

Limitations of this Report

The content of this Report is based on the information available as at 31 March 2016. We do not claim nor provide any assurance that all relevant information, whether in documentary form or otherwise, has been fully, systematically and comprehensively obtained by DMX Technologies Group Limited (the “**Company**”) and its subsidiaries (collectively referred as the “**Group**”), or its management, directors, agents and employees.

Unless expressly stated, the information contained in this Report has not been subject to detailed verification procedures. No representation is made as to the accuracy or completeness of such information and nothing contained in this Report is or shall be construed as a representation of the future.

In the course of preparing this Report, we have also conducted searches on various companies incorporated in Hong Kong, the People’s Republic of China (the “**PRC**”) and other jurisdictions using such public and/or subscription corporate databases that were available to us. We have not independently verified the completeness or accuracy of the information obtained as a result of these searches and therefore are unable to confirm the accuracy, completeness and reliability of the same. Relevant interviews were not conducted under oath. Hence, judgements would need to be exercised as to the credibility of the views and recollections of those interviewed. Hence, we do not give any warranty, indemnity or undertaking, expressly or impliedly, as to the accuracy or completeness of such information provided to and used by us in this Report.

This Report should not be used by third parties without the express consent of the Company. No reliance should be placed by third parties on the Report for any purposes whatsoever and the Company shall not be responsible to third parties who have acted on and/or placed reliance on the information contained herein.

We reserve the right (but we are not under any obligation) to review, alter and amend this Report in light of any matters not previously brought to our attention which may or may not materially affect our opinion both prior to and subsequent to the date of this Report.

Limiting conditions and constraints

We were confronted with various limiting conditions and constraints on our ability to fully investigate the matters concerned in this Report.

Given our limited authority, we were unable to compel the production of documents in possession of third parties or the attendance of individuals in order to obtain information relevant to this Report save that where the Company has a legal right to so compel. As such, we were unable to:

- (i) compel the former directors and employees of the Company to provide us with the documents and information relevant to this Report;
- (ii) review documents in the possession of certain third parties; and
- (iii) interview all individuals who involved in the relevant transactions, in particular individuals who are neither employees nor directors of the Group. We were unable to contact certain suppliers, customers and payment/collection intermediaries as well as the former directors and former employees of the Group whom we had requested to interview. The individuals of the Group's former management team whom we had requested to interview but were not able to do so are as follow:
 - (a) Emmy Wu, former Executive Chairman of the Company;
 - (b) Jismyl Teo, former Executive Director and Chief Executive Officer of the Company;
 - (c) Skip Tang, former Chief Finance Officer of the Company;
 - (d) Fu Yan Yan, former Chairman of Beijing DMX Technologies Limited;
 - (e) Stanley Chan, former Sales Director of DMX Technologies (Hong Kong) Limited;

Certain matters raised in this Report involved companies incorporated or businesses registered outside Hong Kong, especially those incorporated in the PRC, Bermuda and British Virgin Islands. We have conducted searches in respect of these companies and businesses, as well as related individuals by using such public and/or subscription corporate databases that were available to us.

Content

1. Definition
2. Executive Summary
3. Trigger Event
4. Arrest of the Company's Former Management
5. The Transactions in Question
6. Investigation regarding the Transactions in Question and the Relevant Parties involved
7. Collection of the Account Receivables
8. Audit
9. Removal / Dismissal of the Company Employees
10. Conclusion

Reference

1. Definition

The following words and phrases shall have the meaning set opposite thereto throughout this Report:

