



**BAKER TILLY
TFW**

Baker Tilly Consultancy (Singapore) Pte Ltd
600 North Bridge Road
#05-01 Parkview Square
Singapore 188778

T: +65 6336 2828

F: +65 6339 0438

www.bakertillytfw.com

SPECIAL AUDIT REPORT - EXECUTIVE SUMMARY

**In connection with
CEDAR STRATEGIC HOLDINGS LTD.**

24 NOVEMBER 2015

GLOSSARY OF TERMS & ABBREVIATIONS

Term	Definition
<i>Companies / Entities</i>	
21 February Confirmation	A hand written confirmation dated 21 February 2014 entered into by TCI, Jadeite and SWC confirming that JYD had received the SGD3.6 million proceeds.
13 June Confirmation	Jadeite's and SWC's letters to Cedar, both dated 13 June 2014 confirming that they had received Cedar's shares and that they had appointed their respective PRC agents to hold the share placement proceeds in their escrow account and the funds shall be disbursed upon receiving Cedar's instruction to pay JYD.
Advisory Fees(s)	SGD36,000 advisory fee paid on 28 January 2014 in relation to SGD4.6 Million Share Placement.
AC	Audit Committee
Alice	Ms. Lim Chai Har (NRIC No: S0139508D)
Acquisition and Proposed Divestment of Trechance	Acquisition and proposed divestment of Trechance Group.
Azman	Mr. Azman Hisham bin Jaafar (NRIC No: S1699490A)
Board	The Board of Directors of Cedar (as the case may be)
Board Futura	Cedar's Board of directors comprising Charlie, Spencer, Luoqing, Michael, Azman, Huang Chuan, Hun Kiat and Moh Gin as the case may be when Futura transaction took place (Please refer to Appendix 1 for the tenures of directors in respect of the Review Period.)
Board Trechance	Cedar's Board of directors comprising Charlie, Peng Weile, Joyce, Spencer, Yang Luoqing, YanShi, Michael, Azman, Huang Chuan, Hun Kiat and Moh Gin as the case may be when Trechance transactions took place (Please refer to Appendix 1 for the tenures of directors and key management in respect of the Review Period).
Baker Tilly	Baker Tilly Consultancy (Singapore) Pte. Ltd
Cedar Group	Cedar, Trechance and Futura.
Christopher	Christopher Chong Meng Tak (NRIC No: S2642575A)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Charlie	Dr. In Nany Sing, Charlie (NRIC No: S1181779C)
Chun Bin	Mr. Soh Chun Bin (NRIC No: S7410603Z)
Company, Cedar	Cedar Strategic Holdings Ltd. (Business Registration No: 198003839Z)
Credit Facility	A USD40.0 million short term loan offered by Citibank on 17 December 2013.
Current Board	Current Cedar's Board of directors comprising Christopher, Peter Tan, Thiam Hee, Teo Cheng Kwee and Patrick Wong.
DRIW	Directors' Resolution in Writing
Erik	Mr. Cheong Wei Keat (NRIC No: S8919627B)
Futura	Futura Asset Holdings Pte Ltd (Business Registration No: 201431394K)
Futura Acquisition	Acquisition of a 100% equity interest in Futura Asset Holdings Pte Ltd. for SGD0.1 million.
Guizhou HuaCheng	Guizhou HuaCheng Real Estate Development Co. Ltd.
Guizhou HuaCheng Group	Guizhou HuaCheng Real Estate Development Co. Ltd. and its related companies.
Guizhou QC	Guizhou Quan Cheng Forestry Co., Ltd.
Huang Chuan	Mr. Huang Chuan (Passport No: G52229020)
Hun Kiat	Mr. Tay Hun Kiat (NRIC No: S1432902A)

