

CEDAR STRATEGIC HOLDINGS LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No. 198003839Z)

UPDATE ON THE VARIOUS ISSUES SET OUT IN THE SPECIAL AUDIT REPORT

A. *Introduction*

1. The Board of Directors of Cedar Strategic Holdings Limited (the “**Company**”) refers to the Company’s announcements dated 23 November 2015 (Announcement Reference No.: SG151124OTHRXTTY), 18 January 2016 (Announcement Reference No.: SG160118OTHRNPJQ) and 6 April 2016 (Announcement Reference No.: SG160406OTHRHIHK) (collectively, the “**Previous Announcements**”) relating to the Special Audit Report issued by Baker Tilly Consultancy (Singapore) Pte Ltd on 24 November 2015 in respect of certain disbursements for the financial years ended 31 December 2013 and 31 December 2014 (the “**Baker Tilly Report**”).
2. Further to the Previous Announcements, the Board of Directors wishes to update all shareholders of the Company (the “**Shareholders**”) on the status of the various issues set out in the Baker Tilly Report, as well as the steps which the Company has taken and which the Company intends to take.

B. *The Company’s divestment of its Titanium Dioxide business to Talented Creation International Limited*

3. On 16 August 2012, the Company and Talented Creation International Limited (“**TCI**”) entered into an equity transfer agreement where the Company agreed to transfer its 51% equity stake in Jade Marketing & Distribution Pte Ltd and 100% equity stake in Jade Real Estate Pte Ltd to TCI for a consideration of RMB 180 million (“**RMB 180 Million Receivable**”). However, as explained in the Company’s previous announcement dated 23 November 2015, the Special Auditor observed that the RMB 180 Million Receivable remains uncollected.
4. With respect to the recoverability of the RMB 180 Million Receivable, the Company has taken legal advice from Drew & Napier LLC (“**Drew & Napier**”) about a possible claim by the Company against Dr In Nany Sing Charlie (“**Dr Charlie In**”), who was the Company’s Executive Director at the material time, for part of the amount. However, before the Company decides whether or not to commence any Court action against Dr Charlie In, the Company will first take steps to ascertain whether or not Dr Charlie In is likely to have sufficient assets to satisfy any judgment against him. If Dr Charlie In is unlikely to have any sufficient assets to satisfy any judgment against him, it may not be in the Company’s interest to expend significant time and costs to pursue the claim against Dr Charlie In.
5. The Company has also obtained advice from Drew & Napier and Yuan Tai Law Offices about a possible claim by the Company against TCI, Mr Ji Yudong (who appears to have been a director of TCI, and possibly also the sole shareholder of TCI) (“**Mr Ji**”) and Ms Ji Lei (Mr Ji’s daughter) for part of the RMB 180 Million Receivable. Having considered the legal advice obtained, the Company recognises that there are serious difficulties relating to the enforcement of any judgments by the Singapore Court over TCI’s, Mr Ji’s and Ms Ji Lei’s assets in the People’s Republic of China (“**PRC**”). In addition, based on the checks conducted by the Company, Mr Ji may also have insufficient assets in the PRC to satisfy any judgment against him. The Company has therefore concluded that it may not be worthwhile for the Company to take legal action against TCI, Mr Ji and Ms Ji Lei for part of the RMB 180 Million Receivable.