Abbreviations

Definitions

“AP”	Account payables
“AR”	Account receivables
“OR”	Other receivables
“Board”	The board of directors of the Company
“Company”	DMX Technologies Group Limited
“Datacraft”	Datacraft Asia Ltd and its subsidiaries
“Deloitte”	Deloitte Tohmatsu LLC
“DMX BJ”	Beijing DMX Technologies Limited
“DMX HK”	DMX Technologies (Hong Kong) Limited
“DMX MCO”	DMX Technologies (Macao Commercial Offshore) Limited
“End User”	As defined in paragraph 5(i)
“FY 2008”	The financial year ended December 2008
“FY 2013”	The financial year ended December 2013
“FY 2014”	The financial year ended December 2014
“Group”	The Company and its subsidiaries
“Group Equity”	Group Equity International Ltd.
“Hantz”	Beijing Hantz Development 北京漢馳科技發展有限公司, an IE Firm engaged with DMX HK / DMX MCO in relation to the Transactions in Question

“Hanyang”	Hanyang Information Technology Co 漢陽信息科技有限公司, a PRC Supplier engaged with DMX HK / DMX MCO in relation to the Transactions in Question
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IE Firm”	Import/export firm
“Investigation Team”	Those instructed by the Company for the purpose of the investigation regarding the Transactions in Question
“Ming Po Hong”	Ming Po Hong 明寶行, an IE Firm engaged with DMX HK / DMX MCO in relation to the Transactions in Question
“Mozart”	Mozart Management Co., Limited, paying agent of the IE Firms (as defined in paragraph 5(iii)(a)) in relation to the Transactions in Question
“Mr. Fu”	Fu Yan Yan, the former Chairman of DMX BJ
“Mr. Chan”	Stanley Chan, the former Sales Director of DMX HK
“Mr. Tang”	Skip Tang, the Company’s former Chief Financial Officer
“Ms. Teo”	Jismyl Teo, the Company’s former Chief Executive Officer
“Mr. Wu”	Emmy Wu, the Company’s former Executive Director
“Northway”	Northway Industrial Limited 北威實業有限公司, a PRC Supplier engaged with DMX HK / DMX MCO in relation to the Transactions in Question
“PRC”	The People’s Republic of China
“PRC Supplier” or “PRC Suppliers”	As defined in paragraph 5(iii)
“Report”	This report
“RMB”	Renminbi, the lawful currency of PRC

“San Tai”	San Tai Computer (Hefei) Corporation 三泰計算機(合肥)公司, a PRC Supplier engaged with DMX HK / DMX MCO in relation to the Transactions in Question
“SGX”	Singapore Exchange
“SI business”	System Integration Business
“Tacoma”	Tacoma Associates Limited, receiving agent of PRC Suppliers (as defined in paragraph 6(iii)(b)) in relation to the Transactions in Question
“Tianjin Chaoji”	Tianjin Chaoji Science & Technology Development Company 天津超技科技發展有限公司, an IE Firm engaged with DMX HK / DMX MCO in relation to the Transactions in Question
“Transactions in Question”	As defined in paragraph 3
“TVH”	Technology Venture Holdings Limited and its subsidiaries
“Ultimate Supplier”	As defined in paragraph 5(iv)
“US\$”	United States dollars, the lawful currency of United States of America
“Winscom”	Winscom Guangzhou Technologies Company Limited 深圳市維新康實業有限公司, an IE Firm engaged with DMX HK / DMX MCO in relation to the Transactions in Question