Indemnity Letter	A letter dated 1 December 2014 signed by Alice stating that she was authorised by Charlie, Cedar and New Inspiration to represent them with regards to the assignment of the SGD1.5 Million Receivable.
IUL	Imagine Un Limited (Business Registration No: 009201763)
Jadeite	Jadeite Capital (Business Registration No: 53245032M)
JMD	Jade Marketing & Distribution Pte Ltd (Business Registration No: 200801918N)
Joel	Mr. Joel Liu ZhengYi (NRIC No: S8910985Z)
Joint Guarantee	A joint guarantee provided by Mr Ji Yu Dong and Ms Ji Lei.
JRE	Jade Real Estate Pte Ltd
JYD	Ji Yu Dong
Joyce	Ms. Yin Zhenwei Joyce (NRIC No: S8118363E)
Luoqing	Mr. Yang Luoqing (NRIC/Passport No: E20407917)
Management	Cedar's then management (Please refer to Appendix 1 for the tenures of executive directors and key management in respect of the Review Period).
Michael	Mr. Chua Cheow Khoon (NRIC No: S0151814C)
Moh Gin	Mr. Teo Moh Gin (NRIC No: S1394907G)
New Inspiration	New Inspiration Development Limited
Nominee Agent	Nominee agent to whom Jadeite and SWC purportedly remitted the SGD3.6 million placement proceeds.
OGL	OGL Resources Limited (Business Registration No: 007509319)
Peng Weile	Mr. Peng Weile, Leo (Passport No: E1350676L)
Potential Government Penalty	Cedar was purportedly liable for up to RMB200 million government penalties should it not complete the development of the Guizhou properties before 2016.
PRC	People's Republic of China.
Property Assets	Two properties assets owned by West Themes Pte. Ltd., namely a unit at Mayfair Industrial Building, located at 51 Jalan Pemimpin and a 2-storey shophouse located at 1120 and 1120A Serangoon Road.
Proposed Trechance Divestment	Cedar entered into a conditional sale and purchase agreement with TCI to divest the Trechance Group.
Proposed RTO	Proposed acquisition of the entire issued share capital of Trechance and its subsidiaries from Talented Creation International Limited for SGD936.2 million.
RMB100M Loan	Cedar agreed to undertake a RMB100 million 10% loan from Trechance.
RMB155M JYD Receivable	RMB155 million receivable owing from JYD following the acquisition of Trechance.
RMB180 Million Receivable	Cedar entered into an equity transfer agreement dated 16 August 2012 to transfer both its 51% equity stake in Jade Marketing & Distribution Pte Ltd and 100% equity stake in Jade Real Estate Pte Ltd to Talented Creation International Limited for a consideration of RMB180 million.
SBLC	Standby Letter of Credit
SGD4.6 Million Share Placement	Cedar entered into a subscription agreement dated 14 February 2014 to raise SGD4.6 million gross proceeds through the issue of 1,277,777,777 new Cedar ordinary shares.
Sinox	Sino Excel Energy Limited (Business Registration No: 085162456)
Spencer	Mr. Chan Kum Ee (NRIC No: S0150132A)
Stanley	Mr. Stanley Lee Kiang Leng (NRIC No: S1414306H)
SWC	Sinowalth Capital Limited (Business Registration No: 1394324)
SWF	Sinowalth Financial Limited (Business Registration No: 1729378)
TCI	Talented Creation International Limited (Business Registration No: 1722639)
Titanium Dioxide Divestment	Divestment of the titanium dioxide business

Trechance	Trechance Holdings Limited (Business Registration No: 1753871)
Trechance Acquisition	Acquisition of a reduced number of assets in the Trechance Group for RMB22.5 million.
Trechance Group	Trechance and its subsidiaries.
WT	West Themes Pte. Ltd. (Business Registration No: 200007556N)
YESS	Yess Le Green Pte. Ltd. (Business Registration No: 200304350C)
Yess Management	Yess Management International Pte Ltd. (Business Registration No: 200508880E)
YESS+WT	Acquisition of Yess Le Green Pte. Ltd. and West Themes Pte. Ltd.
YESS+WT Board	Cedar's Board comprising Charlie, Peng Weile, Joyce, YanShi, Michael, Azman and Huang Chuan when YESS+WT transaction took place.
YanShi	Mr. Zhao YanShi (NRIC/Passport No: G24327008)
<i>Legal/Contracts</i>	
Call Option Agreement	Call Option Agreement dated 29 October 2013
Deed of Charge	Deed of Charge dated 7 July 2014
Deed of Termination	Deed of Termination dated 25 August 2013
Equity Transfer Agreement	Equity Transfer Agreement dated 16 August 2012
Guizhou HuaCheng Equity Pledge	Deed of Pledge dated 29 October 2013
Joint Guarantee Agreement	Joint Guarantee Agreement dated 29 October 2013
POA	Power of Attorney
Settlement Agreement	Settlement Agreement dated 31 October 2014
Second Supplemental Agreement	Second Supplemental Agreement dated 25 August 2014
Subscription Agreement	Subscription Agreement dated 14 February 2014
<i>General</i>	
FY2012	Financial year ended 31 December 2012
FY2013	Financial year ended 31 December 2013
FY2014	Financial year ended 31 December 2014
Review Period	1 January 2013 to 31 December 2014
NRA	Not readily available
N/A	Not applicable

