

## **ORIENTAL CENTURY LIMITED**

Company Registration No. 200303707R

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### **ANNOUNCEMENT – UPDATE TO SHAREHOLDERS (26 MAY 2009)**

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Further to the announcements made by Oriental Century Limited (the “Company” or “OCL”, and together with its subsidiaries, the “Group”) on March 12, 2009 and March 13, 2009, the Board of Directors of the Company (the “Board”) had, within the limited resources of the Company, taken the following actions:-

- appointed PricewaterhouseCoopers LLP (“PwC”) as Special Accountant to the Company to carry out an independent limited financial review to assess the financial position of the Company and the circumstances surrounding the various confessions made by Mr Wang Yuean (“Mr Wang”) as set out in the Company’s announcement of March 12, 2009;
- appointed WongPartnership LLP as the Company’s legal advisers in this matter;
- appointed Mr Lei Hua as Acting CEO and sent him, together with the Company’s CFO, Mr Chan Yong Hock to People’s Republic of China (“PRC”) to assume control and sustain its PRC operations and to take steps to safeguard the remaining assets of the Company’s PRC entities;
- reviewed the financial viability of the Company’s PRC operations and taken immediate and proactive steps to seek immediate and short term funding to provide business continuity; and
- initiated discussions with interested and relevant parties to participate in the resuscitation and recovery of the Company’s operations in the PRC.

Listed below are more detailed updates:-

#### **A. PwC Report**

PwC issued its report on May 21, 2009 (“PwC Report”). A copy of the PwC Report is attached to this announcement. Please refer to Appendix A.

#### **B. Key Findings**

In addition to the findings of PwC as set out in the PwC Report, the Board wishes to highlight the following initial findings (which are presently being confirmed and verified, where feasible) to shareholders, based on information obtained by the Company’s Acting Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) following the revelations by Mr Wang, on information gathered from discussions between the Board and Mr Wang after March 10, 2009, and from the PwC Report:

#### **B1 FINDINGS RELATING TO THE PRC SUBSIDIARIES**

Please refer to Appendix B for the organisational structure of the Group.

##### **(a) Findings relating to Oriental Dragon Management Co., Ltd (“ODM”)**

Since the financial year ended 31 December 2004, OCL has reported revenue from its principal subsidiary, Oriental Dragon Management Co., Ltd (“ODM”). This revenue was derived from services rendered (under a management contract) by ODM to Oriental Pearl College (“OPC”), which is a school owned by Dongguan Baisheng Investments Development Co. Ltd

(“BS”), a PRC company majority owned and controlled by Mr Wang. Under the management contract, ODM provides management services to OPC, in consideration of which ODM receives management fees. School fees are collected by OPC and operating expenses of the school are paid by OPC. The quantum of the management fees earned by ODM under the management contract is broadly based on OPC’s profits, which is largely influenced by the number of students enrolled with OPC.

OPC, which is not part of OCL, had reported to OCL that as at 31 December 2008, it had a student population of about 3,000 students. Checks conducted by management after March 10, 2009 revealed that at the time of checking, the student population is about 2,200 students.

Given the extent of the falsification of accounting and other records as highlighted in the PwC Report and as described below, the Board considers that there is a possibility that OPC has over the years reported to OCL misleading or incorrect profit figures or student numbers, and that it may be almost impossible, if not impractical, to ascertain the correct profit figures and student numbers of OPC and consequently the correct quantum of management fee due to ODM and the resultant revenue figures of the Group, for the past years.

(b) Findings relating to Nanchang No.3 Oriental Pearl High School (“Nanchang”)

Mr Wang, in his previous capacity as Executive Chairman and CEO of the Group, had reported to the Board since 2004 that Nanchang No. 3 Oriental Pearl High School (“Nanchang”), a PRC subsidiary of the Company that started operations in late 2003, was profitable. This has been reflected in the consolidated accounts of the Group since 2004.

The Board now understands from Mr Wang that Nanchang has been making losses throughout those years, operating at student numbers far below its capacity. Again, the accounting and related records of Nanchang were apparently falsified to mask its true financial performance and position.

Nanchang has apparently caused a drain on the cash flow of the Group. The situation is not expected to improve significantly in the immediate future. The Board is reviewing the viability of Nanchang’s operations and is exploring various measures to manage and limit the Group’s exposure.

(c) Humen Oriental Pearl Kindergarten (“Humen”)

Humen, another PRC entity owned by the Company, started operations in 2008. It has reported a loss since it commenced operations. With possible student withdrawal and/or falling enrolment due to possible loss of confidence in the Group, Humen may continue to be in a loss position in the current year.