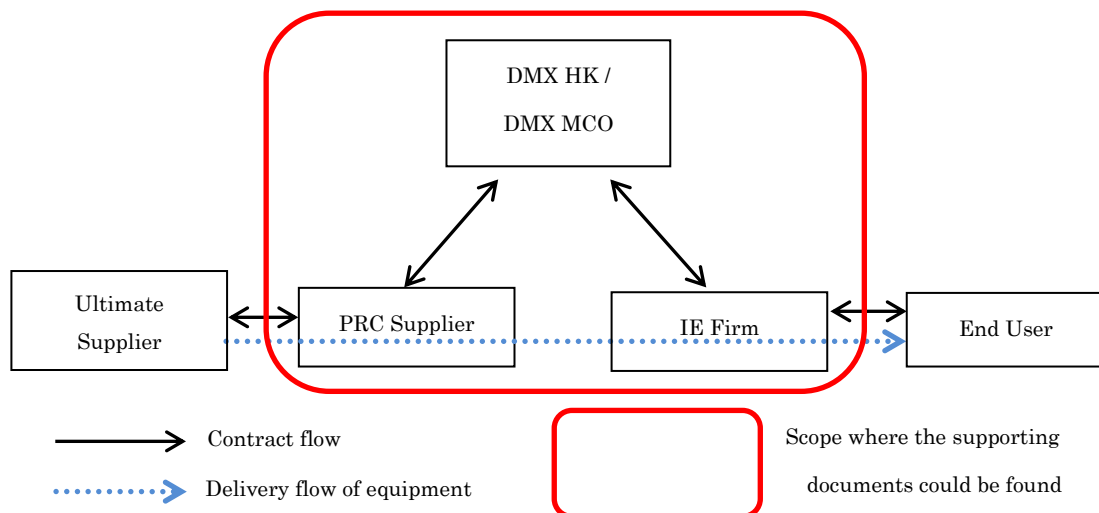
2. Executive Summary

As indicated in the following contents of this Report, the investigation was conducted for the purpose of revealing the Transactions in Question.

According to the findings of the investigation, a summary of the operation flow and the Transactions in Question are as follows:-

(i) *Operation flow*

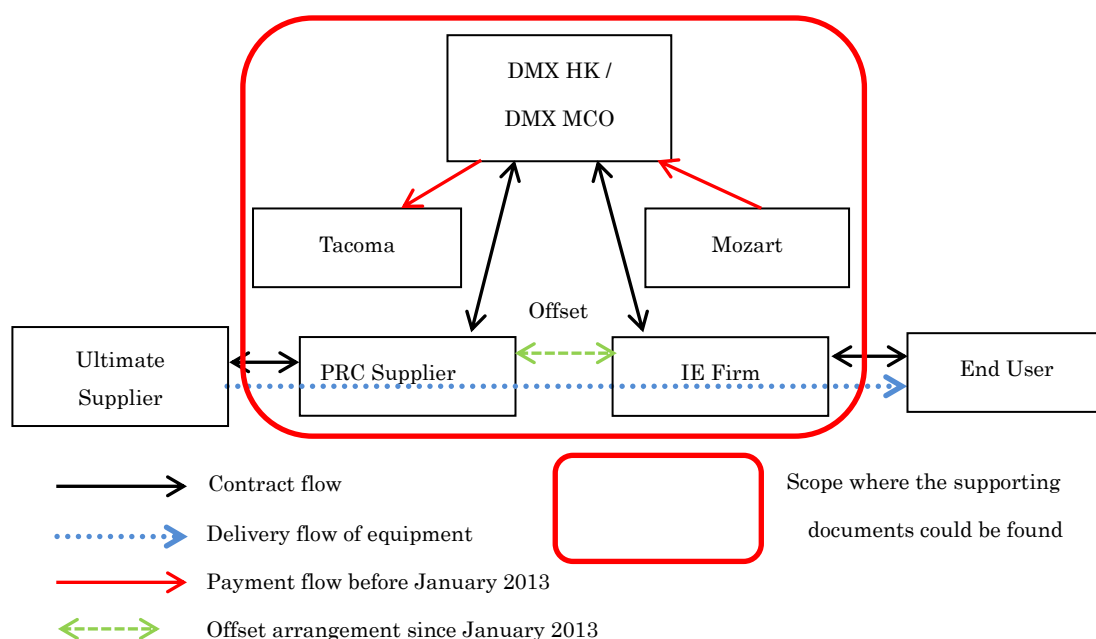
No supporting documents related to the Ultimate Supplier or the End User can be located in the investigation. However, there are supporting documents indicating the differences between the contract flow and actual delivery flow of equipment.



