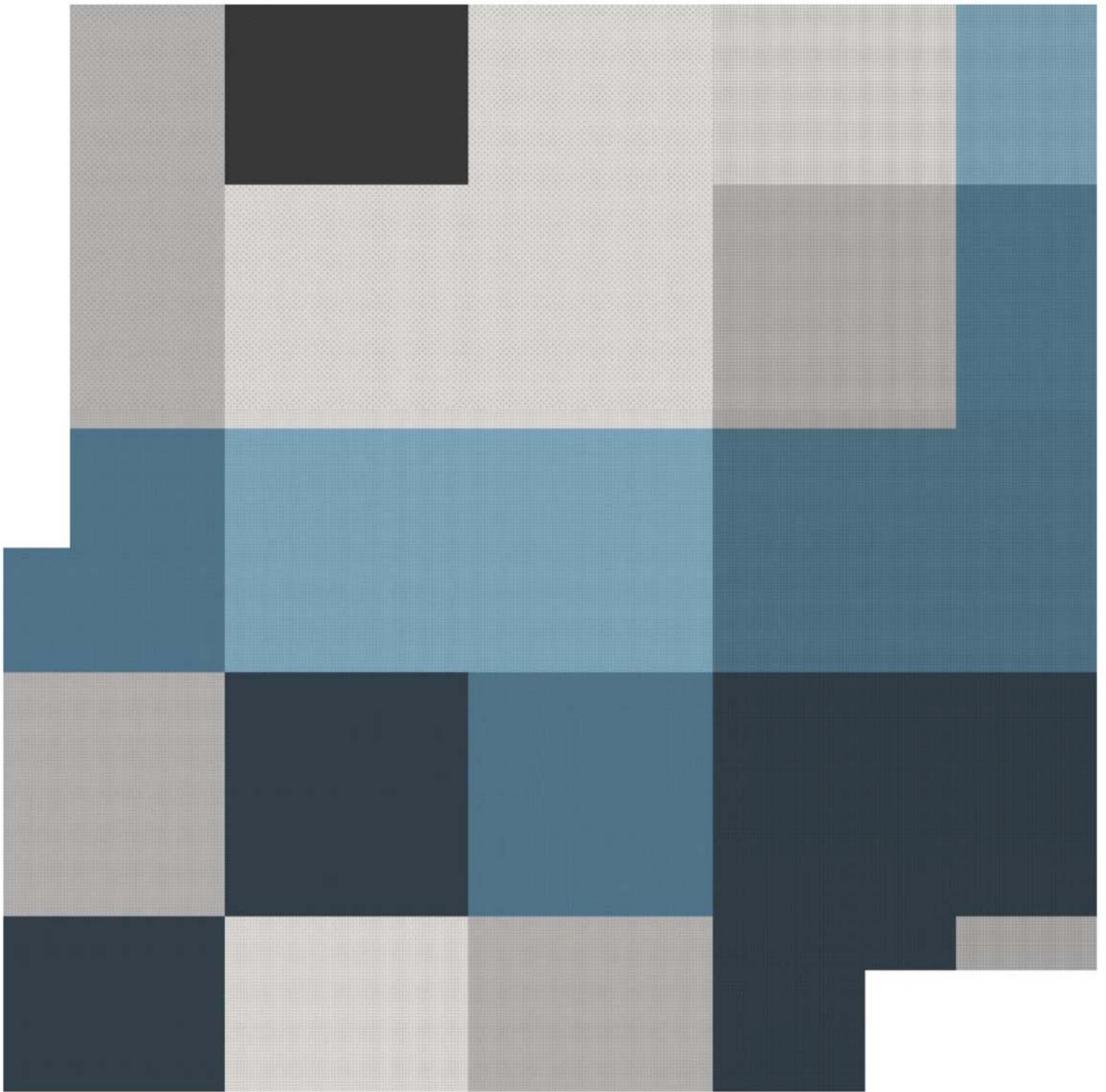




# **Dapai International Holdings Co. Ltd ('the Company')**

## **Independent Report**

3 July 2017

**KordaMentha**  
Forensic

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## A. Executive Summary

### Background

1. On 11 November 2009, Dapai International Holdings Co. Ltd ('the Company') announced the initiative to open 500 new retail outlets in first, second and third tier provinces in the People's Republic of China ('PRC'), namely Beijing, Fujian, Jiangsu, Shandong and Zhejiang, to expand the sales and distribution network of the Company and its subsidiaries (collectively the 'Group'). It has been said that the Group incurred RMB 410 million for this initiative, comprising RMB 250 million for the initial renovation, furniture and fitting costs and RMB160 million for the rental of the 500 outlets for the first two years<sup>1</sup>. As set out in the Chairman's Statement of the Financial Year ('FY') 2011 annual report, a substantial number of the 500 outlets had been closed.
2. On 14 December 2016, the Company announced on the Singapore Exchange ('SGX') the results of an 'Agreed-Upon Audit Procedure Report' ('AUP Report') relating to allegations concerning the Group which had previously come to the attention of the Audit Committee of the Company. The allegations relate to various transactions between the Group and certain sales distributors and renovation contractors, including but not limited to; transactions for sale of goods; renovation projects; and prepaid rentals. These transactions are alleged to have been fictitious and/or misrepresented.
3. The AUP Report stated, amongst other things, that BDO LLP was not able to fully verify whether certain transactions referred to in the allegations had been carried out and properly recorded. As a result, KordaMentha Pte Ltd ('we' or 'KordaMentha') was engaged to follow up on the outstanding matters pertaining to these alleged transactions arising from the AUP Report.
4. We were provided with the value of the transactions and account balances between the distributors/contractors with the Company's PRC subsidiaries, namely:
  - Dapai (China) Bags Co., Ltd;
  - Quanzhou Dabao Light Industry Products Co., Ltd;
  - China Dapai Co. Ltd
5. These subsidiaries have purportedly entered into transactions with two distributors ('Distributors') and four contractors ('Contractors') between 2009 and 2012. We sought to corroborate these amounts with these Distributors and Contractors who were all located in Fujian, PRC, between 18 April 2017 and 20 April 2017.
6. We set out hereafter our key findings, which in short, do not correlate with the information that we have in relation to the Company.
7. We have provided the Executive Chairman, Mr. Chen Xizhong ('Mr. Chen'), with the opportunity to comment on information contained in this report in particular where; comments, observations and inferences may be relevant to him in this report. The key findings should be read in conjunction with Mr. Chen's responses.

### Key findings

#### Physical site visits to the Distributors and Contractors

8. The key findings from the physical site visits relating to the Distributors are as follows:
  - a. The Distributors; Distributor A and Distributor B, informed us that they do not have any transactions with Dapai<sup>2</sup> for the period 2007 to 2012. Both Distributors claimed that Dapai appears to have fabricated the transactions with them.

<sup>1</sup> This RMB 410 million was for the payment made to all the distributors and contractors, of which two distributors and four contractors were the subject of our review. The total contracted amount between the Group and these two distributors and four contractors was RMB 282 million.

<sup>2</sup> 'Dapai' is the brand of the products carried by the Group. We observed that distributors and contractors refer to 'Dapai', the brand name and do not differentiate among the PRC subsidiaries.



- b. On 23 April 2017, we received an email which appeared to be from a representative of Distributor B informing us that there were no business transactions between Dapai and Distributor B except in the period between 2006 and 2007<sup>3</sup>. During which they informed us that Distributor B had a small amount of business with Dapai relating to a Turkish customer. They further informed us that there were no business transactions subsequent to these.
- c. On 24 May 2017, we received Distributor A's responses to our confirmation letters. Distributor A's responses indicated that they do not have any transactions with the Company's PRC subsidiaries for the period 1 January 2007 to 31 December 2012.

#### Comments from Mr. Chen

Mr Chen was certain that there were business transactions between Dapai and these two distributors. Mr. Chen, however, could not provide the supporting documents as he informed us that the books and records were no longer available. Mr. Chen suspected that the reason(s) for the distributors to deny the transactions include:

- a. the distributors may be concerned with potential tax implications;
- b. the distributors do not have the obligation to confirm the transactions;
- c. the distributors do not want to be exposed to queries which may subject them to further investigations.

We note that a distributor responded to the confirmations twice, i.e. for the purpose of the AUP Report and this report, which may not support Mr. Chen's suspicions.

9. The key findings from the site visits relating to the Contractors are as follows:

- a. All four of the Contractors whom we visited disputed the amounts set out in the confirmation letters delivered to them on the basis that there were either no transactions or the amounts were allegedly inflated. These four site visits are further set out below:

| SN | Contractors  | Summary response(s) by employee(s) and/or owner of the Contractor                                                                                                                                                                                                                                                                                   | Comments from Mr. Chen                                                                                                                                                                                                                                                    |
|----|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Contractor A | They informed us that there were some business transactions with Dapai between 2007 and 2008. However, Contractor A verbally claims that they did not perform work for Dapai's 150 outlets and did not sign any contract(s) with Dapai. It appears that Contractor A is a small scale business and we understand that all transactions are in cash. | Contractor A's allegations were false and Mr. Chen was certain that there were transactions between Dapai and Contractor A.                                                                                                                                               |
| 2. | Contractor B | They informed us that there were transactions with Dapai but the amounts were not as much as stated in the confirmation letters.                                                                                                                                                                                                                    | Contractor B's allegations were false and Mr. Chen was certain that there were transactions between Dapai and Contractor B. Mr. Chen was not sure why Contractor B's records did not tally with Dapai's and propose that Contractor B review their own books and records. |

<sup>3</sup> We have analysed and traced the email back to Distributor B located in Fuzhou. The identity of the sender could not be traced.



| SN | Contractors  | Summary response(s) by employee(s) and/or owner of the Contractor                                                                                                                                                                                                                                                                                                                  | Comments from Mr. Chen                                                                                                                                                                                                                                        |
|----|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3. | Contractor C | They informed us that there were insignificant transactions with Dapai and had never signed any contract(s) with Dapai. They claimed that the amounts transacted were "definitely" not as much as the figures stated in the confirmation letters. In addition, they claimed that Contractor C invoices its customers when the works are completed and does not accept prepayments. | Contractor C's allegations were false. Mr. Chen was certain that there were transactions between Dapai and Contractor C.<br><br>Mr. Chen stated that prepayments to contractors is an industry practice.                                                      |
| 4. | Contractor D | They informed us that there were no transactions with Dapai as Contractor D does not renovate retail outlets. They also stated that they have not heard of the name 'Dapai' at all.                                                                                                                                                                                                | Contractor D's allegations were false. Mr. Chen was certain that there were transactions between Dapai and Contractor D.<br><br>Based on Mr. Chen's recollection, Contractor D could have sub-contracted the work to be done for Dapai to another contractor. |

#### Site visits to nine randomly selected addresses of the outlets in Fujian, PRC between 18 April 2017 and 20 April 2017

10. According to the Board Memo dated 9 September 2009, the 500 outlets would be located in hypermarkets and supermarkets and the key criteria for selecting the 500 outlets, amongst others, include:
  - a. Prime location with high pedestrian flow;
  - b. City-centre;
  - c. Consideration would be put into the shopping habits and patterns, consumer needs and the spending power of shoppers in these locations;
  - d. Existence of competitor outlets.
11. From the list of 500 outlets, we randomly selected nine addresses of the outlets in Fujian to visit. We had discussions with the property management office where available and the existing and neighbouring tenants to understand if Dapai had indeed set up any outlets before. Our observations are summarised below:
  - a. One outlet possibly existed as claimed by an existing neighbouring tenant;
  - b. We could not obtain substantive evidence on the existence of the remaining eight outlets given that the outlets were purportedly set up between 2010 and 2011, about seven years ago and the relevant parties we had discussions with were either new tenants or property management offices and could not provide further information.
  - c. However, we observed that four of the nine outlets were neither located in hypermarkets nor supermarkets.

#### Comments from Mr. Chen

Mr. Chen said that he was certain that all of the outlets we visited were set up. Based on his recollection, he had exercised some flexibility to relocate certain outlets to other prime location with high pedestrian flow but he could not recall the specific outlets.

Mr. Chen said he had exercised discretion in the relocation of some outlets without seeking the approval from the Board of Directors, indicating a possible lapse in internal controls.

This may potentially breach Rule 719 of the Mainboard Listing Rules, which stipulates that the Company should have a robust and effective system of internal controls, addressing financial, operational and compliance risks.



## Recommendation(s)

12. This independent review shows that the purported transactions between the Group and the respective third party Distributors and Contractors cannot be corroborated and the veracity of the transactions could not be verified at this stage. We recommend where possible an examination of the bank statements to verify the existence of the transactions by performing the following:
- a. Obtain the original bank statements of the Group for the period 9 November 2009 to 31 December 2011 from the PRC banks; and
  - b. Trace the purported funds to and/from the Distributors and Contractors to the bank statements.