The Board has subsequently been informed by Mr Wang that the Company’s interest in Humen, which was supposed to have been held in the name of Dongguan Oriental Dragon Co., Ltd., a subsidiary of the Company, has been covertly registered in the name of another entity unrelated to the Group. The Board is presently trying to verify this further and to ascertain whether the Company’s interest in Humen may be in question.

## B2 FINDINGS RELATING TO OPC AND BS

From discussions of the Board with Mr Wang, the Board understands that the financial statements of OPC and BS for at least the last three financial years, were also falsified to disguise their true financial position, which is materially worse than what was disclosed to the Company previously. The audited financial statements of OPC had been provided to OCL in connection with the management contract between ODM and OPC, and the financial statements of BS had been provided to OCL for verification of the going concern status of OPC.

The Board understands that the major asset of BS is a piece of land of approximately 184,400 square metres located in Dongguan, PRC on which OPC is sited. OCL is aware that BS has borrowings which are secured against this land as reported previously by Mr Wang.

ODM derives most of its revenue under the abovementioned management contract from OPC. OPC is sited on this land owned by BS over which BS's borrowings are secured. The continuing viability of BS and OPC will have a significant impact on the Group's business in the PRC. Presently, the Company is unable to determine the true financial positions of OPC and BS. OCL has no access to the accounting records of OPC and BS.

The Board understands that the current shareholders of BS are Mr Wang (presently its majority shareholder), Mr Zhu Xiaolin, Mr Ma Xiangdong and Mr Zhao Zhong (collectively, the "Founding Shareholders"). Their respective shareholdings in BS are set out in Appendix B.

Mr Wang Daming, who was a shareholder of BS when OCL was initially listed on SGX-Sesdaq on 1 June 2006 ("IPO date"), has since disposed of his interest in BS to Mr Wang and Mr Zhu.

Mr Wang and Mr Zhu were directors of OCL as at the IPO date. Mr Zhu and Mr Wang resigned from the Board on April 26, 2007 and March 11, 2009, respectively. Mr Ma and Mr Zhao were executive officers of the Company as at the IPO date but left the Company in 2008.

## B3 FALSIFIED ACCOUNTING RECORDS

The Board understands that under Mr Wang's supervision, certain members of the accounting and finance team in the PRC who reported to ODM's PRC financial controller, Mr He Xinxiang, maintained two sets of accounting records. Various documents and records, including students' records, bank statements and bank records, offered to the auditors and the CFO for examination were falsified to create the illusion that:-

- (i) the Company's PRC subsidiaries and OPC were profitable and had substantial bank balances;
- (ii) profits were earned by OPC and the resultant management fee were paid to ODM;
- (iii) OPC and BS were financially viable and could operate as going concerns; and

(iv) BS's borrowings were lower than its actual borrowings.

These falsified records and accounts were also submitted for tax reporting by ODM and Dongguan Oriental Dragon Co., Ltd. in the PRC.

Mr He Xinxiang has not reported for work since March 1, 2009 and he is now not contactable.

After March 10, 2009, following Mr Wang's confession to the Board, PwC and the CFO were not able to examine some of the past years' accounting and related records as they could not be located.

Given the questionable reliability of the accounting records of the PRC subsidiaries and the absence of ODM's financial controller to explain and validate the true state of affairs of the PRC subsidiaries, it will be extremely difficult and time consuming to ascertain the true and correct financial position of the PRC subsidiaries, or of OPC and BS. Any reconstruction of the correct accounting records will also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with Mr Wang or those responsible for the falsified accounts within and outside of the Group.

As stated in the PwC Report, given the significant doubts as to the accuracy and reliability of any records or documents shown to PwC and the CFO after March 10, 2009, PwC, in their review, has had to rely on bank statements they independently obtained from the respective banks. It has not been possible to separately and independently verify every one of the transactions that have transpired over the past few years. From the limited review that PwC has completed in tracking the cash flows of the PRC subsidiaries, PwC has identified that there were numerous receipts and payments that could not be properly or clearly explained. The PwC Report stated that the total bank balance of the Group as at 31 December 2008 amounted to only RMB 1.78 million instead of the RMB 234.34 million as stated in the Company's announcement of its results for the financial year ended December 31, 2008 ("FY 2008").

#### B4 IMPLICATIONS OF ACCOUNTING IRREGULARITIES ON THE GROUP

The reported total revenue earned by ODM from OPC over the past five years amounted to approximately RMB 212.23 million. From the records reconstructed on a limited basis by PwC, it appears that about RMB 97.9 million was not received by ODM. Of the amount paid to ODM of about RMB 114.33 million, PwC noted that RMB 83.87 million was subsequently diverted to OPC and parties related or connected to Mr Wang and an unidentified party.