(ii) *Transaction in Question*

- The Company had no knowledge of the existence of Mozart which made payments to DMX HK/DMX MCO that purportedly was to be made by IE Firms until investigation has taken place after the arrest of the former management as mentioned in paragraph 4 of this report.
- Legal existence of certain IE Firms and PRC Suppliers could not be verified.
- The Company requested certain IE Firms to (1) pay the outstanding AR due by such IE Firm to the Company or (2) to produce information in relation to the delivery status of each purchase order/agreement. However, those IE Firms did not respond to the Company's request or refused to produce any documents.
- Several implications of potential connections between the paying agents (i.e. Mozart and Tacoma) and Mr. Tang and/or Ms. Teo were found.

- (e) Moreover, the directors of certain IE Firms or PRC Suppliers seem to be former management and/or former employees of the Group, in which the Transactions in Question become related party transactions (that were never reported to the Company as such).
- (f) Furthermore, since January 2013, the Company mainly introduced the “tri-party offset settlement” arrangement between the IE Firm / PRC Supplier and DMX HK / DMX MCO which enabled the offset of (1) AR due by IE Firm to DMX HK or DMX MCO against (2) AP due by DMX HK or DMX MCO to PRC Supplier.



- (g) After the arrest of Ms. Teo and Mr. Tang as stated in paragraph 4 of this Report and the change of management of the Company, transactions similar to the Transactions in Question has not since occurred.

(iii) Findings from an internet search

The findings from an internet search appear to indicate that:

- there is uncertainty over the collectability of certain AR in Datacraft as stated in the Annual Report 2002 of Datacraft;
- TVH processed the bad debt allowance; and
- certain former management of the Company were employed by Datacraft and TVH in the past.

The following findings suggest that the Transactions in Question were never carried out :-

- (i) The legal existence of certain IE Firms and PRC Suppliers could not be verified.
- (ii) The Company requested certain IE Firms to (1) pay the outstanding AR due by such IE Firm to the Company or (2) to produce information in relation to the delivery status of each purchase order/agreement. However, those IE Firms did not respond to the Company's request or refused to produce any documents.
- (iii) The potential connections among paying / receiving agents (i.e. Mozart and Tacoma) and Mr. Tang and/or Ms. Teo.
- (iv) There are insufficient supporting documents to substantiate the existence of the Transactions in Question.

Given the possible connections between the Company's certain former management and the paying agent of IE firms (i.e. Mozart) / the receiving agent of PRC Suppliers (i.e. Tacoma), the Transactions in Question may be regarded as related party transactions. Hence, subject to further disclosure by the former management of the Company, the Company reasonably suspects that certain former management of the Company have not acted in the best interest of the Company.

3. Trigger Event

Since 2014, the Company (listed on the Singapore Exchange, stock code: 5CH) engaged a new external auditor (“**external auditor**”) to replace Deloitte as the Company’s auditor. During the preparation of the Accountant’s Report for FY 2014, the external auditor discovered some suspicious transactions which were mainly handled by DMX HK, DMX MCO and DMX BJ as there were insufficient supporting documents to prove the substantiality of these transactions upon the external auditor’s request (the “**Transactions in Question**”).

4. Arrest of the Company’s Former Management

While the Company was in the course of seeking clarification and further details regarding the Transactions in Question, Ms. Teo and Mr. Tang were arrested by the Commercial Crime Bureau of the Hong Kong Police Force on 3 February 2015 for suspected offence regarding transactions conducted within the Group in 2008. They were subsequently released on bail. In light of the arrest, the Company formed an internal investigating committee under the direction of its Audit Committee on 16 February 2015, and engaged the Investigation Team to conduct an investigation regarding the Transactions in Question and the relevant parties involved in which such Investigation Team suggested irregular accounting may have taken place regarding the Transactions in Question.