This proposed procedure was originally proposed in our Letter of Engagement dated 7 November 2016 but our requests were not acceded to due to Mr. Chen's concerns that existing banking relationships could be affected.



## **B. Information relied on, scope and limitations**

13. This report is based on documents and information relevant to the scope of work stated under our Letter of Engagement ('LOE') dated 7 November 2016, that were made available to KordaMentha up to 24 May 2017 and also the comments from the Executive Chairman, Mr. Chen where applicable.
14. In the preparation of this report, we have relied upon the accuracy and completeness of documents and/or information provided by management of the Company and discussions with the directors, management and staff of the Group. The documents and/or information we have relied on for the purpose of this report are set out in Appendix A.
15. This report has been prepared by KordaMentha with care and diligence. However, our work did not include the procedures necessary to conduct an audit or to enable us to express an opinion as to whether the financial information contained in this report present a true and fair view in accordance with applicable accounting standards and accordingly, no such opinion is expressed.
16. KordaMentha does not warrant the accuracy or reliability of any of the information supplied to it.
17. We wish to highlight that we have, to our best efforts requested that the Distributors and Contractors provide written responses to the confirmation requests. On its own, a verbal response to a confirmation request does not meet the definition of an external confirmation because it is not a direct written response and that the verbal responses were based on the representatives' recollection. We also wish to highlight that we do not have any coercive power to seek cooperation from the Distributors and the Contractors. Other evidence may assist to support the information we observed from the verbal responses. However, such information was not made available to us.
18. Similarly, our findings from visiting nine randomly selected addresses from the list of 500 outlets were based on the verbal representations by and recollections of the existing tenants and/or property management offices. We do not have any coercive power to seek written confirmation from them nor demand further interviews to verify the accuracy of their statements.
19. As the outlets were set up and closed by 2011, i.e. approximately six years ago, public information available on the Administration of Industry and Commerce ('AIC') database is limited and we were only able to obtain limited information for the years 2013, 2014 and 2015.
20. Our scope of work relating to the verification of bank account balances with the respective PRC banks was restricted by the non-provision of bank account details and authorisation letters. Around 31 March 2017, we were notified by Terence Ng, the then Chief Finance Officer ('CFO'), that Mr. Chen, had concerns over our proposed procedure to perform bank confirmations as it may affect the existing banking relationships, therefore we did not perform these reviews.

### **Reliance on this report**

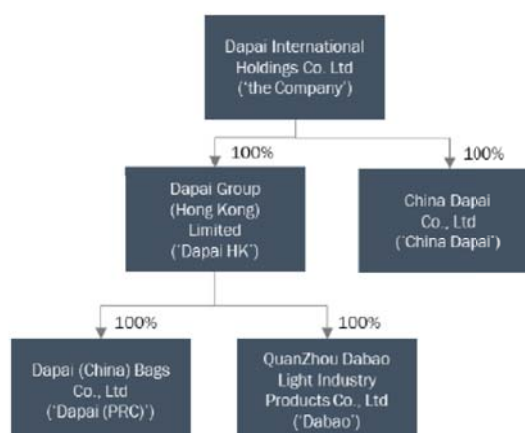
21. We have no responsibility to update this report for events or circumstances occurring after 24 May 2017, apart from any subsequent arrangement.
22. This report has been prepared, and may be relied on, solely for the purpose(s) specified in the LOE dated 7 November 2016. The express written consent of KordaMentha must be obtained prior to relying upon, publishing or distributing this report, or part of it, for some other purpose. KordaMentha does not accept responsibility to anyone if they use this report for some other purpose.



## C. Background and scope of work

1. Our scope of work under the LOE with the Company dated 7 November 2016 relate to two Distributors and four Contractors located in Fujian, PRC. We were tasked to perform the following:
  - a. Review and follow up outstanding matters relating to the Distributors and Contractors, including performing confirmations on account balances and transactions with the Distributors and Contractors by way of physical site visits;
  - b. Where possible we were to trace funds to/from Distributors and Contractors;
  - c. Best efforts background checks;
  - d. Review financial statements filed with the local authority, being the AIC;
  - e. Review relevant internal audit reports, particularly the report by the Internal Auditor on their physical site visits to the outlets in Beijing and Shandong between 15 December 2011 and 27 December 2011;
  - f. Conduct interviews where possible.
2. Accordingly, our work performed included:
  - a. Review of the list of 500 outlets provided by the then CFO of the Company and the report by the Internal Auditor, pertaining to their physical site visits conducted between 15 December 2011 and 27 December 2011 to the outlets located in Beijing and Shandong;
  - b. Limited review of executed contracts with the Distributors and Contractors;
  - c. Physical site visits where we delivered confirmation letters to the Distributors and Contractors. These visits took place between 18 April and 20 April 2017 ('Physical Site Visit') to confirm accounts balances and transactions for the period FY2007 to FY2012. Where possible, we held discussions with the Distributors and Contractors;
  - d. Visited nine randomly selected addresses of the outlets in Fujian, PRC between 18 April 2017 and 20 April 2017.
3. The Group structure as at 31 December 2009<sup>4</sup> is set out in Figure 1 below. The subsidiaries, Dapai (China) Bags Co., Ltd ('Dapai (PRC)') and Quanzhou Dabao Light Industry Products Co., Ltd ('Dabao') were wholly owned subsidiaries of Dapai Group (Hong Kong) Limited ('Dapai HK').
4. The principal activities of Dapai (PRC) and Dabao were the manufacturing and sale of luggage and backpacks. The Company also held 100% of China Dapai Co. Ltd ('China Dapai') in 2009, which was dormant. For the purpose of this report, Dapai (PRC), Dabao and China Dapai are collectively referred herein as the 'PRC subsidiaries' of the Group.

Figure 1: Group structure in FY2009



<sup>4</sup> FY2009 annual report.



5. Dapai (PRC) was predominantly the contracting entity with the Distributors and Contractors. The total contracted amounts on 9 November 2009 with the Distributors and Contractors amount to RMB<sup>5</sup> 282 million as set out in Table 1 below.

Table 1: Distributors and Contractors

|      | Company <sup>6</sup> | Services provided                                                                                                   | Contract Amount <sup>7</sup><br>(RMB <sup>5</sup> million) |
|------|----------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| i.   | Distributor A        | Distributor for 50 outlets in Xiamen, PRC.                                                                          | 16                                                         |
| ii.  | Distributor B        | Distributor for 50 outlets in Fuzhou, PRC.                                                                          | 16                                                         |
| iii. | Contractor A         | Contractor for the supply of display racks for 150 outlets in Beijing, Fujian, Jiangsu, Shandong and Zhejiang, PRC. | 42                                                         |
| iv.  | Contractor B         | Contractor for the supply of display racks for 150 outlets in Beijing, Fujian, Jiangsu, Shandong and Zhejiang, PRC. | 42                                                         |
| v.   | Contractor C         | Contractor for the supply of display racks for 200 outlets in Beijing, Fujian, Jiangsu, Shandong and Zhejiang, PRC. | 56                                                         |
| vi.  | Contractor D         | Contractor for the design and renovation of 500 outlets in Beijing, Fujian, Jiangsu, Shandong and Zhejiang, PRC.    | 110                                                        |
|      | <b>Total</b>         |                                                                                                                     | <b>282</b>                                                 |

<sup>5</sup> Reminbi ('RMB'), the currency of the PRC.

<sup>6</sup> The English names of the Distributors and Contractors are based on their company signage except for Contractor B which we have translated based on the Chinese name.

<sup>7</sup> Based on the contracts provided by the then CFO of the Company.



## D. Detailed findings

### The 500 retail outlets in PRC

6. According to the Board Memo dated 9 September 2009, the 500 outlets would be located in hypermarkets and supermarkets in Beijing, Fujian, Jiangsu, Shandong, Zhejiang, PRC and the key criteria for selecting the 500 outlets, amongst others, include:
- Prime location with high pedestrian flow;
  - City-centre;
  - Consideration would be put into the shopping habits and patterns, consumer needs and the spending power of shoppers in these locations;
  - Existence of competitor outlets.
7. We were provided with three different lists of the 500 outlets, all not dated, which we received from the then CFO of the Company on 20 December 2016, 24 January 2017 and 16 February 2017 respectively. Certain outlets have addresses that do not comprise the name of the buildings and/or unit numbers including the 51 outlets set out in Appendix B. As such, it is unlikely to locate these outlets accurately.
8. Two groups of duplicated addresses were found in all three lists as set out in Table 2.

**Table 2: Duplicate addresses in the lists of 500 outlets**

| SN | Outlet     | Address         |
|----|------------|-----------------|
| 1  | 北京平谷人民商场   | 北京市平谷区新平北路 63 号 |
| 2  | 北京平谷众信世纪商厦 | 北京市平谷区新平北路 63 号 |
| 3  | 江苏盐城金鹰百货   | 江苏省盐城市建军路 158 号 |
| 4  | 江苏盐城达派零售店  | 江苏省盐城市建军路 158 号 |

9. We also observed that certain outlets were relocated to new addresses. We had no reason or understanding why two new outlets were opened at the same location in Shaanxi, but on different levels. In addition, Shaanxi was not one of the five provinces which the Group had originally selected for the expansion plan.

**Table 3: Addresses of new outlets located in the same address in Shaanxi but different floors**

| SN | Province | Outlet | Address    |
|----|----------|--------|------------|
| 1. | Shaanxi  | 大商新玛特  | 西安解放路民乐园二层 |
| 2. | Shaanxi  | 大商新玛特  | 西安解放路民乐园五层 |

10. Between 15 December 2011 and 27 December 2011, the Internal Auditor performed physical visits to 15 outlets located in Beijing and 15 outlets in Shandong and was informed that nine out of the 15 outlets selected were closed by the Distributor(s). Similarly, all the outlets located in Shandong and selected for the physical visit were closed. The new list provided for Shandong outlets comprised six outlets located in Xi'an in Shaanxi. Shaanxi was not part of the five provinces which the Company had selected for the expansion program in 2009.

#### Comments from Mr. Chen

Based on Mr. Chen's recollection, the duplicated addresses could relate to different outlets located on the same road. He could not provide any other list of the 500 outlets, if any, because the relevant person-in-charge have left the Group and the information may not be available as the information are more than seven years ago. Based on Mr. Chen's recollection, the Distributors have informed him that certain outlets in Shandong are underperforming and have proposed to relocate these outlets to Shaanxi.

11. From the list of 500 outlets, we randomly selected nine addresses of the outlets in Fujian to visit between 18 April 2017 and 20 April 2017. We had discussions with the property management office where available and the existing and neighbouring tenants to understand if Dapai had indeed set up any outlets before. Our observations are set out in Table 4 below.



Table 4: Observations from our visits to nine outlets

| SN                                                               | Outlet | Address of outlet | Key finding(s)                                                                                                                                                                                                                                                       | Comments from Mr. Chen                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------|--------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.                                                               |        |                   | The existing tenant had occupied the unit since 2008. We note that this unit was subsequently relocated to [REDACTED] which is also an outlet that we have visited. We observed that both units are shop-houses and not located within a hypermarket or supermarket. | This outlet was definitely opened for business as he had been to the outlet before.<br><br>In addition, despite the mandate from the Board of Director to locate the outlets in hypermarkets and supermarkets, Mr. Chen had exercised some flexibility to change the outlets to other prime locations with high pedestrian flow. |
| 2.                                                               |        |                   | Both addresses are recorded in the list of the 100 outlets in Fujian.                                                                                                                                                                                                | Dapai had a few series of products, including children bags and luggage. These two outlets could possibly be outlets selling different products.                                                                                                                                                                                 |
| 3.                                                               |        |                   | During our visit, we note that these two addresses refer to the same building.                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                  |
| 4.                                                               |        |                   | Outlet may have possibly existed, as its adjacent tenant confirmed that Dapai's outlet was in existence for one to two years.                                                                                                                                        | No comments.                                                                                                                                                                                                                                                                                                                     |
| <b>Outlets which we are unable to obtain conclusive evidence</b> |        |                   |                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                  |
| 5.                                                               |        |                   | The property management offices and/or the employees and/or the existing tenants of these five outlets could not provide any information relating to Dapai as they were either new or do not have the information on hand.                                           | No comments.                                                                                                                                                                                                                                                                                                                     |
| 6.                                                               |        |                   |                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                  |
| 7.                                                               |        |                   |                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                  |
| 8.                                                               |        |                   | This address belongs to Metro, a wholesale centre which does not have any specialty stores or outlets.                                                                                                                                                               | The outlet could be at the address next to Metro, which used to sell sports related products.                                                                                                                                                                                                                                    |
| 9.                                                               |        |                   | This outlet is a shop-house and located on a cultural/tourist street predominantly occupied by shops selling tea leaves and                                                                                                                                          | This outlet was subsequently relocated to another address.                                                                                                                                                                                                                                                                       |



| SN | Outlet | Address of outlet | Key finding(s)                            | Comments from Mr. Chen |
|----|--------|-------------------|-------------------------------------------|------------------------|
|    |        |                   | cultural related goods such as porcelain. |                        |

## Contracts and transactions executed with the Distributors and the Contractors

12. Each Distributor and Contractor signed a contract with Dapai (PRC), all on the same day, i.e. 9 November 2009. The distribution contracts are set out in identical formats and similarly, the contracts with the Contractors appear to be in similar formats. The contracts bear the company stamps of Dapai (PRC) and the respective Distributors and Contractors. Mr. Chen represented Dapai (PRC).