Although Mr Wang had admitted to the falsification of student records to inflate student numbers and school fees, a key part of the falsification occurred with respect to OPC's records. OPC is not part of the Group or controlled by OCL. ODM earns management fees from OPC under the management contract referred to above. The management fees under the management contract referred to above have contributed more than 80% of the Group's reported net profits since 2004.

The Board is currently assessing the findings of PwC regarding the management fees earned but not received from OPC and the rationale and circumstances of the funds diverted to parties controlled by and connected with Mr Wang to see what actions can and should be taken to recover the shortfall in funds. Given the limitations of the appropriate source documents and the anticipated lack of cooperation of parties involved in the fraud, the Board considers that the chances of substantial recovery are low.

As a result of reliance on falsified documents and accounting records and untruths provided by Mr Wang and members of the finance team in the PRC, the financial statements for the past few financial years and the periodic results announcements that have been prepared on these bases are deemed to be incorrect and misleading.

Given the bad publicity that have surrounded the PRC subsidiaries since March 10, 2009, confidence in OPC, Nanchang and Humen has been eroded significantly. Although operations have continued, there have been disruptions as liabilities have mounted and the payroll for its academic staff is in arrears.

The banks that have extended loans to BS (which loans are secured against the land on which OPC is sited as reported previously by Mr Wang) have been apprised of the latest developments. Although the Board understands that BS has so far managed to meet its interest obligations on these loans, OPC is exposed to possible eviction if and should the banks foreclose on the mortgaged land of BS.

As a result of the above, the Board is of the view that the PRC subsidiaries of OCL are on the verge of insolvency as they face severe cash flow problems that may potentially jeopardise their ongoing operations.

### **C. Initial Assessment of Financial Viability & Prospects of PRC Operations**

Given the difficult financial positions of the schools managed and/or operated by OCL's PRC subsidiaries and the resultant adverse impact on the Group's financials, OCL is in need of fresh funding to sustain its operations.

Based on the limited information available to the Board, it appears that OPC is operationally profitable. Nanchang and Humen appear to be making losses. The Board is currently assessing the continuing financial viability of Nanchang and Humen.

To assure the continuity of OPC's operations, which is critical for the Group given that a large part of its revenue is derived from management fees earned from OPC's operations, it will be necessary to secure some long term sustainable arrangements with BS.

Funds available in the PRC to meet the Group's liabilities and ongoing expenses remain extremely low. OCL itself, as an investment holding company based in Singapore, has limited resources to extend any substantial financial support to sustain its PRC operations. Without any funds available at short notice to meet its immediate liabilities, the outlook of OCL's core business in the PRC is bleak. Any suspension of activities in OPC, Nanchang and Humen could lead to irreparable damage and severely limit the Company's ability to revive its business later.

The above assessment is based on the limited information presently available to the Board and on the assumption of the ability of the schools managed by ODM, i.e. OPC, Nanchang and Humen being able to retain their current student enrolments and succeed in recruiting sufficient new students for the coming new academic year commencing this summer. Given the bad publicity surrounding OCL since Mr Wang's revelations, continuing confidence in the ability of the three entities to continue to operate may have been significantly eroded. Accordingly, falling enrolment and student withdrawals from these three entities may occur.

The ability of OCL's PRC operations to continue to operate as going concerns and to recover and become profitable would be largely dependent on OCL's ability to secure fresh funding and rebuild confidence and eventually to secure long term stable arrangements with BS to ensure that OPC's continuing operations are not disrupted.

In the meantime, the Company may have to write down its investments in its PRC subsidiaries.

#### **D. Mr Wang's Continuing Involvement**

As previously announced, Mr Wang resigned as Executive Chairman, CEO and Director of OCL effective on March 11, 2009.

As stated in the Company's announcement dated March 12, 2009, the departure of Mr Wang with his experience in and knowledge of the education industry in the PRC could have a material adverse impact on the Group's operations unless a suitable replacement is found.

Given the dire financial situation of the Group, the Board has focussed its efforts to ensure that the continuity of the Group's PRC operations in the short term is sustained. In the light of the foregoing, the Group's limited and fast-depleting funds and the interdependence of the PRC subsidiaries on the schools operated by BS, which in turn is controlled by Mr Wang, the Board has not, to date, been able to identify nor appoint a suitable person to replace Mr Wang as the legal representative of ODM, Nanchang and Dongguan Oriental Dragon Co., Ltd. (The legal representative of Humen is a senior manager of ODM.).