5. The Transactions in Question

After receiving the external auditor’s queries regarding the Transactions in Question, the following is a summary of the operation flow of the Transactions in Question discovered by the Company from the supporting documents available and/or representations given by the former management of the Company, namely, Mr. Fu and Mr. Tang:-

- (i) The end user (“**End User**”) enters into an agreement regarding implementation of the SI business with an IE Firm.
- (ii) Based on the agreement in (i), the IE Firm places an order with DMX HK or DMX MCO to supply the equipment regarding the SI business and to provide relevant maintenance service.
- (iii) Upon receiving the order mentioned in (ii), DMX HK or DMX MCO places an order with the PRC Supplier (“**PRC Supplier**” or “**PRC Suppliers**”) regarding the procurement of equipment.
- (iv) The PRC Supplier, having received the order of DMX HK or DMX MCO mentioned in (iii), orders the ultimate supplier (“**Ultimate Supplier**”) to supply the equipment.

- (v) Upon placement of the order in (iv), the equipment would be supplied by the Ultimate Supplier to the PRC Supplier and then delivered by the PRC Supplier via the IE Firm to the End User.
- (vi) Mr. Fu or Mr. Chan were tasked with appointing external consultant for managing the project with the End User such as delivery of the equipment and implementation.

Prior to the external auditor's queries in relation to the Transactions in Question in or around February 2015, it was reported to the Company that DMX BJ was directly receiving the equipment from the PRC Supplier and providing installation services for the End User. The former management of the Group, namely Mr. Fu and Mr. Tang, attended the meeting of the Company held on 27 February 2015. The purpose of the meeting was to understand the transaction practices between DMX HK / DMX MCO and IE Firms. Mr. Tang represented that external consultants were appointed for managing the project with the End User. However, there were insufficient supporting documents to prove the presence or existence or appointment of the external consultants.

Summary of payment arrangement of the Transactions in Question:-

- (i) Until December 2012, the Company was given to understand that the costs of equipment were paid in accordance with each agreement / purchase order entered. The cash flows from the End User to the Supplier in the following sequence: (1) End User, (2) IE Firm, (3) DMX HK or DMX MCO, (4) PRC Supplier and (5) Ultimate Supplier.
- (ii) Since January 2013, the Company mainly introduced the "tri-party offset settlement" arrangement to the Transactions in Question. "Tri-party offset settlement" arrangement is in relation to offsetting (1) AR due by IE Firm to DMX HK or DMX MCO by selling equipment against (2) AP due by DMX HK or DMX MCO to PRC Supplier for purchasing the equipment. If the amount of AR exceeds the amount of AP, IE Firm would pay the remaining AR balance to DMX HK or DMX MCO. After the introduction of the "Tri-party offset settlement" arrangement since January 2013, the number of cheques deposited by IE Firms to DMX HK / DMX MCO significantly reduced from 209 copies in FY 2008 to 5 copies in FY 2013, and the amount of AR paid by IE firm to DMX HK / DMX MCO also significantly reduced from US\$63,085,000 in FY 2008 to US\$1,104,000 in FY 2013. Below is a summary chart indicating the number of cheques received and the AR received by DMX HK and DMX MCO from FY 2008 to FY 2013:-