### The distribution agreements

13. The key terms of the distribution agreements with the Distributors, i.e. Distributor A and Distributor B are:
- Dapai (PRC) manages the renovation and the installation of the display racks in the outlets;
  - The rental agreements of the outlets are entered into between the Distributors and the landlords;
  - The Distributors manage the outlets' working capital and operations. Distributors bear the profit/losses of the outlets;
  - Dapai (PRC) is entitled to the management rights of the outlets for the first five years;
  - After two years, Dapai (PRC) has the unconditional right to participate in the operations or direct sales to the end consumers;
  - In the event that the Distributor is unable to meet 70% of the target, Dapai (PRC) has the right to change distributor or elect to participate in the operations or to sell the products directly to end consumers.

The payment terms were not listed on the distribution agreements. However, the deferred asset listing for FY2009<sup>8</sup> indicate that the rental were fully paid to Distributor A and Distributor B by 13 November 2009, i.e. two days after the signing of the agreements.

However, based on the responses from Distributor A to our confirmation letters and the email confirmation from Distributor B, there were no transactions with Dapai (see paragraph 22.a and paragraph 22.b).

14. We were also provided with scanned copies of the receipts dated 13 December 2010 for the payment of the two years rental for the outlets by Distributor B. There were no details of who issued the receipt and the receipts did not bear any official company stamp. There is also no information on which outlets the payments were for. Apparently [REDACTED] acknowledged receipt for both receipts but we could not determine her identity and designation. Based on the deferred asset listing for FY2009, RMB 8 million were remitted to Distributor B on 12 November 2009 and 13 November 2009 respectively, totalling RMB 16 million. There is purportedly a one year gap between the payment of the rental from Dapai (PRC) to Distributor B and the payment by Distributor B for the rental of the outlet(s).

Table 5: Details of scanned copies of receipts issued to Distributor B

| SN  | Payer         | Receipt no. | Date of receipt  | Description of payment       | Amount (RMB) |
|-----|---------------|-------------|------------------|------------------------------|--------------|
| i.  | Distributor B | 0000487     | 13 December 2010 | Two year's rental for outlet | 320,000      |
| ii. | Distributor B | 3030874     | 13 December 2010 | Two year's rental for outlet | 320,000      |

<sup>8</sup> See Appendix C for the deferred asset listing for FY2009.



### **The contracts with suppliers of display racks**

15. The key terms of the contract with three Contractors, i.e. Contractor A, Contractor B and Contractor C are:

- a. Amount contracted is inclusive of Value Added Taxes ("VAT") and transportation costs;
- b. 50% deposit to be made with three days from the placement of order;
- c. The remaining 50% to be paid after completion of the installation;
- d. Quantity of the goods issued are to be tallied on a monthly basis.

Based on the representation of Contractor A, their business appears to be small scale and it does not seem reasonable for Contractor A to have provided racks for 150 outlets which included outlets outside of Fujian. Our discussion with Contractor A is set out in paragraph 22.c.

16. There were apparently two copies to each agreement, one being retained by Dapai (PRC) and the other copy being retained by the respective Distributors and Contractors. However, based on the representation of Contractor A (see paragraph 22.c) and Contractor C (see paragraph 22.e), there were no overarching contracts with Dapai.

### **The contract with Contractor D for the design and renovation of 500 outlets**

17. The key terms of the contract with the contractor, Contractor D, which was engaged to design and renovate all 500 outlets in Beijing, Fujian, Jiangsu, Shandong, and Zhejiang, PRC, are:

- a. 50% deposit shall be paid by Dapai (PRC) within three days of signing the agreement;
- b. The renovation period is five months and the remaining 50% to be paid according to the progress of the renovation and settlement is at 30<sup>th</sup> of each calendar month;
- c. Amount contracted is inclusive of VAT.

According to the deferred asset listing for FY2009 (see Appendix C), RMB 55 million (i.e. 50% of the contract value) was paid between 11 November 2009 and 13 November 2009. The RMB 55 million was supported by five invoices of RMB 7.4 million each and three invoices of RMB 6.0 million each.

Although the remaining payments were supposed to be in accordance with the progress of the renovation, the final invoice and payment was dated before the completion of the renovation for at least 33 outlets. The renovation of these 33 outlets were completed in November 2010. The progress was based on a work progress report dated 1 December 2010 allegedly provided by Contractor D and acknowledged by Dapai (PRC)<sup>9</sup>. However, we noted that based on the deferred asset listing for FY2009 (see Appendix C) and FY2010 (see Appendix E), Contractor D invoiced Dapai (PRC) since December 2009 and the last invoice and payment was dated 31 March 2010, prior to the completion of the renovation.

### **Comments from Mr. Chen**

Mr. Chen could not recall the time of occurrence of the payments nor how the work was carried out.

### **Physical site visits to the Distributors and Contractors**

18. We understand from the AUP Report that prior efforts to obtain written confirmations from the Distributors and Contractors have been futile. Except for one distributor, the other Distributor and Contractors did not respond to the confirmation letters.

19. Consequently, between 18 April 2017 and 20 April 2017, we visited the Distributors and Contractors at the addresses provided by the Group's PRC finance team on 29 March 2017 to perform third party confirmations. The Distributors, Contractors and the PRC subsidiaries were not informed of the physical visits.

20. Based on our review of the 18 confirmation letters, i.e. six confirmation letters for the Distributors and Contractors for Dabao, China Dapai and Dapai (PRC) respectively, prepared by the Group's PRC finance team, we understand that:

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<sup>9</sup> See Appendix D for the completion report from Contractor D dated 1 December 2010.



- a. Dapai (PRC) apparently was predominantly the entity transacting with the Distributors and Contractors;
- b. Save for 31 December 2008 on which Dabao apparently recorded an amount of RMB2,990,887.38 due from Distributor B, Dabao did not have any transactions and/or account balances with the Distributors and Contractors between the period 1 January 2007 and 31 December 2012;
- c. China Dapai did not record any account balances and/or transactions with the Distributors and Contractors.

**Table 6: Addresses and contact numbers of the Distributors and Contractors provided by the Company**

| SN   | Name          | Address in PRC | Contact number |
|------|---------------|----------------|----------------|
| i.   | Distributor A | [REDACTED]     | [REDACTED]*    |
| ii.  | Distributor B | [REDACTED]     | [REDACTED]*#   |
| iii. | Contractor A  | [REDACTED]     | [REDACTED]     |
| iv.  | Contractor B  | [REDACTED]     | [REDACTED]     |
| v.   | Contractor C  | [REDACTED]     | [REDACTED]     |
| vi.  | Contractor D  | [REDACTED]     | [REDACTED]*    |

\* these phone numbers are different from the phone numbers retrieved from the AIC database.

# this phone number is not in service anymore.

21. We conducted the following during our visit

- a. Verified that the addresses provided by the Group's PRC finance team are indeed occupied by the Distributors and Contractors;
- b. Requested to meet the staff in charge of the finance department;
- c. Discussed the confirmation letters with the representatives of the distributors and contractors, where possible;
- d. Requested for the representatives to provide a written verification on the confirmation letters.

22. We set out below the findings from our site visit and the photographs of the respective Distributors and Contractors are set out in Appendix F:

**a. Distributor A**

Date of visit: 18 April 2017 (Tuesday)

Time of visit: 10.50am to 11.03am

Representative of Distributor: Staff in charge of the finance department

**Table 7: Transactions and account balances with Dapai (PRC)<sup>10</sup>**

| Year         | Purchases from / (Sales to) Dapai (PRC)<br>(RMB) | Due to / (due from) Dapai (PRC)<br>as at 31 December<br>(RMB) |
|--------------|--------------------------------------------------|---------------------------------------------------------------|
| 2007         | Nil                                              | Nil                                                           |
| 2008         | Nil                                              | Nil                                                           |
| 2009         | (16,000,000.00)                                  | Nil                                                           |
| 2010         | 22,711,388.16                                    | 4,346,266.37                                                  |
| 2011         | 13,193,104.85                                    | 5,458,204.40                                                  |
| 2012         | 10,993,629.79                                    | Nil                                                           |
| <b>Total</b> | <b>30,898,122.80</b>                             | <b>n.m.*</b>                                                  |

\* n.m.: not meaningful

<sup>10</sup> Based on the confirmation letters prepared by the Group's PRC finance team.



- i. The staff member explained that she has been with Distributor A since it was established in 2002 and there were no transactions with Dapai since the company's establishment. However, based on her recollection, Distributor A had once requested samples of designs from Dapai but ultimately the collaboration did not happen.
- ii. The staff member was unwilling to accept the confirmation letters and verify the amounts therein as she had stated that she had already responded to the confirmation letter in 2016 and she does not want to be associated with Dapai anymore.

We had on 20 April 2017 posted the confirmation letters to Distributor A from Fuzhou, PRC via normal post. On 24 May 2017, we received Distributor A's responses to our confirmation letters that they do not have any transactions with Dapai for the period 1 January 2007 to 31 December 2012. Distributor A's responses to our confirmation letters are set out in Appendix G.

#### **h. Distributor B**

Date of visit: 20 April 2017 (Thursday)

Time of visit: 10.27am to 10.54am

Representative of Distributor: An unidentified lady whom we contacted through Distributor B's phone number registered with the AIC

**Table 8: Transactions and account balances with Dapai (PRC)<sup>11</sup>**

| <b>Year</b>  | <b>Purchases from / (Sales to) Dapai (PRC)<br/>(RMB)</b> | <b>Due to / (due from) Dapai (PRC)<br/>as at 31 December<br/>(RMB)</b> |
|--------------|----------------------------------------------------------|------------------------------------------------------------------------|
| 2007         | Nil                                                      | Nil                                                                    |
| 2008         | 25,043,212.71                                            | Nil                                                                    |
| 2009         | 14,433,388.90#                                           | Nil                                                                    |
| 2010         | 24,284,713.48                                            | 4,125,329.76                                                           |
| 2011         | 18,788,301.06                                            | 4,980,753.68                                                           |
| 2012         | 9,245,374.35                                             | Nil                                                                    |
| <b>Total</b> | <b>91,794,990.50</b>                                     | <b>n.m.*</b>                                                           |

\* n.m.: not meaningful

# We understand from the confirmation letters prepared by the PRC finance team that in 2009, Distributor B's purchases from Dapai (PRC) was RMB 30,433,388.90 and Dapai (PRC) paid RMB 16,000,000 in prepaid rental to Distributor B.

**Table 9: Transactions and account balances with Dabao<sup>12</sup>**

| <b>Year</b>  | <b>Purchases from / (Sales to) Dabao<br/>(RMB)</b> | <b>Due to / (due from) Dabao<br/>as at 31 December<br/>(RMB)</b> |
|--------------|----------------------------------------------------|------------------------------------------------------------------|
| 2007         | Nil                                                | Nil                                                              |
| 2008         | Nil                                                | 2,990,887.38                                                     |
| 2009         | Nil                                                | Nil                                                              |
| 2010         | Nil                                                | Nil                                                              |
| 2011         | Nil                                                | Nil                                                              |
| 2012         | Nil                                                | Nil                                                              |
| <b>Total</b> | <b>Nil</b>                                         | <b>n.m.*</b>                                                     |

\* n.m.: not meaningful

<sup>11</sup> Based on the confirmation letters prepared by the Group's PRC finance team.

<sup>12</sup> Based on the confirmation letters prepared by the Group's PRC finance team.



- i. The door of Distributor B was locked during our visit and no one answered the door after approximately two minutes.
- ii. At about 10.35am, we called the phone number [REDACTED] provided by the Group's PRC finance team and learnt that the phone number was no longer in service.
- iii. We then called the phone number [REDACTED] retrieved from the AIC database. The phone call was answered by a lady who did not disclose her name. The lady requested that we hand the confirmation letters to the property management office as she was away from office.
- iv. The lady informed us that she would not accept receipt of the confirmation letters and neither she nor Distributor B has any dealings with Dapai. Subsequently, the lady recalled that there was only one transaction with Dapai a few years ago and then abruptly hung up the phone at 10.37am.
- v. After the call, we proceeded to the property management office located on the sixth floor. According to the employees of the property management office, Distributor B's owners do not visit the unit frequently and the employees showed us the parcels that were deposited and accumulated at a corner for Distributor B's collection.