1. EXECUTIVE SUMMARY

1.1. Cedar Strategic Holdings Ltd.'s ("Cedar" or the "Company") Board of Directors ("Board") had appointed Baker Tilly Consultancy (Singapore) Pte. Ltd. ("Baker Tilly", "we", "us") to review certain disbursements ("Special Audit") of the Company and its subsidiaries (collectively "Cedar Group") for the financial years ended 31 December 2013 ("FY2013") and 31 December 2014 ("FY2014") (collectively "Review Period").

1.2. The entities covered in our scope of work comprises Cedar, Trechance Holdings Limited ("Trechance") and Futura Asset Holdings Pte Ltd ("Futura") (collectively "Cedar Group").

1.3. We analysed Cedar's investment transactions in order to understand the disbursements in context. Accordingly, our report is divided into six sections, namely:

- a) Divestment of the titanium dioxide business ("Titanium Dioxide Divestment");
- b) Acquisition and proposed divestment of Trechance Holdings Limited ("Trechance") and its subsidiaries ("Trechance Group") (collectively "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 Asset Holdings Pte Ltd ("Futura") (collectively "Futura Transactions");
- e) Severance payments; and
- f) Disbursements.

This executive summary should be read in conjunction with our Special Audit Report dated 20 November 2015.

1.4. The composition of the Cedar's Board of Directors varied during the period from 1 January 2013 to 31 December 2014. We have segregated and defined the Board of Directors for the respective periods as follows:

- a) 1 January 2013 to 15 October 2014: Board Trechance
- b) 16 October 2014 to 23 June 2015: Board Futura
- c) 24 June 2015 to date of this report: Current Board

Cedar's key management ("Management") had also varied during the period from 1 January 2013 to 31 December 2014, but it comprised principally of:

- a) Dr. In Nany Sing, Charlie ("Charlie") as the Executive Chairman;
- b) Mr. Soh Chun Bin ("Chun Bin") as the Chief Executive Officer; and
- c) Ms. Lim Chai Har ("Alice") as the Chief Financial Officer.

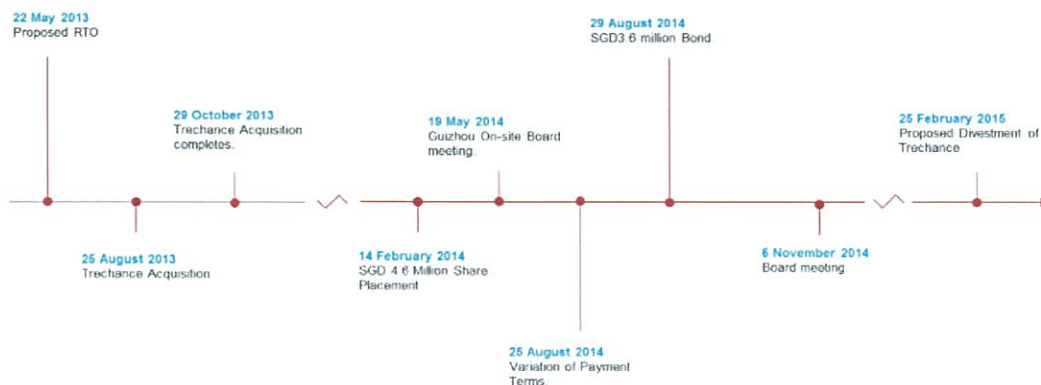
A) Titanium Dioxide Divestment

1.5. The Company 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"). In respect of the RMB180 Million Receivable, we note that :

- a) There is no written evidence that credit reviews were performed on Ji Yu Dong ("JYD") and Ji Lei to ascertain their ability to fulfil their joint guarantee on the RMB180 Million Receivable; and
- b) We note that the RMB180 Million Receivable remains uncollected, and the Current Board should take steps to recover this receivable.