By way of clarification, Mr Wang holds no executive position within the Group. The Board has assessed that during this interim period, OCL has limited options and has to continue to work with Mr Wang to sustain its PRC operations until OCL is able to secure fresh funding and to inject new management resources capable of replacing Mr Wang. The Board is mindful of the concerns regarding Mr Wang's continued involvement and will seek to replace him at the earliest opportunity.

Mr Wang has been informed and he has agreed that he will not commit any acts in his capacity as the legal representative of ODM, Nanchang and Dongguan Oriental Dragon Co., Ltd. without the prior knowledge and approval of the Acting CEO and the Board. To prevent any misuse, the official seals of the PRC subsidiaries are now kept under the Acting CEO's custody.

In addition, with the disappearance of the ODM's financial controller Mr He, Mr Wang is the only other person who is knowledgeable about the details of the alleged funds diversion from ODM. The Company will require his assistance and cooperation in order to maximise the Group's chances of any recovery. The Board understands that since the Company's announcement of March 12, 2009, Mr Wang

has been assisting with the stabilisation and recovery of the business and operations of OPC.

In the light of the urgent need for funding, the Board is exploring the possibility of seeking investor(s) into the Company to provide immediate and short-term funding to sustain the Group's operations.

**E. 2008 Audit & Annual General Meeting**

In view of the revelations by Mr Wang, it is now abundantly clear that the accounting records examined by KPMG Singapore, the Company's auditors, for the purpose of their audit for FY 2008 and previous financial years, were unreliable and inaccurate. KPMG Singapore is unlikely to be able to express an unqualified opinion in respect of the Company's accounts for FY 2008.

In view of the current state of the accounting records of all the PRC subsidiaries, the management and Board will require significant resources, time and effort to present the revised financial statements for FY 2008 to shareholders.

In connection with the above, the Board is pleased to announce that the Accounting and Corporate Regulatory Authority of Singapore ("ACRA") has on May 21, 2009 granted to the Company a two-month extension of under Section 201 of the Companies Act (Chapter 50 of Singapore), up to June 30, 2009 to hold the AGM for accounts made up to December 31, 2008. The Company will be appealing for a similar extension of time from the SGX-ST.

**F. Limitations**

The information disclosed in this announcement is based in part on details as extracted from the PwC Report and from information gathered and documents examined by the Acting CEO and the CFO and discussions between the Board and Mr Wang. Given the state of the Group's accounting and other records and the difficulties encountered as described above, they have not all been independently verified.

The Board is also severely hampered by the lack of funds available to the Group to engage and remunerate professionals to extend the investigation and review.

**G. Going Forward**

Since March 10, 2009, the Board has taken immediate and proactive action to sustain the operations of its PRC subsidiaries with the limited resources that it has. Sessions have been held with the academic staff and the relevant officials from the Ministry of Education in the PRC to explain the status and to assure that efforts are being made to ensure continuity. Meanwhile, recruitment efforts are still underway for the next academic year.

The Board has also focussed its efforts to seek the necessary immediate and short term funding to enable OCL to sustain its PRC operations. It has initiated discussions with interested and relevant parties to participate in the resuscitation and recovery of its operations in the PRC.

The Directors are also exploring various avenues and options to recover the losses that the Group has sustained and will seek guidance from its legal counsel in

reporting parties responsible to the relevant authorities in Singapore and the PRC for their follow up action.

The Board will provide updates and further announcements as and when appropriate to keep the shareholders and the investing public apprised of any significant developments.

Submitted by the Directors of the Company

Lai Seng Kwoon  
Tan Teck Meng  
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21 May 2009

Our Ref: BRS/GTP/LT/OCL

Dear Sirs

**ORIENTAL CENTURY LIMITED ("THE COMPANY" OR "OCL") AND ITS  
SUBSIDIARIES ("THE GROUP")**

We refer to our appointment as Special Accountants of the Company pursuant to our Letter of Engagement dated 13 March 2009.

We are pleased to set out below a summary of our findings based on documents made available to us to-date:

**Background**

1. OCL's main business is the management of three schools in the PRC through its PRC subsidiary, Oriental Dragon Management Co., Ltd ("ODM"). Two of these schools, Nanchang No. 3 Oriental Pearl High School ("Nanchang") and Humen Oriental Pearl Kindergarten ("Humen") are wholly owned by OCL while the third school, Oriental Pearl College ("OPC") is wholly owned by Dongguan Baisheng Investments Development Co., Ltd ("Baisheng").

Mr Wang Yuean ("Mr Wang"), a substantial shareholder and also the former Executive Chairman of the Company, holds 51.5% shares in Baisheng. The other shareholders of Baisheng are Zhu Xiaolin (36.5% shareholdings), Zhao Zhong (6% shareholdings) and Ma Xiangdong (6% shareholdings). Zhu Xiaolin was a former non-executive director of the Company. Zhao Zhong and Ma Xiangdong were former Senior Manager (Facilities / IT) and former Senior Manager (Business Development / IT) of ODM respectively.