We left the confirmation letters at the property management office. On 23 April 2017, Distributor B wrote to us by way of an email confirming that there were no transactions between Dapai (PRC) and Distributor B except between 2006 and 2007. The email is set out in Appendix H.

### c. Contractor A

Date of visit: 19 April 2017 (Wednesday)

Time of visit: 10.00am to 10.31am

Representatives of the Contractor: i) The owner;  
ii) Staff in charge of the finance department

**Table 10: Transactions and account balances with Dapai (PRC)<sup>13</sup>**

| Year         | Purchases from / (Sales to) Dapai (PRC)<br>(RMB) | Due to / (due from) Dapai (PRC)<br>as at 31 December<br>(RMB) |
|--------------|--------------------------------------------------|---------------------------------------------------------------|
| 2007         | Nil                                              | Nil                                                           |
| 2008         | Nil                                              | Nil                                                           |
| 2009         | (28,000,000)                                     | 14,000,000                                                    |
| 2010         | (14,000,000)                                     | Nil                                                           |
| 2011         | Nil                                              | Nil                                                           |
| 2012         | Nil                                              | Nil                                                           |
| <b>Total</b> | <b>(42,000,000)</b>                              | <b>n.m.*</b>                                                  |

\* n.m.: not meaningful

- i. A staff member informed us that she joined the company in 2009 and Contractor A was established in 2007. She was unwilling to accept our confirmation letters and verify the amounts therein because as she stated, "the company did not record such huge sales volume with Dapai".
- ii. The staff member recalled that there were transactions with Dapai in 2007 to 2008 and the volumes were apparently small. When showed the confirmation letters, the staff exclaimed that the figures were "astonishing, and the amounts transacted with Dapai were at most a few hundred thousand of RMB".
- iii. The staff member stated that Contractor A did not sign any contract with Dapai. Apparently in 2009 Contractor A was a "small-scale business and it does not seem possible to be collecting millions in cash". Payments from customers are collected at month end and not prepaid. Further, Contractor A stated that they only transacted in cash.

<sup>13</sup> Based on the confirmation letters prepared by the Group's PRC finance team.



- iv. We called the owner in the presence of the staff member. The owner could not recall the amounts transacted with Dapai as he said the volume was apparently small. When we informed him of the transactions recorded on the confirmation letters, the owner seemed to express astonishment and explained that Contractor A's annual production is less than RMB 10 million. The owner re-emphasised that the transacted amounts, if any, were at most a few hundred thousand of RMB.
- v. The owner confirmed that Contractor A did not perform work for Dapai's 150 outlets. Even if there is, the maximum amounts would be RMB 200,000 to RMB 300,000 based on RMB 10,000 per outlet. In addition, based on the historical records of Contractor A, none of Contractor A's customers had achieved such amount of annual sales.
- vi. The owner requested that Dapai support the transactions recorded on the confirmation letters with invoices and remittance advices.

The confirmation letters were left at Contractor A's office. As at the date of this report, we have not received any written response on the confirmation letters from Contractor A.

**d. Contractor B**

Date of visit: 19 April 2017 (Wednesday)

Time of visit: 11.15am to 11.35am

Representatives of the Contractor: i) The owner;  
ii) Two other employees, including a procurement officer and a female employee

**Table 11: Transactions and account balances with Dapai (PRC)<sup>14</sup>**

| <b>Year</b>  | <b>Purchases from / (Sales to) Dapai (PRC)<br/>(RMB)</b> | <b>Due to / (due from) Dapai (PRC)<br/>as at 31 December<br/>(RMB)</b> |
|--------------|----------------------------------------------------------|------------------------------------------------------------------------|
| 2007         | Nil                                                      | Nil                                                                    |
| 2008         | Nil                                                      | Nil                                                                    |
| 2009         | (28,000,000)                                             | 28,000,000                                                             |
| 2010         | (14,000,000)                                             | Nil                                                                    |
| 2011         | Nil                                                      | Nil                                                                    |
| 2012         | Nil                                                      | Nil                                                                    |
| <b>Total</b> | <b>(42,000,000)</b>                                      | <b>n.m.*</b>                                                           |

\* n.m.: not meaningful

- i. The signage at the entrance shows [REDACTED]. We understand from the owner whom we spoke to over the phone that the Contractor B had ceased manufacturing and only sells imported furniture now.
- ii. We understand from the procurement officer who stated that he was in employment with Contractor B for a long time (duration not disclosed) that Contractor B had transacted with Dapai approximately seven to eight years ago. He also disclosed that Dapai was introduced by a paint contractor of Contractor B and that the wives of the paint contractor and Dapai's Executive Chairman, Mr. Chen, are sisters.
- iii. The procurement officer confirmed that transactions between customers could be in cash or by bank remittances.
- iv. Despite our requests for verification of the account balances and transactions set out in the confirmation letters, both employees were unwilling to do so and repeatedly requested that we check with the owner of Contractor B, about the transactions.
- v. We called the owner, [REDACTED] at his mobile number provided by the employees. The owner explained that the manufacturing of furniture was long stopped and do not have any further transactions with Dapai. When we informed the owner the figures on the confirmation letters, he said that transaction amounts were definitely not in the range of RMB 10 million. He could not remember the exact amount but he confirmed that the amount was not as high as stated on the confirmation letters.

<sup>14</sup> Based on the confirmation letters prepared by the Group's PRC finance team.



- vi. After the call, the female employee commented that it is unlikely that the figures stated on the confirmation are accurate. She recalled receiving a similar request for confirmation and had sent the response back to Dapai.

The confirmation letters were left at Contractor B's premises. As at the date of this report, we have not received any written response on the confirmation letters from Contractor B.

**e. Contractor C**

Date of visit: 19 April 2017 (Wednesday)

Time of visit: 3.33pm to 4.01pm

Representative of the Contractor: Spokesperson whose designation is not disclosed

**Table 12: Transactions and account balances with Dapai (PRC)<sup>15</sup>**

| Year         | Purchases from / (Sales to) Dapai (PRC)<br>(RMB) | Due to / (due from) Dapai (PRC)<br>as at 31 December<br>(RMB) |
|--------------|--------------------------------------------------|---------------------------------------------------------------|
| 2007         | Nil                                              | Nil                                                           |
| 2008         | Nil                                              | Nil                                                           |
| 2009         | (56,000,000)                                     | 28,000,000                                                    |
| 2010         | Nil                                              | Nil                                                           |
| 2011         | Nil                                              | Nil                                                           |
| 2012         | Nil                                              | Nil                                                           |
| <b>Total</b> | <b>(56,000,000)</b>                              | <b>n.m.*</b>                                                  |

\* n.m.: not meaningful

- The representative informed that she had been with Contractor C for a while (length of employment was not disclosed). She was not the manager managing the account with Dapai at that time.
- She was aware that Contractor C had transacted with Dapai before (period not disclosed despite our enquiry) and that Dapai was not a major client of Contractor C. The amounts transacted were apparently small and she could not recall when was the last transaction with Dapai.
- When we enquired if Contractor C had performed work for Dapai's 200 outlets, the representative responded that Dapai should present the invoices issued by Contractor C as a reference to the amount of work done by Contractor C.
- The representative informed us that there was no overarching contract or contract for work with Dapai. She also said that Contractor C does not accept prepayments and charge its customers based on invoices issued after completion of their work.
- When shown the confirmation letters, the representative said that Contractor C 'definitely did not owe Dapai RMB 28 million' as at 31 December 2009 and that Dapai and Contractor C 'definitely did not have transactions worth RMB 56 million' for the year 2009.
- The representative confirmed that she had not heard of Dabao. She requested that we contact a [REDACTED] who would handle the confirmation letters. [REDACTED] contact number appear to be the same as the contact number of Contractor B's owner<sup>16</sup>.
- The representative opined that the receipt of the confirmation letters would not be meaningful as there are no records to verify the amounts on the confirmation letters and the employees handling the account with Dapai have left the company and that it would be better to approach Dapai in relation to this matter.

The confirmation letters were left at Contractor C's premises. As at the date of this report, we have not received any written response on the confirmation letters from Contractor C.

<sup>15</sup> Based on the confirmation letters prepared by the Group's PRC finance team.

<sup>16</sup> The representative did not provide the full contact number of [REDACTED] instead, we managed to confirm with her the last three digits of the mobile number of [REDACTED] using the mobile number of Contractor B's owner who has the same name as [REDACTED].



**f. Contractor D**

Date of visit: 19 April 2017 (Wednesday)  
Time of visit: 1.36pm to 2.12pm  
Representatives of the Contractor: Staff in charge of the finance department

**Table 13: Transactions and account balances with Dapai (PRC)<sup>17</sup>**

| <b>Year</b>  | <b>Purchases from / (Sales to) Dapai (PRC)<br/>(RMB)</b> | <b>Due to / (due from) Dapai (PRC)<br/>as at 31 December<br/>(RMB)</b> |
|--------------|----------------------------------------------------------|------------------------------------------------------------------------|
| 2007         | Nil                                                      | Nil                                                                    |
| 2008         | Nil                                                      | Nil                                                                    |
| 2009         | (68,750,000)                                             | Nil                                                                    |
| 2010         | (41,250,000)                                             | Nil                                                                    |
| 2011         | Nil                                                      | Nil                                                                    |
| 2012         | Nil                                                      | Nil                                                                    |
| <b>Total</b> | <b>(110,000,000)</b>                                     | <b>n.m.*</b>                                                           |

\* n.m.: not meaningful

- The staff member appeared to scrutinise the confirmation letters and stated that there were no transactions with Dabao and China Dapai. As there were no transactions, she cannot verify the information reflected on the confirmation letters and returned the confirmation letters to us.
- She initially stated that there were transactions with Dapai (PRC). However, after checking her accounting system, she stated Contractor D does not have any transactions with Dapai (PRC). After explaining to her the nature of the transactions that Dapai (PRC) may have with Contractor D (i.e. renovation of 500 outlets), she went out to apparently make a phone call.
- Subsequently, she explained that she may not be familiar with the transactions and would check with her other colleagues. She also requested us to get a representative from Dapai (PRC) to instruct Contractor D to respond to any confirmations. Despite explaining to her that this deviates from the correct audit procedure, she insisted that Contractor D would not respond until a representative from Dapai (PRC) contacts Contractor D.
- She explained that Contractor D is a real estate company involved in the renovation of buildings but not retail outlets. She was unwilling to disclose her contact details for any follow up actions.

The confirmation letters were left at Contractor D's premises. As at the date of this report, we have not received any written response on the confirmation letters from Contractor D.

**Comments from Mr. Chen**

Mr Chen denied the allegations made by the Distributors and Contractors as he was certain that there were transactions with them and the amounts were as recorded by Dapai. He further informed us that Contractor D might have subcontracted the work to another party. He also denied any personal relationship(s) with the respective Distributors and Contractors.

<sup>17</sup> Based on the confirmation letters prepared by the Group's PRC finance team.



## Conclusion and recommendations

23. Mr. Chen said he had exercised discretion in the relocation of some outlets without seeking the approval from the Board of Directors, indicating a possible lapse in internal controls.
24. This may potentially breach Rule 719 of the Mainboard Listing Rules, which stipulates that the Company should have a robust and effective system of internal controls, addressing financial, operational and compliance risks.
25. Given that we could not obtain corroborative evidence to verify the veracity of the purported transactions with the Distributors and Contractors, we recommend that:
  - a. The Group provide authorisation for the PRC banks to issue the original bank statements for the period 9 November 2009 to 31 December 2011;
  - b. The payments and receipts to/from the Distributors and Contractors to be traced to these original bank statements and management accounts.
26. In addition, other information may exist to verify the existence of the 500 outlets, including but not limited to confirmations by the landlords and contracts signed between the landlords and distributors etc. In the absence of these information, we are not able to conclude if the outlets exist.