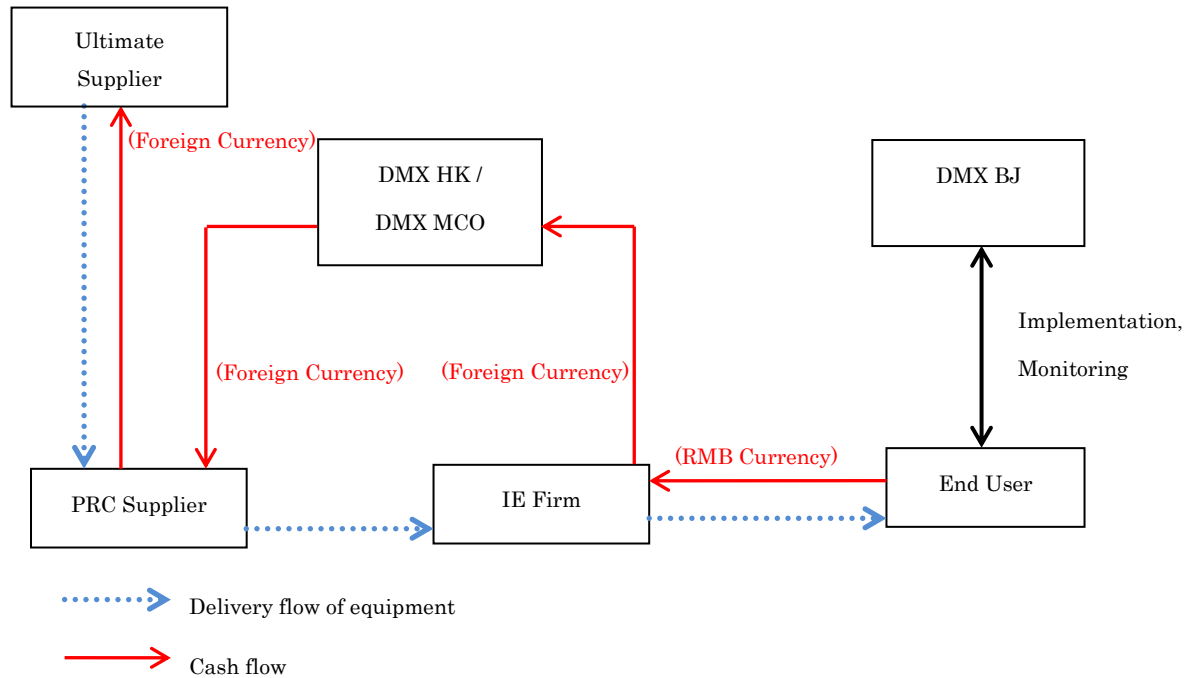
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
Number of Cheques	209	279	226	392	448	5	1,559
Amount ('000 USD)	63,085	83,048	72,976	124,256	139,030	1,104	483,500

(iii) Also, the Company adopted this “tri-party offset settlement” arrangement when it purchased spare parts for End User and software for selling. As a result, the AR was almost set off through this “tri-party offset settlement” arrangement and there was almost no cash paid by IE Firms to DMX HK and DMX MCO.

Please refer to the operation charts below for more details in relation to the cash flow and delivery flow of the equipment before and since January 2013.

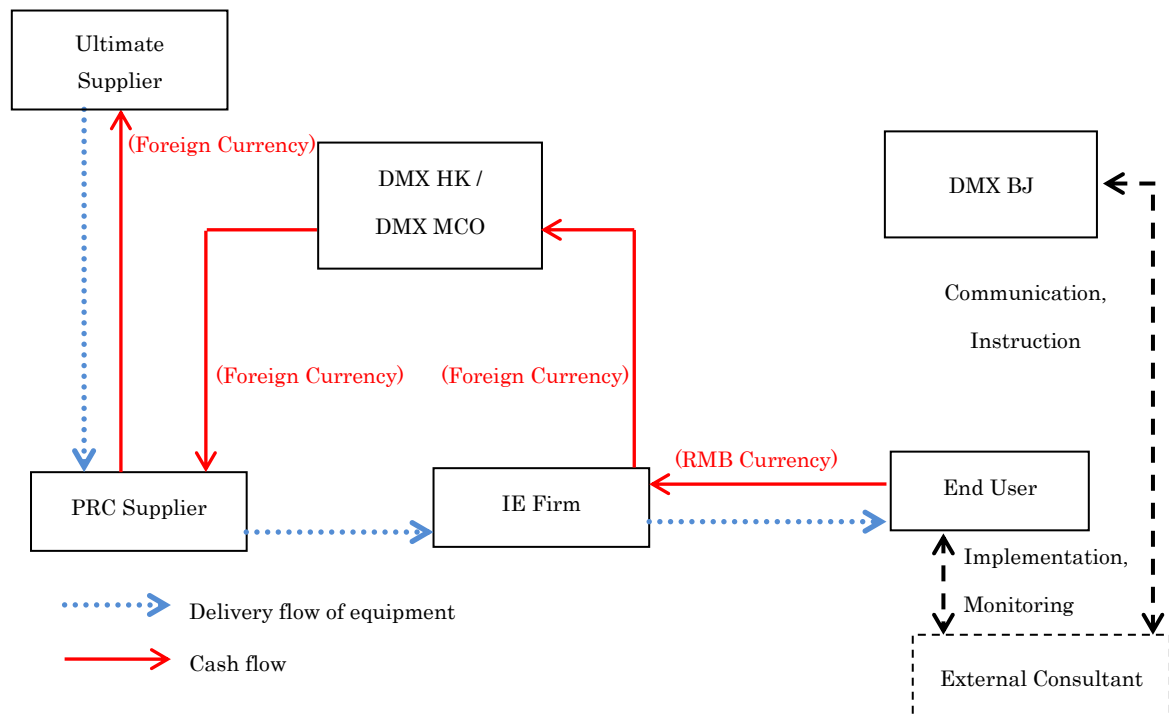
Operation charts of the Transactions in Question before January 2013