2. In the Company's announcement of its FY2008 results on 24 February 2009, the Company stated that the total cash and cash equivalents of the Group was RMB234.34mil as at 31 December 2008 ("Reported Bank Balance"). Subsequently on 12 March 2009, the Company announced that it had been informed by Mr Wang that this Reported Bank Balance had been substantially inflated. According to the announcement, Mr Wang had, over the years, inflated sales and cash balances and had diverted unspecified sums to an interested party.

3. Based on the relevant Annual Reports and announcements of the Company ("Reported Accounts"), the total revenue and accumulated profit after tax of the Group from 1 January 2004 to 31 December 2008 amounted to RMB328.44mil and RMB173.03mil respectively. However, during our visit, we were presented with another set of accounts ("Revised Accounts"), which showed that for the same five year period, the total revenue of the Group amounted to RMB19.87mil and the accumulated loss amounted to RMB55.42mil. We understand that the Revised Accounts have not been audited.
4. We have attempted to review and reconcile the Revised Accounts, but found it to be impractical due to the following factors:
  - i. Although Mr Wang asserted that the Revised Accounts were accurate, the Reported Accounts had in fact been previously audited up to FY2007 and we understand that there were no exceptions noted by the auditors. This suggests that the reliability of any unaudited documents and records provided may be highly questionable in light of the discrepancies between the audited Reported Accounts and the unaudited Revised Accounts. Accordingly, we would have to rely solely on third-party confirmation to support the unaudited Revised Accounts. Such a process would be time consuming and highly impractical. Further, as these third parties could be related to Mr Wang or the management of the Company, the reliability of any confirmation provided by these entities may be in question.
  - ii. The actual number of students in the schools is a crucial factor in determining the actual revenue earned by the Group. We will not be able, at present, to accurately determine the revenue for each year without conducting a proper and actual student head count for the respective years. We understand that the student numbers were inflated over the years in order to overstate fee revenue earned in the prior years. It would be impossible to perform any form of review at this juncture to determine the correct and exact number of students that were present in the years past. Accordingly, the revenue, and hence, profit for the Group, cannot be accurately determined at this stage.
5. Under such circumstances, we have focused our review on bank confirmations that were obtained directly from the banks, together with other documents which appear consistent with these confirmations. Our findings are elaborated below.

#### **Bank balances of the Group as at 31 December 2008**

6. Based on bank confirmations obtained by us directly from the banks for the relevant banks accounts held by the Group, the total bank balance of the Group as at 31 December 2008 amounted to only RMB1.78mil ("Confirmed Bank Balances"), instead of RMB234.34mil as stated in the Company's announcement.

7. We noted that the difference between the Confirmed Bank Balances and the Reported Bank Balances arose largely from discrepancies in the following two bank accounts:

Bank / Account Number	Reported Bank Balance	Confirmed Bank Balance
Guangdong Development Bank (广东发展银行)/ 137011-518-01-0028134 ("Account No. 1")	RMB 227.66 mil	RMB20K
Industrial and Commercial Bank of China (中国工商银行)/ 1502230009024949640/779 ("Account No. 2")	RMB 4.75 mil	RMB2K

Account No. 1 was opened under the name of ODM and Account No. 2 was opened under the name of Nanchang.

8. We have to date not been able to obtain satisfactory explanations and adequate evidence from management for the discrepancies in the above bank accounts. However, we noted that:
- Based on the relevant Annual Reports and announcements of the Company, the total revenue of the Group from 1 January 2004 to 31 December 2008 amounted to RMB328.44mil. We noted from the relevant management accounts that this largely comprised RMB212.23mil of management fees earned by ODM from managing Oriental Pearl College ("OPC") and revenue earned by Nanchang (mainly in the form of school fees) of RMB114.09mil. However, the amount of cash receipts collected by ODM and Nanchang from 1 January 2004 to 31 December 2008 were less than the revenue recorded in the accounts for the same period, as elaborated in paragraphs 9 and 10 below.
  - Within one month of receipt of cash for management fees from OPC and as capital injection from OCL, ODM had made payments which would not appear to be adequately supported or accounted for as being in the ordinary course of business, as elaborated in paragraphs 11 and 12 below.

#### ODM – Management fees collected from OPC

9. Based on a management agreement signed on 1 January 2004, OPC would pay a monthly management fee to ODM based on the results of OPC. We have reviewed ODM's bank statements for individual receipts and payments above RMB1mil. From our review, we noted that ODM had only received a total of RMB90.33mil from OPC for the period from 1 January 2004 to 31 December 2008, instead of the amount of RMB212.23mil management fee recorded as earned in the management accounts. The total receipts by ODM that were individually less than RMB1mil, for which we have not verified the purposes nor the identity of the payers, amounted to approximately RMB24mil.