## Appendix A Information reviewed and relied on

The digital copies of the following had been reviewed and relied on for the completion of this report:

### Reports of other professionals

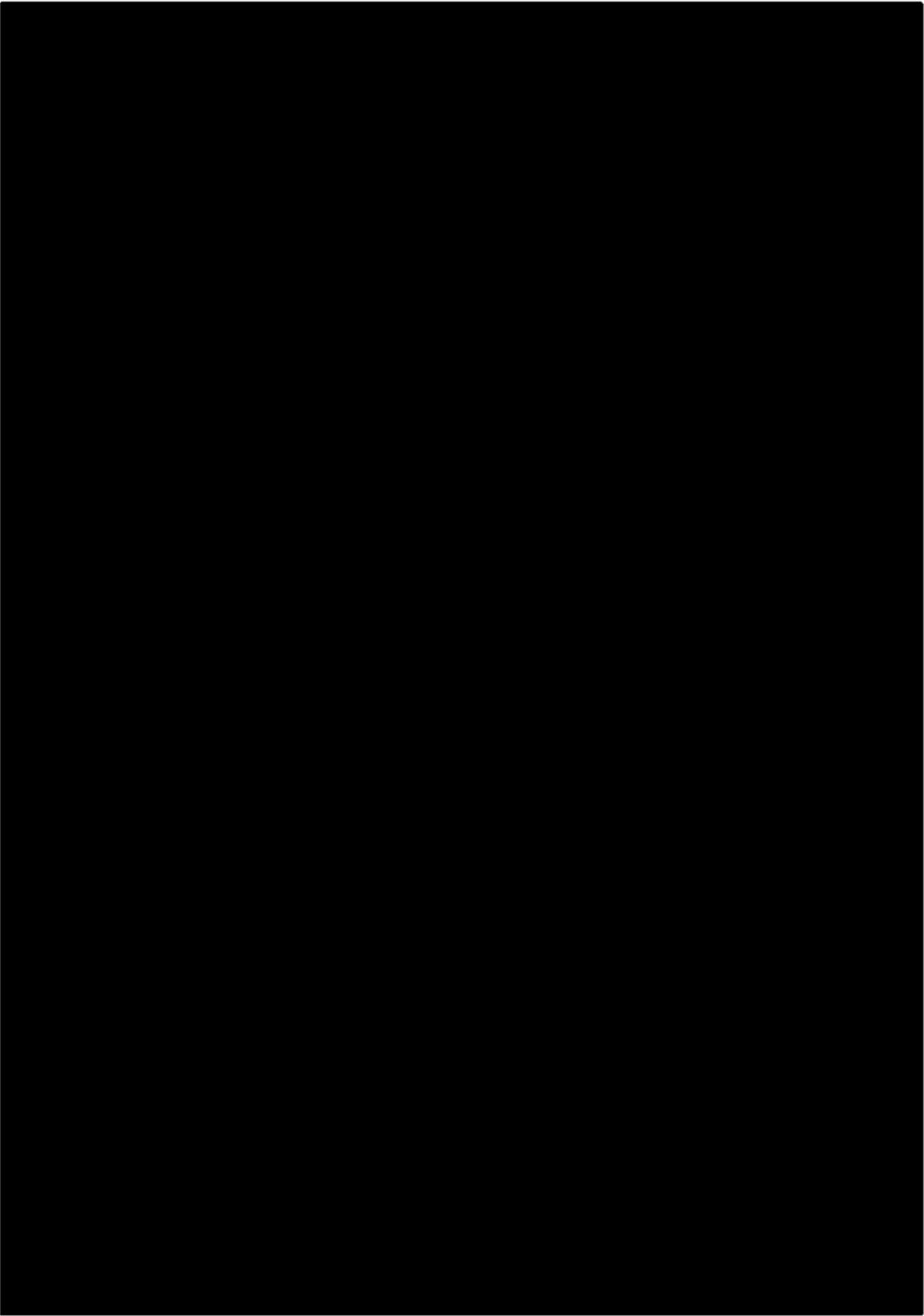
1. Internal Auditor's report on the physical visit of Dapai retail outlets
2. BDO LLP's Agreed Upon Procedures Report announced on the SGX on 14 December 2016

### Other books and records of the Group

3. Board Memo on 500 Outlets dated 9 September 2009 and appendices
4. Announcement on the SGX of opening of 500 new DAPAI retail outlets dated 11 November 2009
5. Distribution agreements between Dapai (China) Bags Co. Ltd and the Distributors dated 9 November 2009
6. Contracts between Dapai (China) Bags Co. Ltd and the Contractors dated 9 November 2009
7. Renovation Agreement between Dapai (China) Bags Co. Ltd and Contractor D dated 9 November 2009
8. Completion Report of 33 outlets by Contractor D dated 1 December 2010
9. Progress Report on completion of six outlets by Contractor A dated 31 October 2010
10. Summary of outlets set up and closed between the period 1 July 2010 and 1 December 2011
11. Summary of outlets set up for the period 1 July 2010 and 3 December 2010
12. List of outlets set up in Beijing, Jiangsu, Fujian, Shandong and Zhejiang received on 20 December 2016, 24 January 2017 and 16 February 2017
13. List of contract value by distributors for FY2009 to FY2012
14. Deferred assets listing for FY2009 and FY2010
15. Annual report for FY2009 to FY2012
16. Email from senior manager of Professional A to Audit Committee dated 23 December 2011
17. Email from senior manager of Professional A to Audit Committee dated 26 January 2012
18. Email from member of the [REDACTED] to [REDACTED] dated 28 December 2011
19. Minutes of meetings of the Board of Directors for the period 25 January 2008 to 31 December 2012
20. Minutes of meetings of the Audit Committee for the period 15 May 2008 to 31 December 2012



**Appendix B      List of 51 outlets with general addresses**

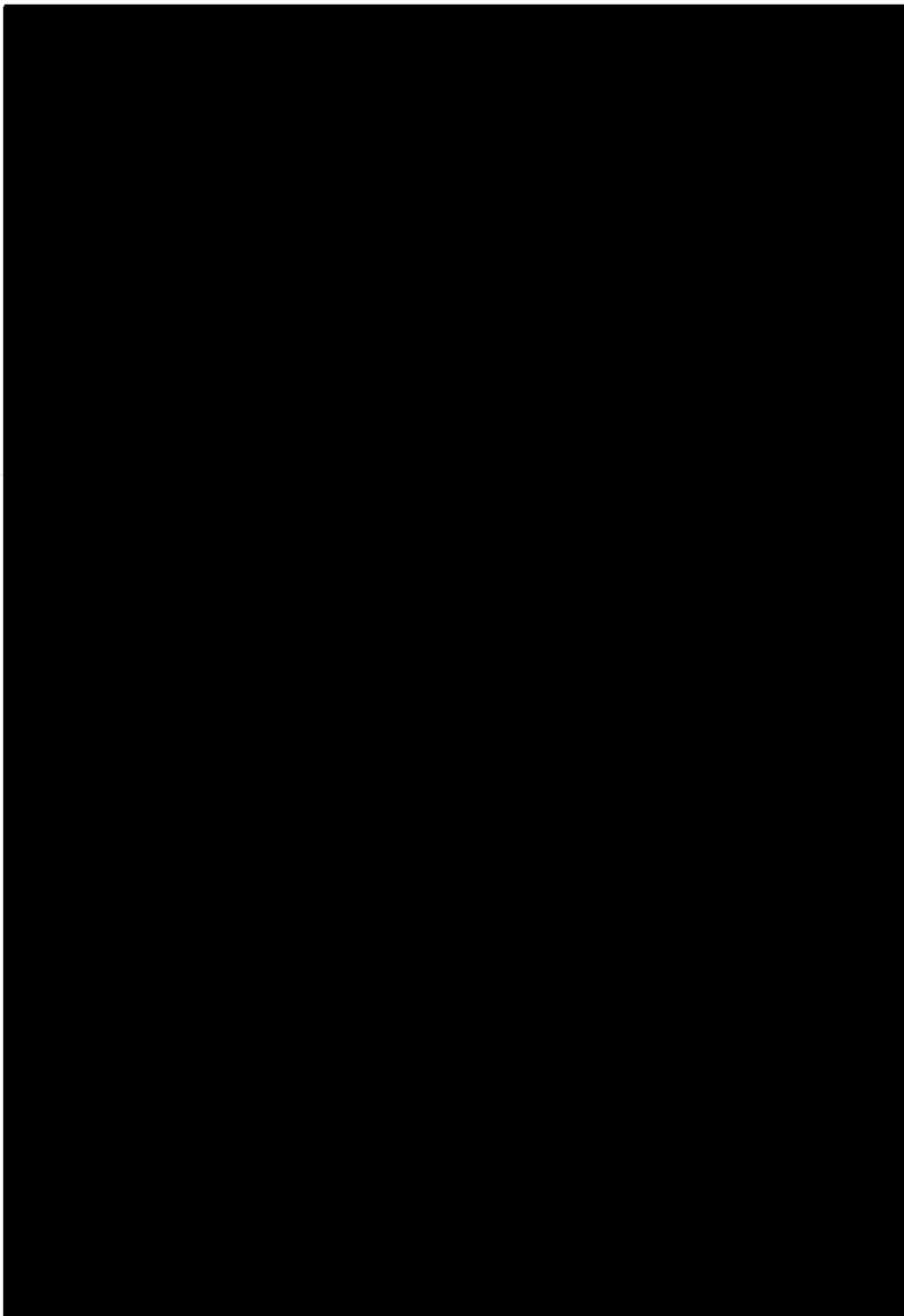




**Appendix C    FY2009 deferred asset listing provided by the Group's PRC finance team**



## **Appendix D Contractor D completion report dated 1 December 2010**



**Appendix E    FY2010 deferred asset listing provided by the Group's PRC finance team**

|            |  |
|------------|--|
| [REDACTED] |  |
|------------|--|



## Appendix F      Photographs of the Distributors and Contractors

### 1) Distributor A

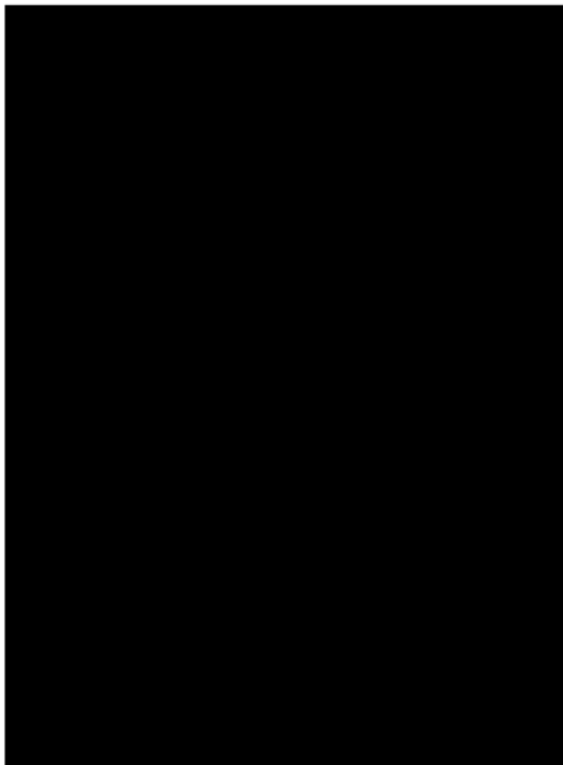


Photo 1: Exterior of the commercial building where Distributor A is located

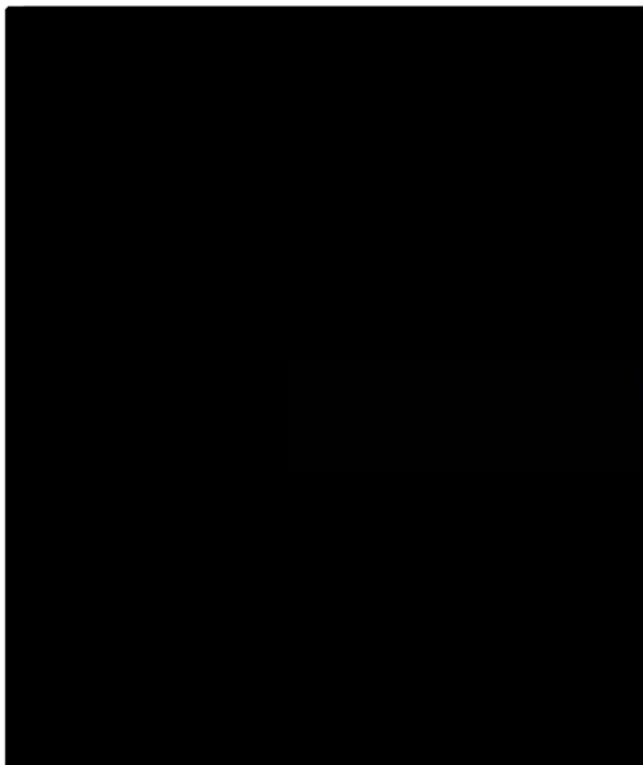


Photo 2: Reception of Distributor A at 19<sup>th</sup> floor



2) Distributor B



Photo 3: Exterior of the residential building that Distributor B is located

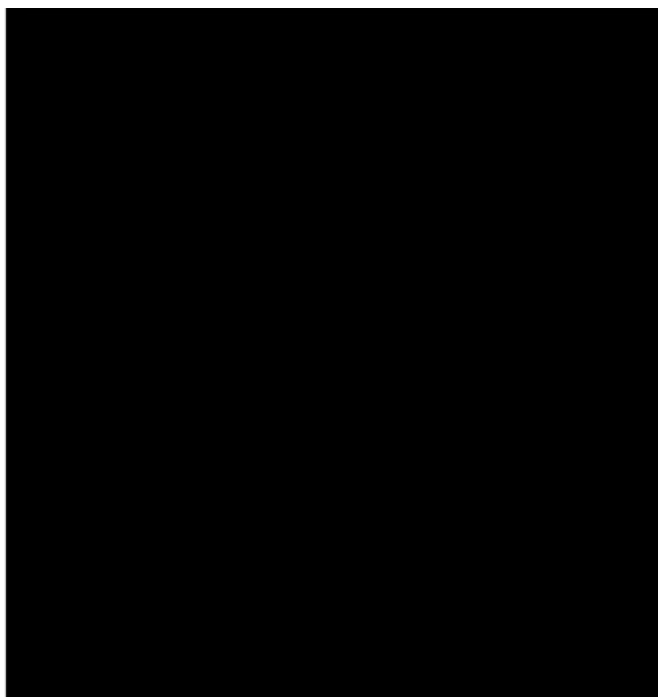


Photo 4: 8<sup>th</sup> floor lift landing



Photo 5: Door of Distributor B is locked. Peephole on the door has fallen off, leaving a hole on the door