B) Acquisition and Proposed Divestment of Trechance

*Table 1: Key events relating to the Acquisition
and Proposed Divestment of Trechance*



1.6. We have detailed our observations of the Acquisition and Proposed Divestment of Trechance in four sub-sections:

- a) Acquisition of Trechance;
- b) Revision of terms and Cash Consideration (defined in paragraph 1.8.);
- c) SGD4.6 Million Share Placement proceeds;
 - (i) SGD3.6 million share placement proceeds raised from Jadeite Capital ("Jadeite") and Sinowest Capital Limited ("SWC");
 - (ii) SGD1.0 million share placement proceeds raised from Christopher Chong Meng Tak ("Christopher");
 - (iii) Advisory Fees; and
- d) Proposed Divestment of Trechance.

Acquisition of Trechance

1.7. The Company is 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 Management, the Company is unable to provide any signed financial, legal due diligence and valuation reports on the acquisition of Trechance for our review.

Revision of terms and Cash Consideration

1.8. On 25 August 2014, Cedar and TCI entered into a Second Supplemental Agreement to revise the terms of the Trechance Acquisition Consideration as follows:

- (i) Cedar would pay TCI SGD900,039 in cash ("Cash Consideration"); and
- (ii) the SGD3.6 million bonds issued by Cedar would now mature earlier on 29 August 2014 instead of 29 October 2015.

1.9. We note numerous instances where JYD appears to be treated interchangeably with TCI for the purposes of granting authorisation and receiving payments. The Company's announcement dated 22 May 2013 in relation to the proposed acquisition of Trechance states Ji Lei as the beneficial owner of TCI. However, we note that this announcement is not consistent with TCI's Register of Members that indicates JYD as the sole shareholder of TCI. As such, we are unable to ascertain who the beneficial owner of TCI is and whether it is correct for the Company to see TCI as being interchangeable with JYD.

- 1.10. We also note inconsistencies in the various documents provided to us in respect of Alice's role in TCI and the composition of TCI's directors. The TCI's Register of Directors dated 15 August 2012 indicates that Alice and JYD are TCI's directors. However, the TCI's Directors' Resolution in Writing ("DRIW") dated 25 August 2014 purportedly signed by JYD appeared to indicate that JYD is the sole director of TCI. In addition, there was also a letter dated 21 February 2014 ("21 February Confirmation Letter") that Alice signed as a director, confirming that JYD had received the SGD3.6 million share placement proceeds. As such, we are unable to ascertain the validity of TCI's DRIW dated 25 August 2014 and the 21 February Confirmation Letter due to the numerous conflicting authorities approving the documents.
- 1.11. Alice may have created a conflict of interest situation by acting as either JYD's attorney or TCI's representative in entering into the Second Supplemental Agreement with Cedar since she was also Cedar's CFO at the material time. We note that Board Trechance's independent directors expressed their concerns to Charlie and Alice regarding a potential conflict interest with Alice serving as either JYD's attorney or TCI's representative. Board Trechance nonetheless approved the Second Supplemental Agreement dated 25 August 2014 after it sighted the TCI's DRIW purporting to have appointed Alice to execute the Second Supplemental Agreement.
- 1.12. Management paid SGD752,095.94 of the SGD900,039 Cash Consideration to JYD in January 2014 before Board Trechance's approval of the Second Supplemental Agreement on 25 August 2014.
- 1.13. We note that SGD210,000 of the SGD900,039 Cash Consideration was paid on 16 September 2014 to SWC instead of TCI. The Company is unable to locate any written instructions from TCI for the payment of SGD210,000 to SWC in September 2014. The Company is also 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.
- 1.14. There is a SGD62,056.94 discrepancy between the actual payment of SGD962,095.94 made and the Cash Consideration of SGD900,039, as stated in the Company's announcement dated 25 August 2014 and the Second Supplemental Agreement dated 25 August 2014 respectively.

1.15. Board Trechance approved the Cash Consideration and early redemption of the SGD3.6 million bonds by 14 months when Cedar Group had RMB180 Million Receivable and RMB155 Million JYD Receivable (collectively "RMB335 Million Receivable") owing from TCI and JYD respectively.

SGD4.6 Million Share Placement proceeds

1.16. Cedar 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 Cedar ordinary shares to the following parties ("SGD4.6 Million Share Placement").