## Nanchang - School fees collected

10. Based on Nanchang's management accounts, revenue for the five years from 1 January 2004 to 31 December 2008, which comprised mainly school fees collected, was RMB114.09mil. We have not been able to obtain the full set of Nanchang's bank statements directly from the bank. Accordingly, we had to rely on documents that were provided by management and assistance rendered by the finance staff of Nanchang.

We estimate that the total receipts collected by Nanchang (less refund of deposits placed with the local government) from 1 January 2004 to 31 December 2008 were approximately RMB70mil. Of this, approximately RMB32mil were from ODM, Baisheng and Julong which did not appear to be related to the payment of school fees by students. From the remaining RMB38mil of receipts whose source(s) we could not establish, we ascertained, with the help of Nanchang's finance staff, that an amount of approximately RMB12.91mil, instead of RMB114.09mil (as recorded in the management accounts as school fees earned), related to the collection of school fees.

## ODM – Payments made within one month from the collection of management fees

11. Of the amount of RMB90.33mil of management fees received from OPC, we noted that a total amount of RMB83.87mil was paid out by ODM to the following entities within one month of the receipt of monies:

Name of Payee	Total amount paid (RMB'mil)
Baisheng	9.40
OPC	8.13
Shenzhen Julong Investment Development Co., Ltd (深圳市聚龙投资发展有限公司), ("Julong")	63.54
Dongguan City Technology Investment Assurance Co., Ltd (东莞市科技投资担保有限公司), ("DTIA")	2.80
<b>Total</b>	<b>83.87</b>

Based on our review, the shareholders of Julong includes Mr Wang (28% shareholdings), Zhu Xiaolin (22% shareholdings), Zhao Zhong (10% shareholdings) and Ma Xiangdong (10% shareholdings), all of whom are also shareholders of Baisheng. We have not as yet been able to establish whether DTIA is related to the Company or its key management.

Whilst Mr Wang attempted to explain that monies transferred to the above entities were for the purposes of funding the operations of OPC, we have as yet not been provided with adequate evidence to support such a claim.

The above payments were not recorded by ODM for the purpose of preparing the relevant annual reports and announcements of the Company. We have also not seen any evidence of approval for the above payments by the Board of Directors.

**ODM – Payments within one month of receipt of cash injected by OCL as capital**

12. In addition to the above transactions, we noted from our review of ODM's bank statements from 1 January 2003 to 31 December 2008 that a total of RMB46.24mil in cash was injected into ODM as capital, in four installments from 21 October 2003 to 5 March 2007. We further noted that total payments of RMB40.05mil were made to the following entities within one month of the receipt of monies by ODM:

<b>Name of Payee</b>	<b>Total amount paid (RMB'mil)</b>
Baisheng	35.05
Dongguan City Yuesheng Commercial Co., Ltd (东莞市跃升商贸有限公司), ("Yuesheng")	5.00
<b>Total</b>	<b>40.05</b>

We have not as yet been able to establish whether Yuesheng is related to the Company or its key management.

Similarly, whilst Mr Wang attempted to explain that monies transferred to the above entities were for the purposes of funding the operations of OPC, we have as yet not been provided with adequate evidence to support such a claim.

The above payments were not recorded by ODM for the purpose of preparing the relevant annual reports and announcements of the Company. We have also not seen any evidence of approval for the above payments by the Board of Directors.

**Other Findings**

13. In addition to the above, we wish to highlight the following findings from our review of the bank statements of ODM, Nanchang and Dongguan Oriental Dragon Co., Ltd ("DGOD"), a subsidiary of the Company incorporated in PRC whose principal activity is investment holding. Our review covered payments and receipts above RMB1mil for the period from 1 January 2003 to 31 December 2008.

*i. Payments and Receipts for unknown purposes*

We noted that total payments of approximately RMB43.02mil were made by the Company's subsidiaries to entities outside the Group. Similarly, there were also total receipts by the Company's subsidiaries of approximately RMB41.28mil from entities outside the Group for which no adequate supporting documents were made available to us.

These transactions were not recorded by the respective subsidiaries for the purpose of preparing the relevant annual reports and announcements of the Company. We have also not seen any evidence of approval for the payments by the Board of Directors.