C. The Company's subsequent acquisition of Trechance Holdings Limited

6. On 25 August 2013, the Company entered into a sale and purchase agreement (the "**Trechance Sale and Purchase Agreement**") to acquire Trechance and some of its PRC subsidiaries from TCI for RMB 22.5 million (the "**Trechance Acquisition Consideration**").
7. Under the Trechance Sale and Purchase Agreement, as varied by the Second Supplemental Agreement dated 25 August 2014, the Trechance Acquisition Consideration was to be satisfied by (i) the Company's payment of S\$900,039 to TCI in cash ("**Cash Consideration**"); and (ii) the Company's issuance of S\$3.6 million in bonds which would mature in July 2014 ("**S\$3.6 million Bonds**").
8. To raise funds for the acquisition of Trechance, the Company entered into a subscription agreement on 14 February 2014 to raise S\$3.6 million in gross proceeds through the issue of 1,000,000,000 new shares of the Company to (i) Jadeite Capital ("**Jadeite**"); and (ii) Sinowalth Capital Limited ("**SWC**"). However, as explained in the Company's announcement dated 23 November 2015, the Special Auditor observed that there is no record of TCI receiving payment of the S\$3.6 million share placement proceeds. According to Dr Charlie In and Ms Lim Chai Har Alice ("**Ms Alice Lim**"), the S\$3.6 million share placement proceeds were purportedly used by the Company to redeem the S\$3.6 million Bonds previously issued to TCI pursuant to the Trechance Acquisition. At the material time, Dr Charlie In was the Company's Executive Director while Ms Alice Lim was the Company's Chief Financial Officer.
9. In addition, Dr Charlie In and Ms Alice Lim approved a payment voucher which authorised the payment of S\$210,000 from the Company to SWC as part of the Cash Consideration. However, the Special Auditor observed that: (i) there is no record of TCI instructing the Company to pay S\$210,000 of the Cash Consideration to SWC; and (ii) out of the S\$210,000 paid to SWC, approximately S\$62,056.94 appears to have been an additional amount which exceeded the Cash Consideration contractually owed to TCI.
10. With respect to the Company's possible claims in relation to the handling of the Trechance Acquisition Consideration, the Company notes that TCI has not asserted any claim for the balance Cash Consideration of S\$210,000, or for the non-payment of the S\$3.6 million Bonds. The Company has taken legal advice from Drew & Napier and has concluded that it may be premature for the Company to take the position now that the Trechance Acquisition Consideration has not been fully and properly paid to TCI. In any case, Drew & Napier has issued letters of demand on the Company's behalf to Dr Charlie In and Ms Alice Lim to state that the Company will seek a full indemnity and/or damages from them in the event that TCI brings any claim against the Company for the Trechance Acquisition Consideration which was due to TCI. The Company has also obtained an indemnity from a Mr Zhou Wei Jian ("**Mr Zhou**") where he undertook to indemnify the Company in the event that either TCI or Mr Ji makes a claim against the Company in relation to the S\$3.6 million Bonds. Mr Zhou was party to a supplementary agreement dated 28 August 2014 entered into between himself and Mr Ji which allegedly confirmed that the S\$3.6 million Bonds issued by the Company were set off against amounts which TCI owed Jadeite and SWC, such that there was no actual payment of the S\$3.6 million share placement proceeds to TCI.
11. In relation to the additional payment of S\$62,056.94, both Dr Charlie In and Ms Alice Lim claimed that all payments in respect of the Trechance Acquisition, including the balance Cash Consideration of S\$210,000, were calculated and paid in RMB. Dr Charlie In and Ms Alice Lim claim that there was no overpayment of S\$62,056.94. According to Dr Charlie In and Ms Alice Lim, there only appears to be an overpayment of S\$62,056.94 because the Company is now looking at the Singapore dollar equivalent of the payments even though the payments, when made, were made in RMB. Having taken legal advice from Drew & Napier, the conclusion that has been reached is that it may be difficult to show that Dr Charlie In and Ms Alice Lim had been negligent in approving the additional payment of S\$62,056.94.