Table 2: Details of SGD4.6 Million Share Placement

Subscribers	No of Subscription Shares	Proceeds Raised
Jadeite Capital	500,000,000	SGD 1,800,000
SWC	500,000,000	SGD 1,800,000
Christopher	277,777,777	SGD 1,000,000
Total	1,277,777,777	SGD 4,600,000

1.17. The SGD1.0 million raised from Christopher was received by Cedar on 12 June 2014. However, Charlie and Alice did not direct that the SGD3.6 million share placement proceeds from Jadeite and SWC be deposited into Cedar's bank account.

1.18. Cedar announced that the 1,277,777,777 placement shares were listed and quoted on the Catalist board of the Singapore Exchange Securities Trading Limited ("SGX") on 16 June 2014.

1.19. Cedar recorded a SGD3.6 million receivable as at 30 June 2014 in respect of the issuance of Cedar's shares to Jadeite and SWC. Cedar's filing with the Accounting and Corporate Regulatory Authority ("ACRA") for the allotment of the placement shares states that the placement shares had been fully paid up.

1.20. We note several inconsistencies in the various documents provided to us and representations made in respect of the SGD3.6 million share placement proceeds:

- a) Jadeite and SWC confirmed in the 21 February Confirmation Letter that they had paid JYD, whereas their letters dated 13 June 2014 ("13 June Confirmation Letters") indicated they had not disbursed the placement proceeds to pay JYD;

- b) Alice acknowledged in the 21 February Confirmation Letter that JYD had received the SGD3.6 million. However, this contradicted her representation to the AC that the placement proceeds were placed with the Nominee Agent at the AC meeting on 7 August 2014;
- c) Charlie and Alice's claims that the SGD3.6 million was remitted to Cedar's Nominee Agent contradicts Jadeite and SWC's 13 June Confirmation Letters where both stated that they had appointed their respective PRC agents to hold the share placement proceeds in their escrow accounts instead of Cedar's Nominee Agent;
- d) The 21 February Confirmation Letter was hand written on paper with neither company letterhead nor affixed with a company stamp. It was also signed by Alice (as a director of TCI), Jadeite and SWC. However, Alice may not be authorised to acknowledge the receipt of SGD3.6 million as her role in TCI is ambiguous (see paragraph 1.10);
- e) Moh Gin represented during his interview with us that when he met up with JYD in PRC, JYD declared that he did not receive the SGD3.6 million; and
- f) The Company is unable to locate any written instructions from Cedar to Jadeite and SWC for the disbursements of the share placement proceeds. We have also not been able to ascertain that Jadeite and SWC had paid Cedar SGD3.6 million for the placement shares that they received.

1.21. The Company is unable to locate any written confirmation directly from TCI or JYD to acknowledge the receipt of the SGD3.6 million. Cedar could still be liable for the SGD3.6 million if TCI or JYD did not receive the funds as purported by Moh Gin. We suggest that the Company investigate this matter.

1.22. Alice had placed herself in a position of conflict by acting as TCI's representative in (1) executing the Second Supplementary Agreement in August 2014 which facilitated the early redemption of the SGD3.6 million bonds, and (2) confirming in the 21 February Confirmation Letter that JYD had received the SGD3.6 million while holding the office of Cedar's CFO.

1.23. The Company's announcement on the use of the SGD4.6 Million Share Placement proceeds states that it had on 29 August 2014 (1) paid the Cash Consideration of SGD900,039 to JYD; and (2) redeemed the SGD3.6 million bond. This may not be correct as

- a) SGD752,095.94 of the Cash Consideration was paid in January 2014 and the remaining SGD210,000 was paid to SWC in September 2014; and
- b) it is not clear when the SGD3.6 million consideration was received for the placement of Cedar shares to Jadeite and SWC, and when the SGD3.6 million bonds were redeemed.

1.24. Consequently, there may be a non-compliance with Rule 704(30) of the Catalist Rules in relation to the 29 August 2014's announcement on the use of share placement proceeds.

1.25. Due to the various inconsistencies in the documents provided and representations made to us, we suggest that the Company investigate the circumstances surrounding the SGD3.6 million share placement proceeds.

Advisory Fees

1.26. Trechance paid an advisory fee of SGD36,000 each to Alice, Cheong Wei Keat ("Erik") and Spencer in respect of the share placement on 28 January 2014 ("Advisory Fees"). The Company is unable to locate any evidence to indicate that these Advisory Fees paid were approved by Board Trechance.