Photo 6: The company name is clearly visible from the hole on the door



3) Contractor A

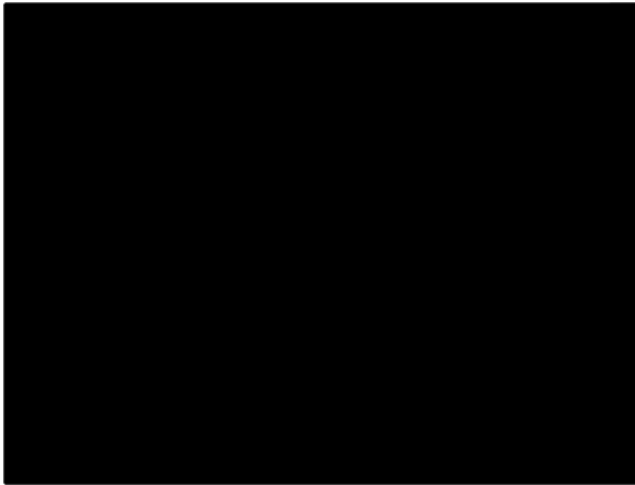


Photo 7: Exterior of the industrial building where Contractor A is located

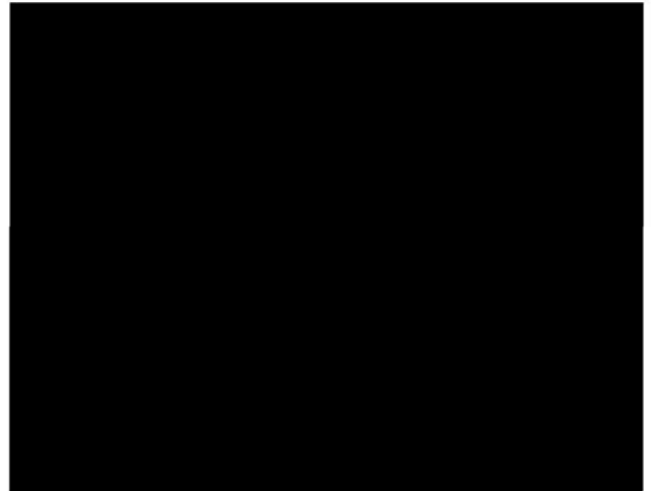


Photo 8: Warehouse of Contractor A

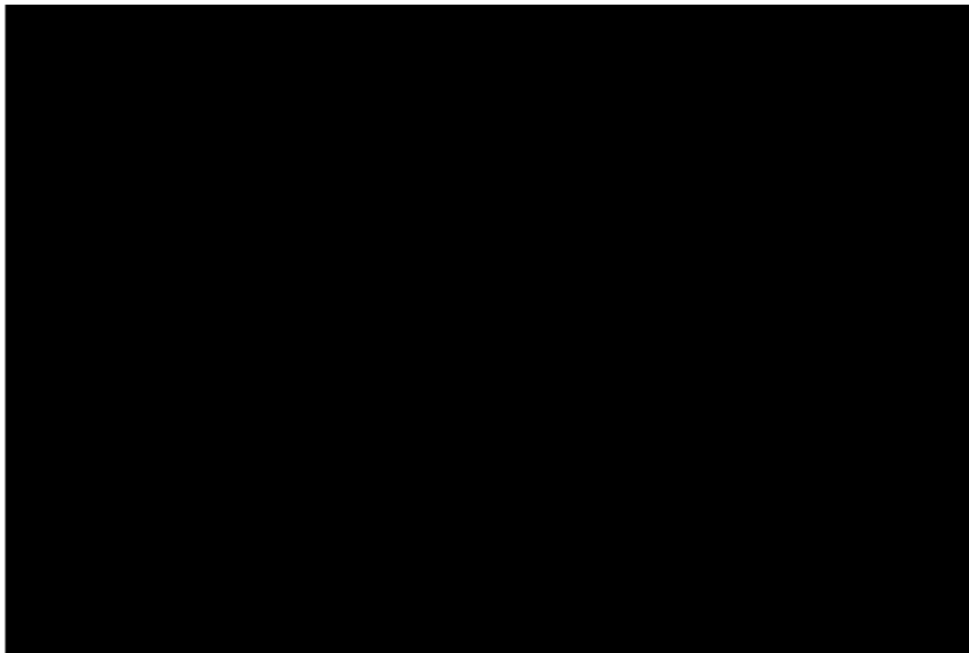


Photo 9: Entrance of Contractor A at the 1<sup>st</sup> floor



4) Contractor B

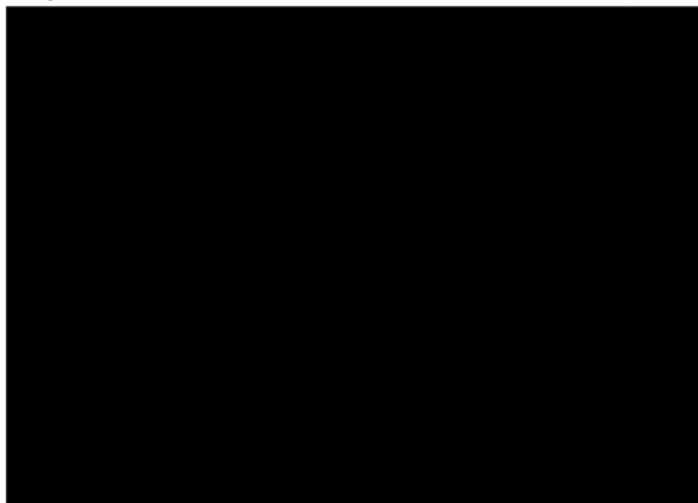


Photo 10: Signage at entrance shows “Contractor B” ,  
i.e. Contractor B mall

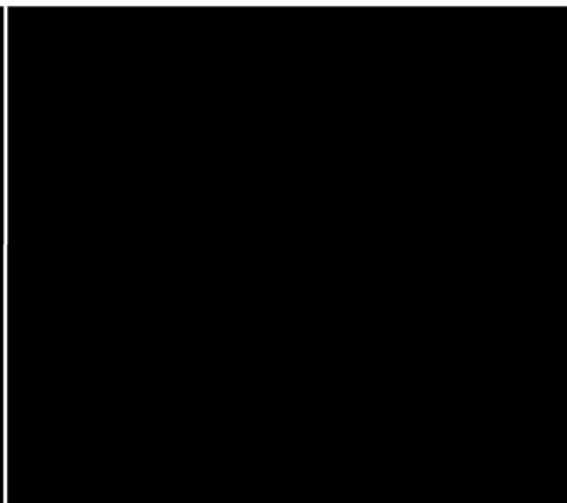