Details of the payments of RMB43.02mil and the receipts of RMB41.28mil are summarised as follows:

**Payments**

<b>Name of Payee</b>	<b>Total amount paid (RMB'mil)</b>
Baisheng	15.40
OPC	2.50
Julong	4.00
Beijing Siboxinye (北京恩博兴业经济发展), ("Sibo")	8.00
Shenzhen City Xiangyewang Co., Ltd (深圳市 祥业旺贸易有限公司) ("Xiangyewang")	2.42
Bangcheng Guangdian Co., Ltd 邦臣光电有限 公司 ("Bangcheng")	10.70
<b>Total</b>	<b>43.02</b>

**Receipts**

<b>Name of Payer</b>	<b>Total amount received (RMB'mil)</b>
Baisheng	4.00
Julong	11.12
Yuesheng	7.75
Beijing Shunjing Tongda Co., Ltd (北京顺景通 达科贸有限公司), ("Shunjing")	2.41
Shenzhen Hualong Co., Ltd (深圳市华龙捷电 子有限公司), ("Hualong")	3.30
Cash Receipts	12.70
<b>Total</b>	<b>41.28</b>

Based on our review, Zhu Xiaolin, who is also a shareholder of Baisheng, holds 80% shareholdings in Siboxinye. We have not been able to establish whether Xiangyewang, Bangcheng, Shunjing and Hualong are related to the Company or its key management.

For the cash receipts of RMB12.70mil, these were directly banked into various bank accounts with no descriptions of or particulars relating to the journal entries or bank advices. Consequently, we have not been able to determine the nature nor the identity of the payers of these amounts.

Whilst Mr Wang attempted to explain that monies transferred to and from the above entities were for the purposes of funding the operations of OPC, we have as yet not been provided with adequate evidence to support such a claim.

ii. *Unrecorded transactions in ODM*

From the review of the bank statements of ODM, we noted the following bank withdrawals that took place within one to two days after a similar amount had been banked in:

Date	Transaction	Amount (RMB'mil)
25 February 2005	Deposit	20.00
25 February 2005	Withdrawal	20.00
21 September 2005	Deposit	1.00
22 September 2005	Withdrawal	1.00

These payments/receipts were not recorded in ODM's books.

We have not sighted any bank advices for such transactions and accordingly, we have not been able to determine the nature of and identities of the payers/payees of these transactions.

## Corporate Governance

14. In the course of our review, we noted that at all material times, the unrecorded payments highlighted in paragraph 11, 12 and 13 above were from bank accounts which required approvals in the form of two seals on the relevant bank instructions before the payments can be processed by the bank. These are the Finance Seal, which we understand is held by Madam Xia Lianying, an Accountant of ODM based in Beijing; and the Legal Representative Seal, which we understand is held by Mr Wang.

We understand that other than Mr Wang, the other remaining three directors (two independent and one non-executive) of the Company were not kept apprised or informed of these payments.

Moving forward, the Audit Committee may wish to consider strengthening procedures surrounding the cash payment process to enhance the Corporate Governance of the Group.

**Financial Impact on the Company**

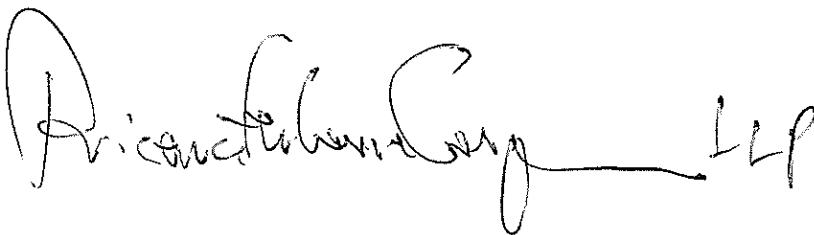
15. Based on our review, it appears that the total actual bank balances of the Group as at 31 December 2008 is lower than the Reported Bank Balance by approximately RMB232.56mil, largely due to the recording of school fees and management fees purportedly but not in fact collected, and payments made out to various third parties which were not recorded.

From the documents made available to us, we were unable to determine the recoverability of the following:

- i. For the management fees recorded by ODM but not collected from OPC (as mentioned in paragraph 9 above) of RMB121.90mil, whether OPC or its holding company, Baisheng, is able to repay such management fees;
- ii. For school fees recorded by Nanchang, whether the uncollected school fees as mentioned in paragraph 10 above had in fact been earned, and if so, whether they can still be collected; and
- iii. For the payments from the bank accounts of the Company's subsidiaries as mentioned in paragraphs 11, 12 and 13 above, whether OCL has the right and is able to recover these amounts from the respective parties to whom such moneys were paid to.

