 June 2016.

3.4 In relation to the JYCS Guarantee(1) to secure a loan for the principal amount of RMB 30 million granted by CMB Bank to JYRD (a company controlled by Mr Wu Dingrong as at the date of the loan), CMB Bank had commenced legal proceedings against, *inter alia*, JYCS on 19 November 2015. As at the date of this announcement, the legal proceedings in relation to the JYCS Guarantee are still pending resolution by the Jiangsu Wuxi ChongAnn District Court.

3.5 In relation to the XHRC Guarantee(2) to secure a loan for the principal amount of RMB 20 million granted by IBC Bank to JYRD (a company controlled by Mr Wu Dingrong as at the date of the loan), IBC Bank had obtained judgment on 23 October 2015 from the Jiangsu Wuxi ChongAnn District court against XHRC and the other guarantors for the amount of approximately RMB 21 million. From the findings of the Independent Reviewer, the Board is not aware of any action that has been taken by IBC Bank against XHRC to enforce the judgment.

3.6 On the dates of entry into JYCS Guarantee and XHRC Guarantee, the legal representative of JYCS was Mr Sun Lu (former Executive Director of the Company), and the legal representative of XHRC was Mr Wu Dingcheng, the brother of Mr Wu Dingrong (former Non-Executive Chairman of the Company and existing substantial shareholder of the Company).

3.7 The finding of the Independent Reviewer has confirmed that there are other guarantors involved in the JYCS Guarantee and XHRC Guarantee, including *inter alia*, Mr Wu Dingrong and his wife. However, all guarantors are subject to joint and several liability under the JYCS Guarantee and XHRC Guarantee. As such, in the event that JYCS and XHRC are unable to pay their debts under the respective Unauthorised Guarantees, their assets may be compulsorily auctioned through the PRC legal process for the satisfaction of their respective debts.

Notes:

(1) The JYCS Guarantee is dated 11 November 2013.

(2) The copy of the XHRC Guarantee sighted by the independent reviewer was undated. However, it is stated on XHRC Guarantee that the effective date of the XHRC Guarantee is from October 2014 to 9 January 2016. Based on the judgment of the Jiangsu Wuxi ChongAnn District court, the XHRC Guarantee is estimated to have been executed around June 2014.

Unauthorised Interested Person Transactions

3.8 The Independent Reviewer uncovered multiple unsupported fund transfers in the years 2014 and 2015 (the "**Review Period**") between wholly owned subsidiaries of the Company, JYCS and XHRC, with JYJC (a company controlled by Mr Wu Dingrong as at the date of the transactions and hence an interested person under Chapter 9 of the Catalist Rules).

3.9 A summary of the aggregate values of funds transfers between JYCS and XHRC and JYJC during the Review Period is set out below:

(a) Aggregate amount of funds transferred from JYCS to JYJC is approximately RMB 100.6 million;

(b) Aggregate amount of funds received by JYCS from JYJC is approximately RMB 62.9 million;

(c) Aggregate amount of funds transferred from XHRC to JYJC is approximately RMB 49.2 million;

(d) Aggregate amount of funds received by XHRC from JYJC is approximately RMB 43.1 million.

3.10 These transactions do not appear to be trade in nature and thus do not fall within the scope of the Interested Party Transaction Mandate previously approved by the Shareholders. The Independent Reviewer is unable to trace the purposes of such fund transfers as there were no supporting documents. When interviewed by the Independent Reviewer, Mr Huang Wei (financial controller of JYCS and son-in-law of Mr Wu Dingrong), mentioned that such fund transfers are common among related companies which seem to suggest they are meant for financing purposes. Mr Huang Wei is also responsible for the accounts and finance-related matters of XHRC.

3.11 The Independent Reviewer has recommended that the Company undertakes further investigation into the above-mentioned fund transfers.