Photo 11: Warehouse of Contractor B

5) Contractor C

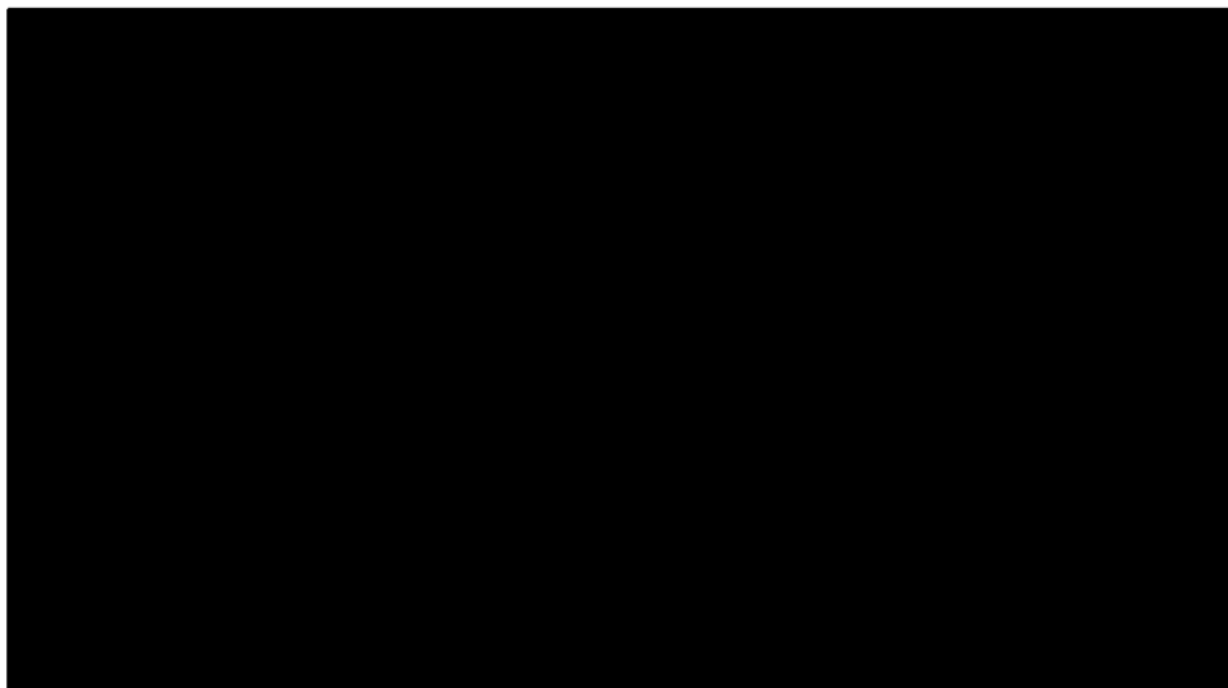


Photo 12: Building of Contractor C



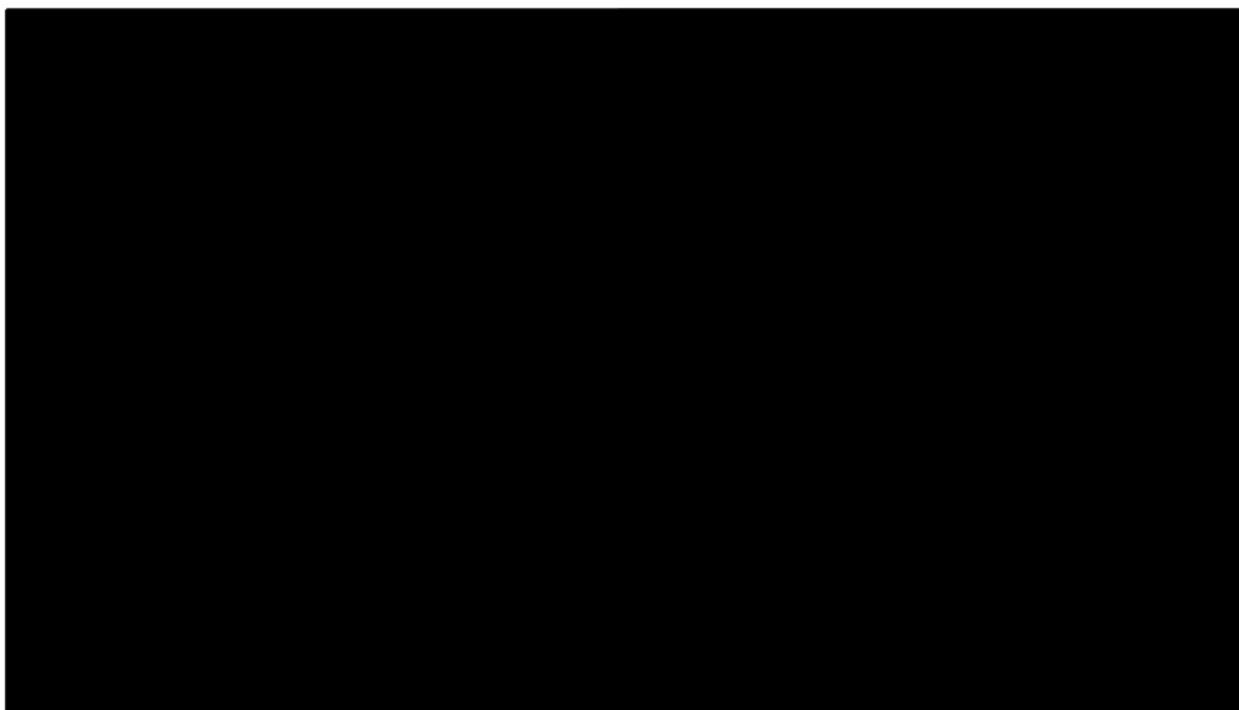


Photo 13: Reception at 3<sup>rd</sup> floor

6) Contractor D

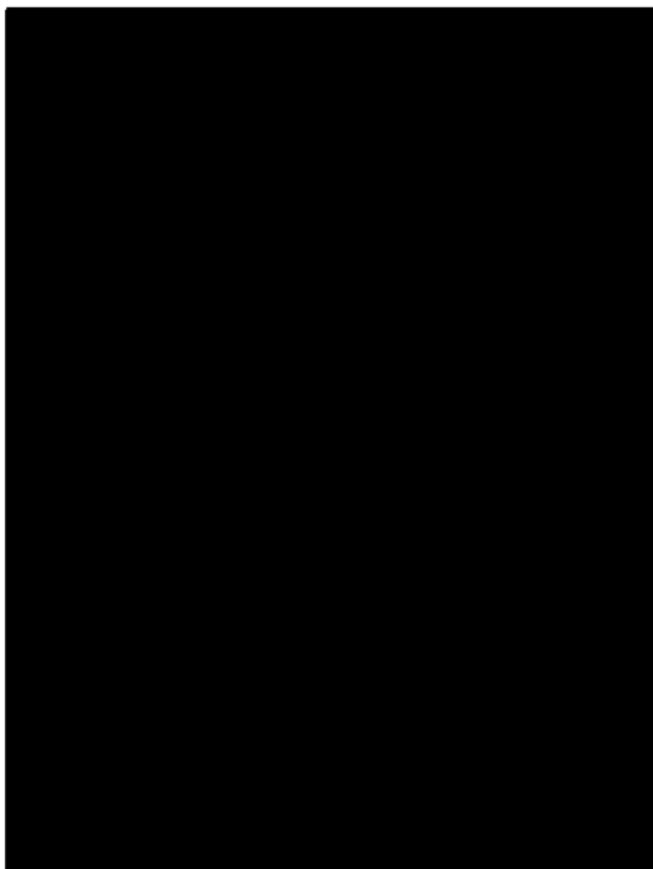


Photo 14: Commercial building that Contractor D is located

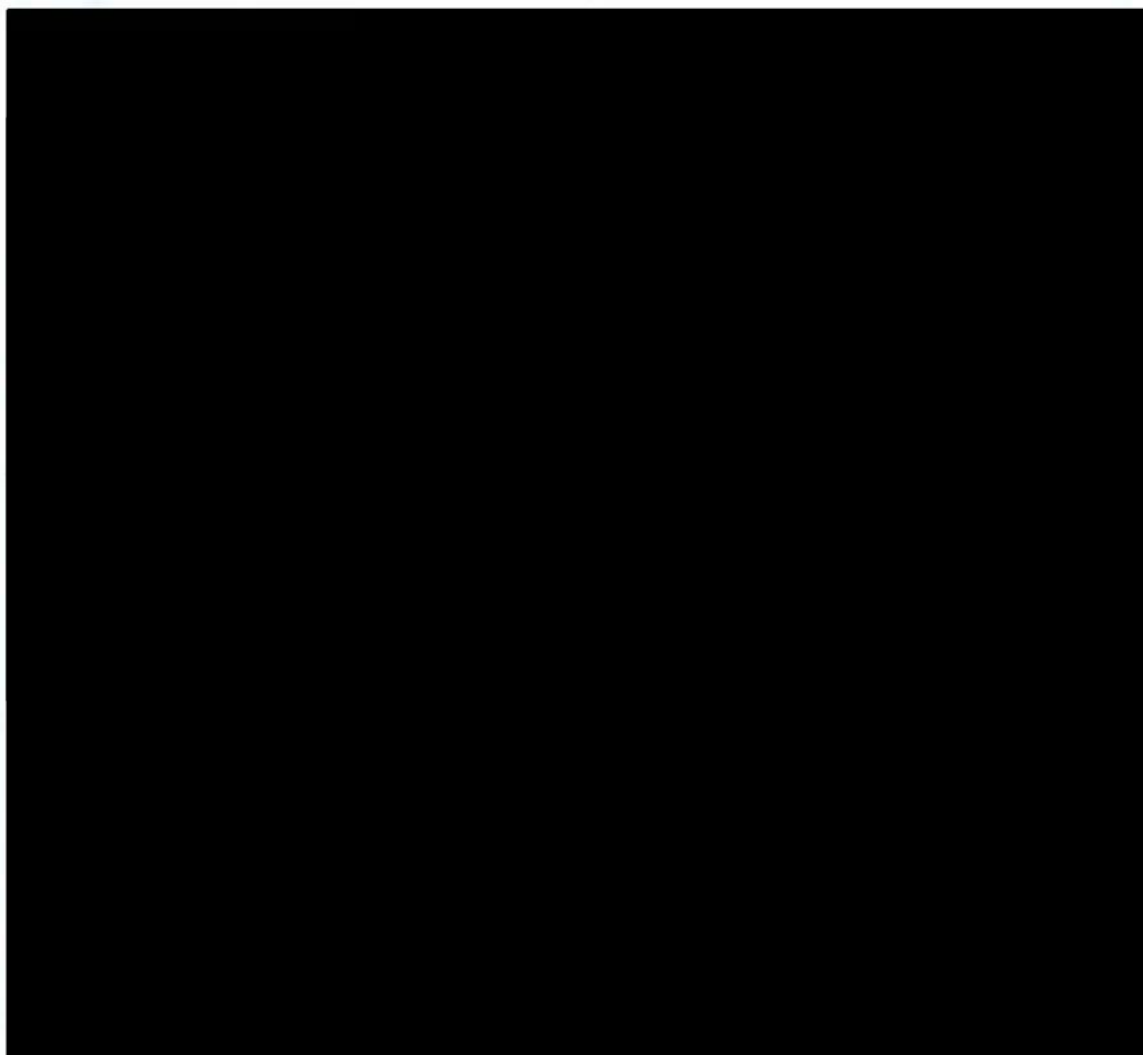


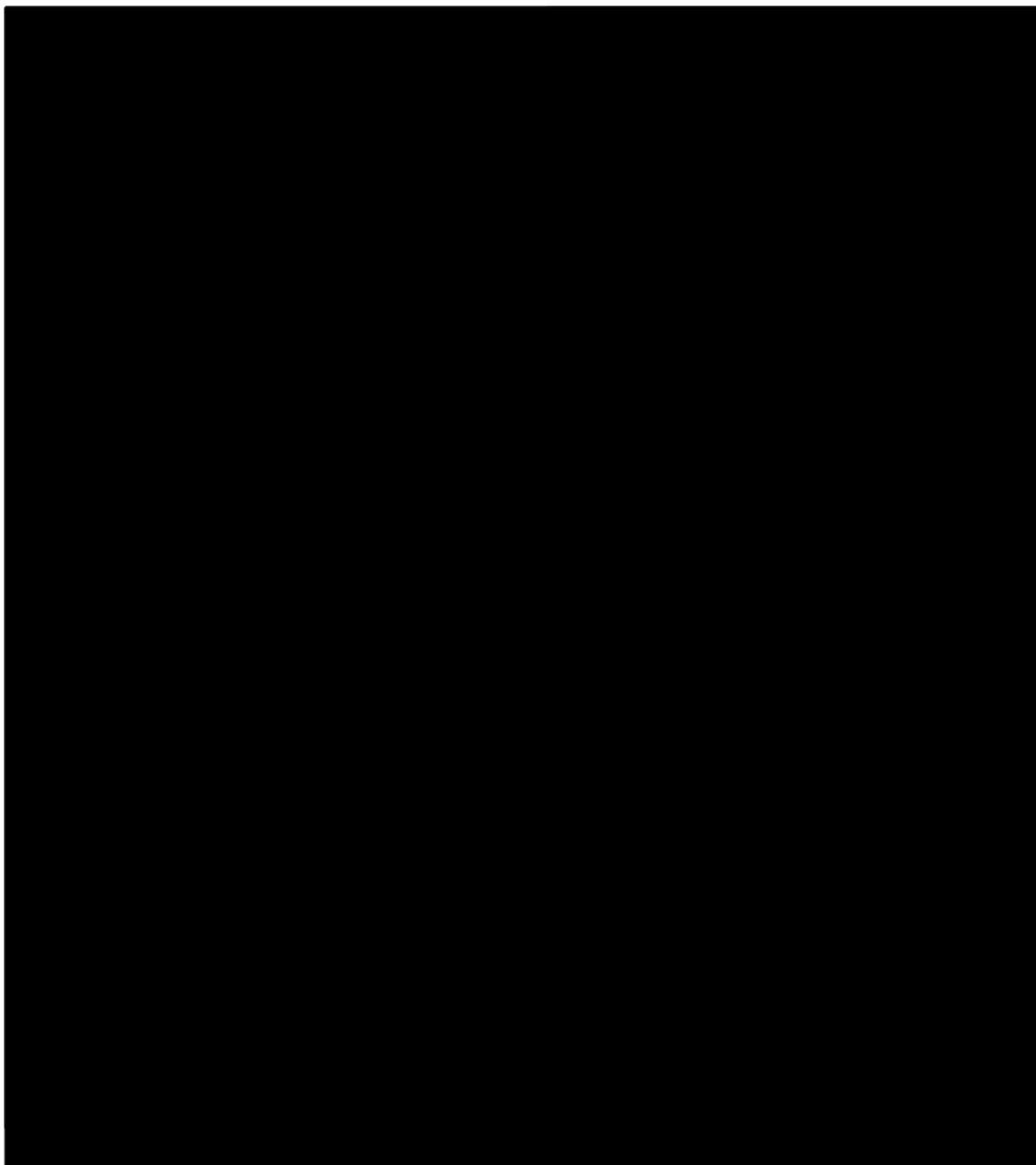
Photo 15: Floor 19



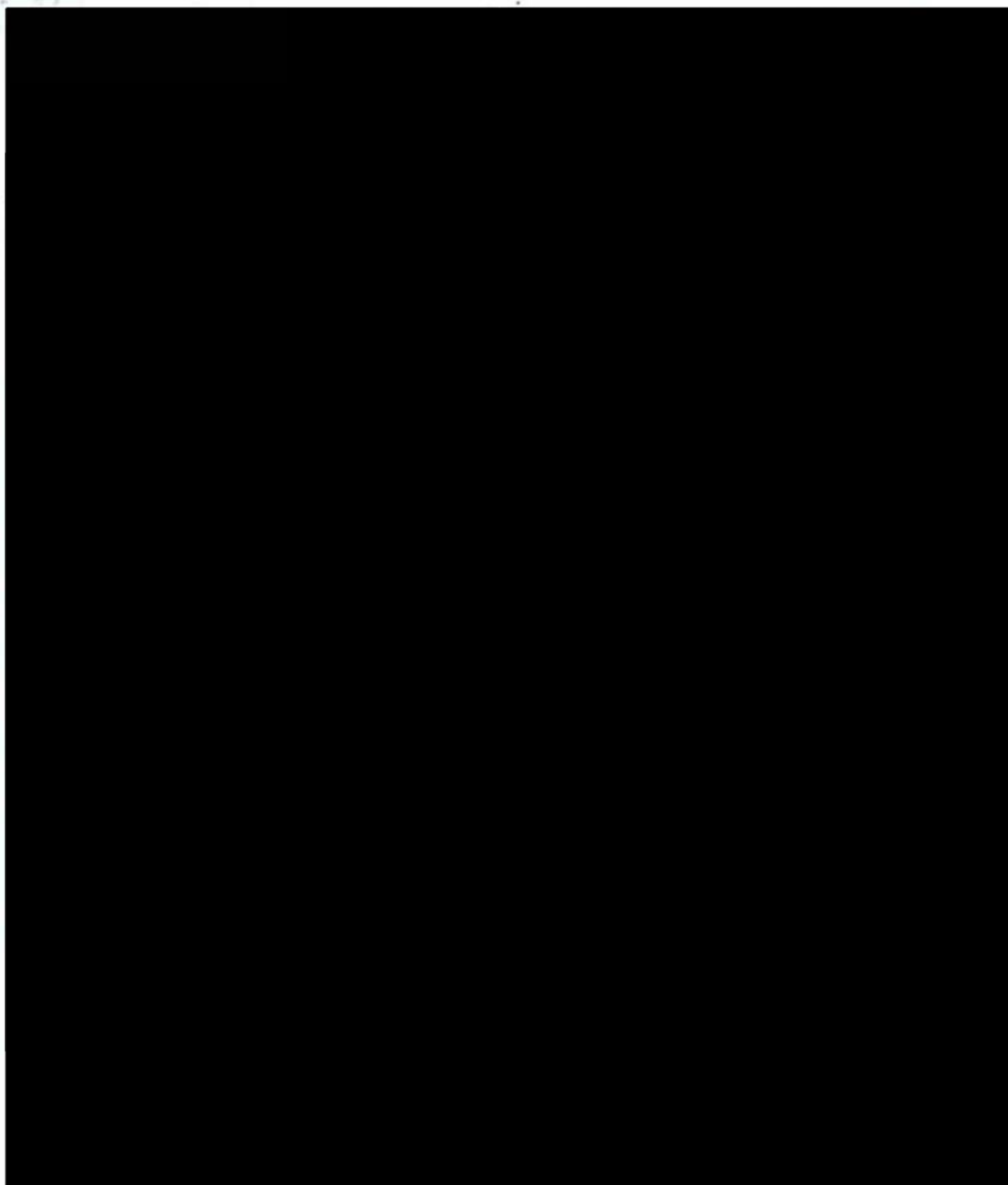
## Appendix G      Distributor A's responses to our confirmation letters