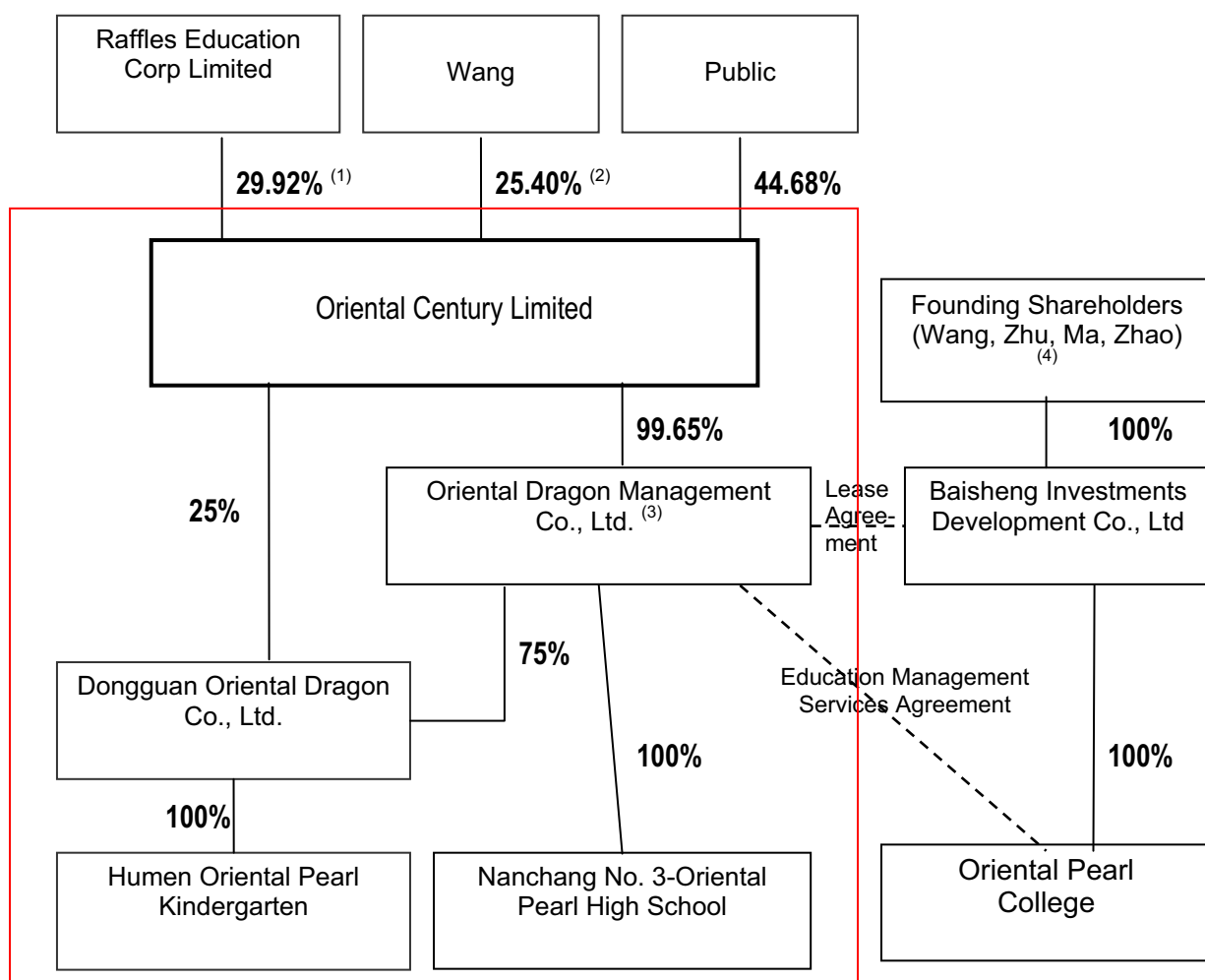
Accordingly, the cash balance of the Group may potentially have to be written down by RMB232.56 mil. As a result, the net tangible asset of the Group will have to correspondingly be reduced by the same amount.

Yours faithfully





## Appendix B



### Notes:

- (1) Based on the Annual Report 2008 of Raffles Education Corp Limited, which states that as at 30 June 2008, Raffles Education Corp Limited had 29.92% interest in the Company.
- (2) Based on the last Notice of a Director's (including a Director who is a Substantial Shareholder) Interest and Change in Interest dated 27 June 2007 announced by the Company.
- (3) Oriental Dragon Management Co., Ltd is 0.35% owned by Beijing Si Bo Xing Ye Economy Development Co., Ltd, a limited liability company established in the PRC.
- (4) Mr Wang holds 51.5%, Zhu Xiaolin holds 36.5%, Ma Xiangdong holds 6% and Zhao Zhong holds 6%, based on a company search conducted on 10 April 2009.