Prepayment and purchase of machineries by XHRC

3.12 With regards to the RMB30 million prepayment highlighted by the auditors as set out in the announcement of 15 March 2016, the Independent Reviewer had reviewed XHRC's accounts and obtained confirmation from Lianyang Investment Co. Ltd ("连洋投资有限公司") ("**Lianyang Investment**"), a non-related party, that as at 31 December 2015, XHRC had pre-paid an amount of approximately RMB 23.1 million to Lianyang Investment for the purchase of machinery. The Independent Reviewer is unable to account for the shortfall of RMB6.9 million.

3.13 The Independent Reviewer discovered that during the period of January to July 2016, XHRC had been invoiced for used machinery from Lianyang Investment for an aggregate amount of approximately RMB 24.8 million, leaving a balance of approximately RMB 1.7 million outstanding and due from XHRC to Lianyang Investment as at the date of this announcement.

3.14 The Independent Reviewer highlighted several irregularities relating to the purchase of machineries from Lianyang Investment which are a cause for concern:

(a) XHRC had prepaid RMB23.1 million out of RMB 24.8 million worth of machinery from Lianyang Investment from in FY2015, even though at the material time, it had stopped operations and did not require such machinery. In fact, the purchased machinery had been stored in warehouses since the time of purchase and had not since been put to use; and

(b) Based on a comparison with market prices of selected samples of the purchased machinery conducted by the Independent Reviewer, the Independent Reviewer noted that the prices for some of the used machinery bought by XHRC from Lianyang Investment are significantly higher than the prices of new machinery in the market at the material time.

3.15 The Independent Reviewer has recommended that the Company undertakes further investigation into the purchase of machinery by XHRC from Lianyang Investment.

Legal proceedings by Luoyang Longteng Refractory Material Co Ltd

3.16 The Independent Reviewer uncovered that XHRC had entered into an agreement with Luoyang Longteng Refractory Material Co Ltd ("洛阳市龙腾耐火材料有限公司") ("**LLRM**") on 15 November 2013, for the sub-contracting of manufacturing of refractory material for steel-making to LLRM for a duration of one (1) year.

3.17 As XHRC halted operations sometime in August 2014, the agreement with LLRM had to be terminated and LLRM commenced legal proceedings against XHRC for breach of contract. The Board was not informed of the breach of contract nor the legal proceedings.

3.18 The Xinhua District Court had made an order against XHRC for the payment of approximately RMB 2 million to LLRM. If XHRC is unable to pay the amount due to LLRM, the Xinhua District Court will be able to order the seizure and/or auction of XHRC's assets to satisfy the debt due to LLRM.

4. ACTIONS TO BE TAKEN BY BOARD

The Board takes a serious view of the potential breaches of laws and/or Catalist Rules highlighted by the Special Auditor as well as the findings of the Independent Reviewer, and is currently seeking legal advice on the appropriate courses of action in the best interests of the Shareholders and the Group. These include but are not limited to referring the matters disclosed in the Special Audit report as well as the Independent Reviewer's findings to the relevant authorities and taking appropriate actions against the Former Management, Mr Wu Dingrong, and other parties, if necessary.

In this respect, the Board would like to highlight the upcoming requisition by Aseanzon (S) Pte. Ltd. and Dingji Investments Ltd to remove Mr Lim Kok Hui, Mr Tan Song Kwang and Mr Koh Choon Kong from the Board and to appoint new directors of the Company ("**Requisition**"). The Board notes that the shareholders and directors of one of the requisitionists, Dingji Investments Ltd, are Mr Sun Lu and Ms Miao Lina. Mr Sun Lu and Ms Miao Lina are respectively the son-in-law and daughter of Mr Wu Dingrong, one of the persons responsible for the irregularities within the Group's PRC operations. The Board also understands that one of the proposed new directors to be appointed pursuant to the Requisition, Ms Liu Ye, is the personal assistant of Mr Wu Dingrong.

The Board will continue to take all necessary actions in the best interests of the Shareholders and the Group. In this regard, further announcements to update Shareholders will be made as and when appropriate.

BY ORDER OF THE BOARD

Lim Kok Hui
Executive Director and Chief Executive Officer
Oriental Group Ltd.

7 December 2016