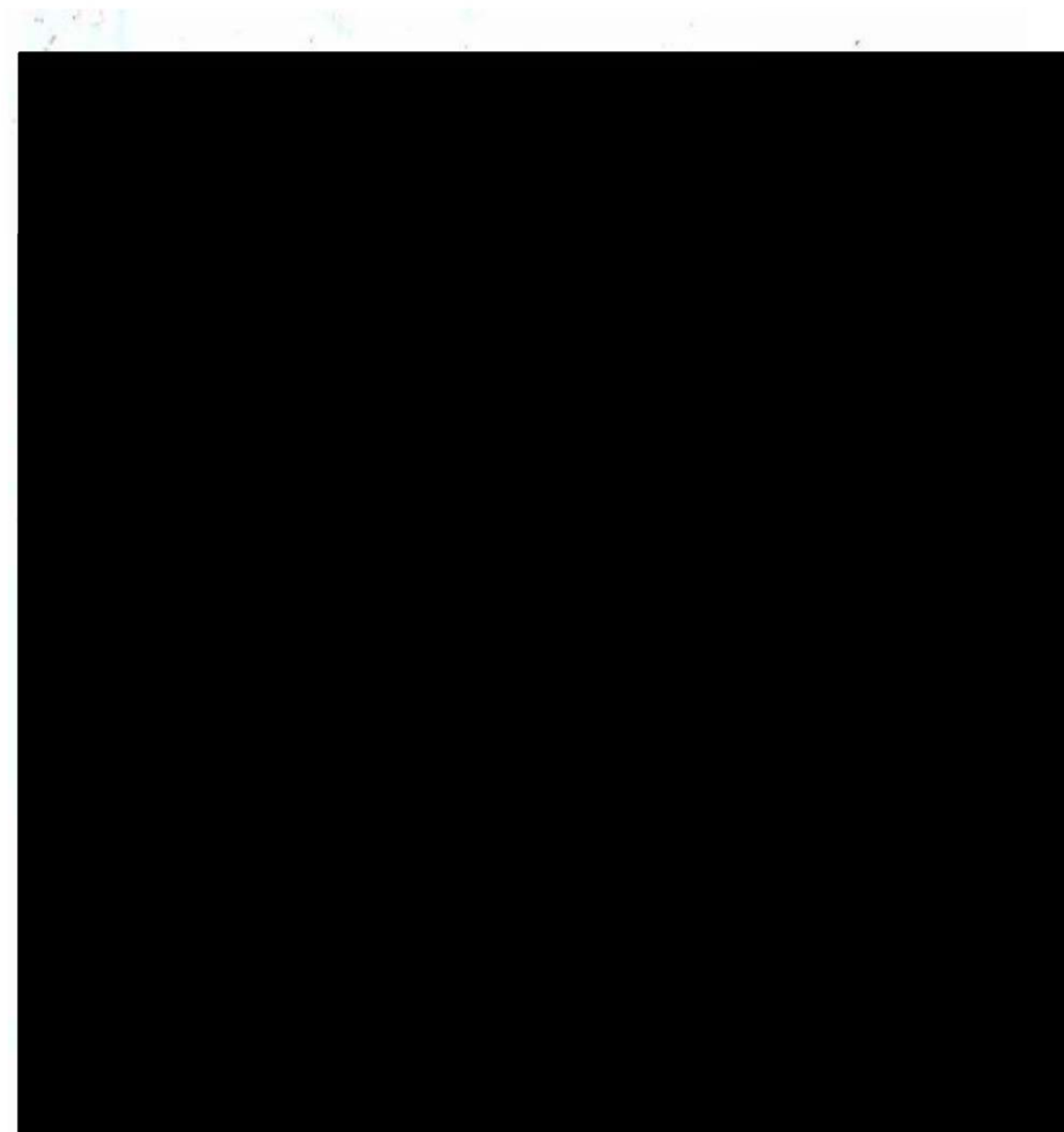
### 1) Response to confirmation letter for Dapai (PRC)



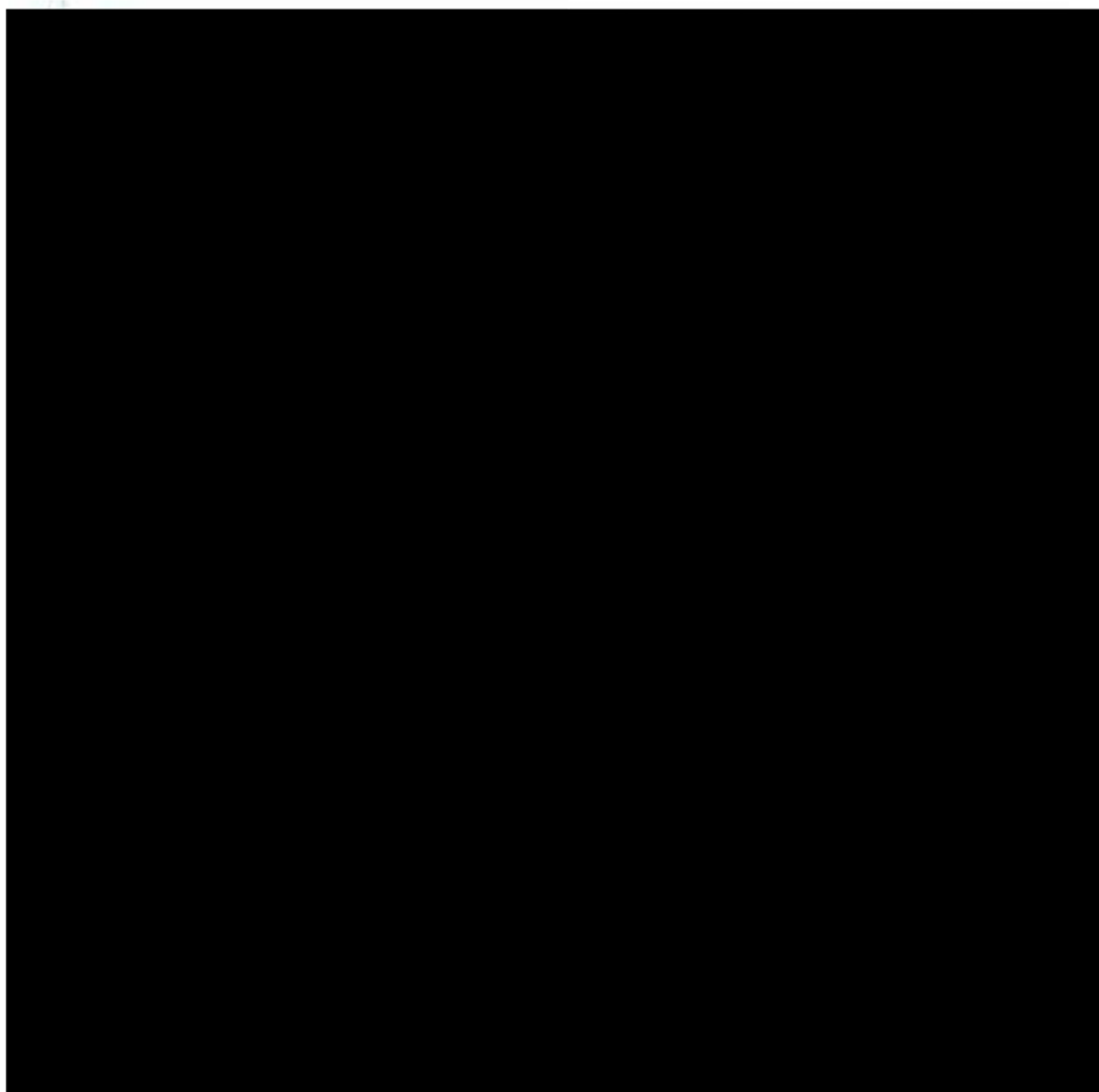


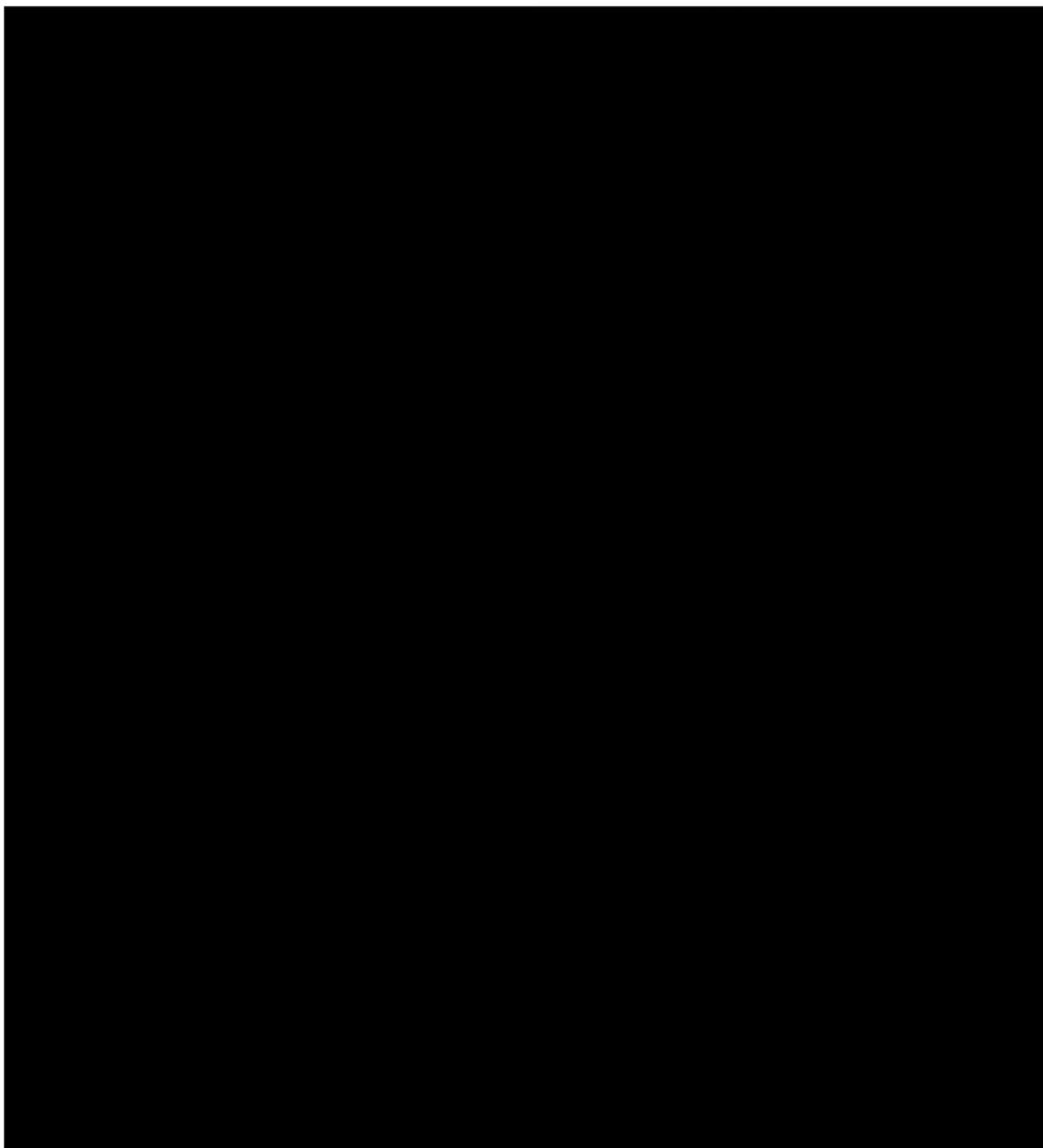
2) Response to confirmation letter for Dabao





3) Response to confirmation letter for China Dapai





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**Appendix H     23 April 2017 email confirmation from Distributor B**