1.27. Advisory Fees was paid on 28 January 2014, before both the announcement of the share placement exercise on 17 February 2014 and the receipt of the SGD4.6 Million Share Placement proceeds in June 2014. Christopher's SGD1.0 million was received by Cedar on 12 June 2014 while proceeds from Jadeite and SWC were purportedly remitted to Cedar's Nominee Agent in PRC.

1.28. SWC was both an investor of the share placement as well as a recipient of the Advisory Fees. Erik is the sole shareholder and director of SWC. The Company is unable to locate any written contracts between (1) Cedar and SWC/Erik; and (2) Cedar and Spencer detailing their rights and obligations in respect of the Advisory Fees.

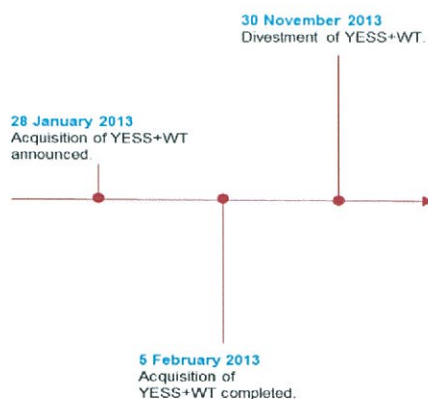
- 1.29. The Advisory Fees paid to Alice differs from her employment contract which states that she is entitled to an incentive payment of 0.25% of all funds raised, which would have been SGD11,500 (instead of the SGD36,000 which she had received).

Proposed Divestment of Trechance

- 1.30. The Company is unable to locate any written evidence of Board Futura's deliberation in arriving at the Trechance Proposed Divestment Consideration of RMB1,000 save as disclosed in the announcement dated 25 February 2015. It was also announced that there may be non-performance fee penalties of up to RMB200 million ("Potential Government Penalty") imposed by PRC government should the Company fail to complete its real estate projects before 2016.
- 1.31. We note that Board Futura was first informed of the Potential Government Penalty at the Board meeting on 6 November 2014 based on the evidence presented to us. However, Charlie represented to us that the Potential Government Penalty was brought to Board Trechance's attention at the Guizhou On-site Board meeting on 19 May 2014.
- 1.32. However, this contingent liability was only announced on 25 February 2015. There may be a non-compliance with Rule 703 of the Catalist Rules in respect of a delay in announcing the Potential Government Penalty if Board Trechance had earlier determined that the Group is liable to pay the Potential Government Penalty.
- 1.33. Guizhou Huamao and Guiyang Shunhe were no longer deemed subsidiaries of Cedar as at 24 September 2014 and 13 July 2015 respectively according to the due diligence report dated 28 September 2015 prepared by Shanghai Yuan Tai Law Offices ("Yuan Tai"). We note that the loss of Guizhou Huamao was not disclosed in the Company's third quarter results released on 6 November 2014. The Company had only recently announced the change in shareholders of Guizhou Huamao and Guiyang Shunhe on 12 October 2015 based on the findings in Yuan Tai's report.
- 1.34. We recommend that the Company investigate the circumstances resulting in the loss of Guizhou Huamao and Guiyang Shunhe.

C) Acquisition and Divestment Due Process of YESS+WT

Table 3: Events relating to the Acquisition and Divestment of YESS+WT



1.35. We have detailed our observations of the Acquisition and Divestment of YESS+WT in three sub-sections, namely:

- a) Acquisition and Divestment Due Process of YESS+WT;
- b) SGD1.5 million Proceeds Outstanding; and
- c) YESS+WT Related Consultancy Fees.

Acquisition and Divestment Due Process of YESS+WT

1.36. The Company is unable to locate formal documentation of any financial due diligence conducted for the investment and divestment of YESS+WT, save for an unsigned and undated Board paper submitted by Chun Bin. Michael had also highlighted in the AC meeting held on 7 August 2013 that Board Trechance had approved the acquisition of YESS+WT based on incorrect deal assumptions.

SGD1.5 million Proceeds Outstanding

1.37. There was a sale consideration receivable of SGD1.5 million ("SGD1.5 Million Receivable") from Yess Management International Pte Ltd ("Yess Management") resulting from the divestment of YESS+WT, which was to be secured by a charge over two property assets by WT ("WT Property Pledge").