Involvement of “External Consultants” was not reported to the Company prior the interview on 27 February 2015

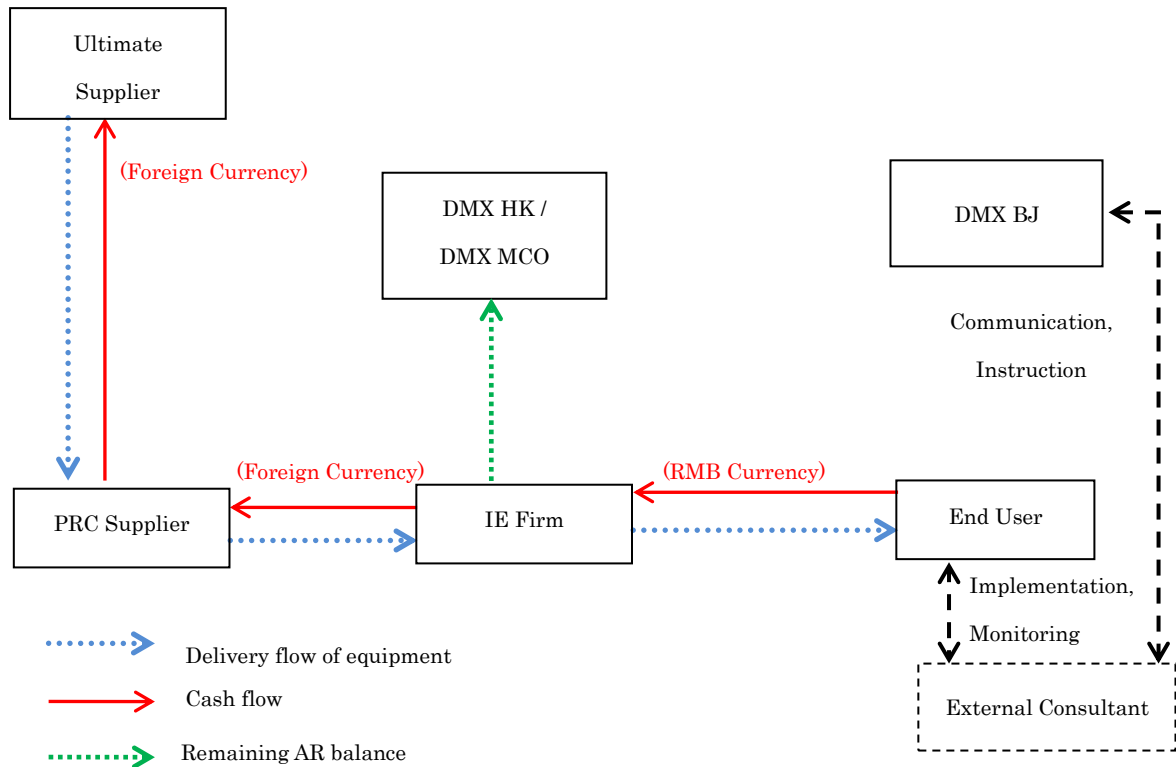


Operation charts of the Transactions in Question before January 2013

Involvement of “External Consultants” was reported at the interview on 27 February 2015



Since January 2013



Below is a set of sample documents indicating the operation flow in relation to the Transactions in Question.