D. The Company's acquisition and divestment of YESS Le Green Pte Ltd and West Themes Pte Ltd

12. As explained in the Company's announcement dated 23 November 2015, the Company disposed of its entire equity interest in YESS Le Green Pte Ltd and West Themes Pte Ltd ("WT") (collectively "YESS+WT") to Yess Management International Pte Ltd ("Yess Management") for an aggregate consideration of S\$2.5 million. Of this amount, an amount of S\$1.5 million ("**SGD 1.5 Million Receivable**") has not been paid to the Company.
13. In addition, the Company paid Mr Chan Kum Ee ("**Mr Spencer Chan**") a consultancy fee in respect of the Company's acquisition of YESS+WT. Sinowalth Financial Limited ("**SWF**") had authorised the payment of the consultancy fee to Mr Spencer Chan on 1 February 2013. However, the Company has not been able to locate any written contract between the Company and SWF and/or Mr Spencer Chan for the consultancy services which were allegedly rendered to the Company in respect of the acquisition of YESS+WT. The Company also has no records of any consultancy services actually provided by SWF and/or Mr Spencer Chan in respect of the Company's acquisition of YESS+WT.
14. With respect to the SGD 1.5 Million Receivable, as disclosed in the Company's announcement dated 18 January 2016, the Company had signed a settlement deed (the "**First Settlement Deed**") with Dr Charlie In, WT and another company known as New Inspiration Development Ltd ("**New Inspiration**"). Under the First Settlement Deed, the Company was to arrange for the sale of the property located at 1120 and 1120A Serangoon Road, Singapore 328205 (the "**Serangoon Road Property**"). The sale proceeds were to be paid directly to the Company and the Company was to then pay WT any part of the sale proceeds which exceeded the SGD 1.5 Million Receivable. If the sale proceeds were less than the SGD 1.5 Million Receivable, Dr Charlie In and New Inspiration were to pay the Company the difference within 30 days from the date of the completion of the sale of the Serangoon Road Property. Further, if the sale of the Serangoon Road Property was not completed by 29 February 2016, the SGD 1.5 Million Receivable was to become immediately due and owing from Dr Charlie In and New Inspiration to the Company. The terms of the Settlement Deed are further explained in the Company's announcement dated 18 January 2016.
15. As further disclosed in the Company's announcement dated 6 April 2016, the proposed sale of the Serangoon Road Property under the First Settlement Deed was not successful. Dr Charlie In, New Inspiration and WT had requested for more time to market and sell the Serangoon Road Property. The Company then decided to enter into a further settlement deed (the "**Second Settlement Deed**") with Dr Charlie In, New Inspiration and WT in connection with the SGD 1.5 Million Receivable. The salient terms of the Second Settlement Deed are set out in the Company's announcement dated 6 April 2016. In brief, the Company has given Dr Charlie In, New Inspiration and WT until 31 July 2016 to attempt to sell the Serangoon Road Property and repay the SGD 1.5 Million Receivable from the sale proceeds. If the sale of the Serangoon Road Property is not completed by 31 July 2016, Dr Charlie In is to transfer the full legal and beneficial title to all of Dr Charlie In's shares in WT to the Company in full repayment of the SGD 1.5 Million Receivable. The Company has also entered into a conditional share transfer agreement (the "**Share Transfer Agreement**") with Dr Charlie In to provide for this transfer of Dr Charlie In's shares in WT. The salient terms of the Share Transfer Agreement have been set out in the Company's announcement dated 6 April 2016.
16. With respect to the payment of consultancy fees to Mr Spencer Chan in relation to the Company's acquisition of YESS+WT, Drew & Napier has sent a letter of demand on the Company's behalf to Mr Spencer Chan demanding that Mr Spencer Chan (i) identify the consultancy services provided by SWF in relation to the YESS+WT acquisition; and (ii) furnish supporting documents such as emails and reports from SWF. However, Mr Spencer Chan has not identified nor substantiated any alleged services provided by him and/or SWF in exchange for the consultancy fees. On the advice of Drew & Napier, the Company intends to commence Court proceedings to seek pre-action discovery and/or pre-action interrogatories against Mr Spencer Chan.

E. The Company's acquisition of Futura Asset Holdings Pte Ltd ("Futura")

17. As explained in the Company's previous announcement dated 23 November 2015, the Special Auditor observed that the Company was unable to locate any written evidence to demonstrate that the previous directors had undertaken investment due diligence process in relation to the Company's acquisition of Futura. However, the Baker Tilly Report also mentioned that the Company had located emails from the previous directors asking about the investment due process and the rationale for the Futura acquisition. In any event, there is no evidence that the Company has suffered any loss as a result of the acquisition of Futura. Having taken advice from Drew & Napier, the conclusion that has been reached is that there is presently no basis for the Company to take any legal action in respect of the acquisition of Futura.