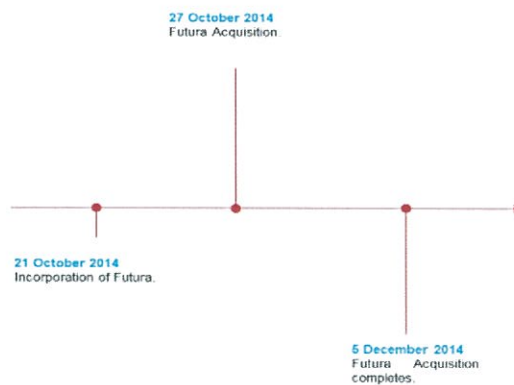
- 1.38. The Company is unable to locate any written documentation that could evidence Board Futura's approval of both (i) the assignment of the SGD1.5 Million Receivable from Yess Management to New Inspiration and/or Charlie in the settlement agreement dated 21 October 2014 ("Settlement Agreement"); and (ii) Alice's entering into the indemnity letter dated 1 December 2014 ("Indemnity Letter") which obligated New Inspiration and/or Charlie to repay the SGD1.5 Million Receivable in place of Yess Management;
- 1.39. Alice entered into the Indemnity Letter to bind Cedar without any prior written approval by Board Futura. In doing so, Alice would again have placed herself in a conflict of interest position as she had entered into the Settlement Agreement and Indemnity Letter as an attorney of New Inspiration and Charlie (as the case may be) while she was Cedar's CFO.
- 1.40. Charlie had represented during his interview with us that he had never authorised Alice to enter into the Indemnity Letter on his behalf. However, Alice clarified in her email dated 25 September 2015 to us that she had acted upon Charlie's instruction.
- 1.41. The assignment of debt implies that Cedar is now exposed to the counterparty credit risks of Charlie and New Inspiration. The Company is unable to locate any written evidence of credit risk assessment and background checks on New Inspiration and its shareholders.
- 1.42. We have not obtained any satisfactory explanation as to why Management would expose Cedar to the credit risk of New Inspiration and Charlie as opposed to a valid claim on Yess Management and secured by the WT Property Pledge. There are also contradicting representations made by Charlie and Alice with regard to Alice's authority to enter into the Indemnity Letter. In addition, we note that the legal owner of WT as at 22 September 2015 is Joel (a director of Jadeite), and not New Inspiration. We are of the view that the Current Board should investigate the circumstances surrounding the purported assignment of the SGD1.5 Million Receivable to New Inspiration and seek advice on the possible legal recourse to recover the SGD1.5 Million Receivable.

YESS+WT Related Consultancy Fees

1.43. The Company 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 Cedar and SWF to support the payment to SWF for consultancy service(s) rendered.

D) Acquisition of Futura

Table 4: Events relating to the Acquisition of Futura



1.44. 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.

1.45. We note from the bank statements for December 2014 and May 2015 that there were no transaction for these two months. Accordingly, we are unable to ascertain the accuracy of the Company's announcement dated 25 February 2015 which stated that Futura is operational and is expected to contribute to the Company's financials in FY2015.

1.46. We note that Luoqing was the sole executive director during the relevant period. However, there was no evidence to indicate that Luoqing has executed his role in directing and appointing management personnel to manage the affairs and operations of the Cedar Group. In addition, although Charlie was re-designated as the non-executive Chairman and Luoqing,

the executive director between December 2014 and June 2015, it is not clear if the responsibilities of the directors were as announced.

E) Severance Payments

- 1.47. We note that bonuses and severance related payments (collectively “Severance Payments”) were paid to or accrued on 23 October 2014 to Charlie, Alice, Spencer and certain other employees.
- 1.48. The Company paid several executive directors and key management between seven (7) to fourteen (14) months of bonus and severance related payments for less than one (1) year of employment with the Company.
- 1.49. Cedar is unable to furnish any documentation to demonstrate that the Nominating Committee and Board had approved the termination of Cedar’s directors and key management executives. The Company and/or Charlie, Alice and Spencer were also unable to provide us a copy of the termination letters.
- 1.50. Cedar announced the cessation of Spencer as an executive director and Alice as the Chief Financial Officer on 4 December 2014 and 23 January 2015 respectively. The announcement stated that the cessations arose as they were leaving to pursue other career opportunities. We note that the Severance Payments made to them are not consistent with the reasons for the cessation as announced. Cedar’s announcements would not be accurate if the employment of Spencer and Alice were terminated.
- 1.51. The Company did not have a proper process for determining the appointment of key management executives. Lucy Zhang should have been listed as a key management executive in Cedar’s 2013 annual report based on her annual salary and responsibilities in Cedar Group as represented by Charlie. Michael, the lead independent director was not aware that Lucy Zhang was a director of Trechance.

F) Disbursements

1.52. We have detailed our observations in relation to the Disbursements in four sub-sections:

- a) Amounts owing to director;
- b) Payments made on behalf of director;
- c) Expenses recorded for non-Cedar related transactions; and
- d) Credit Facility Fees

Amounts owing to director

1.53. Cedar recorded a payable to Charlie amounting to SGD315,864.20 for his October 2014 salary and severance pay. There was no documentary evidence or supporting document to indicate that Charlie was entitled to the severance pay.

Payment made on behalf of director

1.54. We note from Cedar and Trechance's accounting records that payments amounting to an aggregate SGD1,467,293.93 were made on Charlie's behalf. These payments were approved by Charlie and Alice and recorded as amounts due from Charlie or offset against amounts owing to Charlie.

1.55. We note that these payments made by Cedar on behalf of Charlie would have been classified as interested person transactions in accordance with Rule 904 of the Catalist Rules. These interested person transactions involving Charlie totalled SGD1.47 million or approximately 3% of Cedar Group's audited net tangible assets as at 31 December 2013.

1.56. There was no evidence provided that indicates that Management had monitored or reported these interested person transactions to the Audit Committee of Cedar ("AC"). As such, these interested person transactions were also not approved by the AC or Board Trechance. Consequently, there may be a breach of Rule 905 of the Catalist Rules which requires the immediate announcement of interested person transactions with a value equal or more than 3% of the Group's latest audited net tangible assets.

Expenses recorded for non-Cedar related transactions

- 1.57. Supporting documents for payments totalling SGD56,998.52 indicated that certain expenses did not appear to relate to Cedar Group's operations.
- 1.58. We note that Alice claimed SGD5,161.09 for travelling expenses from Cedar and charged to Charlie's account on 31 October 2014, and SGD11,913.58 from Trechance on 27 November 2014 for the same trip. Alice appeared to have made duplicate claims amounting to SGD3,827.40 using the same airfare and accommodation invoices.
- 1.59. The Company should consider if it has a basis for legal recourse against Charlie and Alice (as the case may be).

Credit Facility Fees

- 1.60. There was no written evidence that the USD40.0 million loan was approved by Cedar's Board.
- 1.61. We have not seen written evidence that demonstrates that Management had ensured the availability of the SBLC prior to signing the Offer Letter, as signing the Offer Letter immediately obligated Trechance to pay the USD0.4 million Credit Facility Fee. Trechance has paid USD0.4 million Credit Facility Fees.

Conclusions

- 1.62. We note weaknesses and/or lapses (as the case may be) in corporate governance, risk management, internal controls and possible non-compliance with the Catalist Rules. Current Board should seek legal advice and follow up on the various matters mentioned in this report.

Disclaimers

1.63. The procedures that Baker Tilly performed under this engagement do not constitute an audit or review in accordance with generally accepted auditing or attestation standards. Baker Tilly has not audited or otherwise verified the information supplied to it in connection with its work from whatever source except as specified herein. It must be appreciated that the potential non-compliance with the rules of SGX-ST Listing Manual which we have highlighted in the findings came to our attention during the course of the Special Audit and therefore it should not be taken to have included all possible/potential breaches of the rules of SGX-ST Listing Manual that a more extensive examination of the rules might highlight. In addition, our comments do not represent legal advice/interpretation.

1.64. Baker Tilly's findings are based on documents and information relevant to its scope of work that were made available to us up to 22 October 2015. As of this date, there are still a number of documents and information requested but not yet made available to us. These documents or information, if provided, to Baker Tilly after 22 October 2015 may have an impact on the findings.

1.65. Baker Tilly makes no representation and gives no warranty to any person (except to the extent provided in the engagement letter dated 2 July 2015 as to the accuracy or completeness of our findings. Baker Tilly does not accept or assume responsibility for its work and its findings to any other party except to the Board of Directors and SGX. Baker Tilly's work was not planned or conducted in contemplation of reliance by any other party.