F. Severance payments made by the Company to Dr Charlie In, Ms Alice Lim and Mr Spencer Chan

18. As explained in the Company's previous announcement dated 23 November 2015, bonus and severance related payments (collectively, the "**Severance Payments**") were made to several key personnel of the Company, including Dr Charlie In and Mr Spencer Chan (who were the Company's Executive Directors), and Ms Alice Lim (who was the Company's Chief Financial Officer). The Special Auditor observed that there was no documentation to demonstrate that the Nominating and Corporate Governance Committee or the Board had approved the termination of the said directors and key management executive.
19. Drew & Napier has sent letters of demand on the Company's behalf to Ms Alice Lim and Mr Spencer Chan to demand that Ms Alice Lim and Mr Spencer Chan (as the case may be) return the Company any overpayments in Severance Payments made to them. Drew & Napier has also sent a letter of demand on the Company's behalf to Dr Charlie In stating that the Company shall not be liable to pay Dr Charlie In a significant portion of the Severance Payments allegedly owed to him.
20. Both Ms Alice Lim and Mr Spencer Chan claimed that there were no overpayments as the Severance Payments made to them were amounts provided for in their employment contracts with the Company. They also provided some documentary evidence in support of their position. Dr Charlie In also claimed that he was entitled to the Severance Payments as they were provided for in his employment contracts with the Company. The Company has obtained further legal advice from Drew & Napier as a result of which the Company may have to recognise that there are serious evidential difficulties in proving that Dr Charlie In, Ms Alice Lim and Mr Spencer Chan were not entitled to the Severance Payments.

G. Disbursements paid by the Company

21. As explained in the Company's announcement dated 23 November 2015, the Special Auditor noted that the Company and Trechance (collectively, the "**Cedar Group**") recorded amounts owing to Dr Charlie In in respect of: (i) a loan provided by Dr Charlie In to Trechance; (ii) commissions pertaining to acquisitions and divestments undertaken by Dr Charlie In; and (iii) Severance Payments. The Baker Tilly Report also recorded amounts which were paid by the Company to Dr Charlie In or on Dr Charlie In's behalf. However, there was no documentary evidence or supporting documents to indicate that Dr Charlie In was entitled to all the monies allegedly owed to him.
22. In addition, the Special Auditor also noted that Ms Alice Lim appeared to have made duplicate claims amounting to S\$3,827.40 using the same airfare and accommodation invoices.
23. In relation to the amounts allegedly owed by Dr Charlie In to the Company, Drew & Napier has sent a letter of demand on the Company's behalf to Dr Charlie In to demand that Dr Charlie In pay the Company the difference between (i) the amounts paid by the Company to Dr Charlie In or on Dr Charlie In's behalf; and (ii) the amounts allegedly owed by the Company to Dr Charlie In. However, the amounts paid by the Company to Dr Charlie In or on

Dr Charlie In's behalf would only exceed the amounts owed by the Company to Dr Charlie In if Dr Charlie In was not entitled to a significant portion of the Severance Payments allegedly owed to him. As mentioned above, the Company has obtained legal advice from Drew & Napier on the Company's case in this regard and in light of the serious evidential difficulties, the Company is unlikely to commence any legal action against Dr Charlie In for the amounts allegedly owed by him.

24. As regards the duplicate claims amounting to S\$3,827.40 which Ms Alice Lim purportedly made using the same airfare and accommodation invoices, Ms Alice Lim has repaid the sum of S\$3,827.40 to the Company.

H. Conclusion

25. As set out above, the Company is actively taking steps to address the various issues raised in the Baker Tilly Report. The Company will also keep its Shareholders informed of any further updates in relation to these issues.

By Order of the Board

Christopher Chong Meng Tak
Non-Executive Chairman

31 May 2016

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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