Based on the agreement between the End User and the IE Firm, the IE Firm places an order with DMX HK or DMX MCO to supply the equipment regarding the SI business and to provide relevant maintenance service.

Below is a sample contract entered between DMX HK and IE Firm of which the signatory of DMX HK is purported to be Mr. Chan:

采购合同

合同号: [REDACTED] 日期: [REDACTED]

本合同由以下买卖双方於香港签订:

买方: [REDACTED]  Name of IE Firm
地址: [REDACTED]

卖方: 宏天科技(香港)有限公司
地址: 香港九龙观塘巧明街 100 号友邦九龙大楼 4303 室

最终用户: [REDACTED]

买卖双方根据《中华人民共和国合同法》及相关法律法规, 本着平等、自愿、诚实、信用的原则, 就买方向卖方订购有关硬件设备及服务等事宜, 订立如下合同, 以兹双方共同遵守。

一、合同设备的名称、品牌、规格型号、数量及价格详见附件[1]: 项目设备及服务清单

如因买方业务需求发生变化需要对设备品牌、规格型号、数量等进行变更的, 以买方实际需求为准, 但买方应在交付日前 [REDACTED] 日向卖方发出书面变更通知。

二、合同总金额及付款方式

1、本合同总金额为: 美元 [REDACTED]

2、付款方式如下:

到货款: 设备到货后, 买方於 [REDACTED] 内向卖方支付合同总额的 [REDACTED]。

初验款: 设备安装完成初验后 [REDACTED] 内, 买方支付予卖方合同总额的 [REDACTED]。

终验款: 设备安装完成终验后 [REDACTED] 内, 由买方支付予卖方合同总额的 [REDACTED]。

三、交付时间、地点

1、交付时间: 卖方应于本合同生效之日起 [REDACTED] 个工作日内将合同设备及与设备相关的文件资料一次性交付完毕。

2、交付地点: 买方指定的地点。设备的运输费、保险费由卖方承担。

3、交付条件: 卖方或其指定供货商应在合同规定的交货期前将设备名称、规格、数量、总毛重、总体积(立方米)和每个包装箱的尺寸(长×宽×高)、设备可交货日期和其他注意事项通知买方。

还应承担因违反保证给买方造成损害的赔偿责任。

3.3 卖方不履行或履行义务不符合本合同约定，买方依本合同约定解除合同的，卖方应按合同总额的[]%向买方支付违约金。

4. 若因设备的质量问题或卖方违反本合同的其它约定、保证，给买方造成了损失，卖方应承担全部赔偿责任。

5. 本合同所称损失是指因违约行为造成的直接损失和间接损失，该损失包括但不限于守约方为实现债权而支付的诉讼（或仲裁）费、差旅费、律师费。

十二、法律适用及争议解决

本合同受中华人民共和国法律管辖，并按中华人民共和国法律解释。对本合同执行过程中发生的一切争议，双方应友好协商解决，如协商不能解决，双方选择按下列第[1]种方式解决：

1. 向买方所在地人民法院起诉。
2. 提交买方所在地仲裁委员会仲裁。

十三、合同的生效及其他

1. 本合同经双方法定代表人或授权代表签字并加盖公章之日起生效。

2. 本合同一经签署，未经双方同意，任何一方不得随意更改本合同。本合同所列的附件为本合同不可分割的组成部分，与本合同具有同等的法律效力。其它任何口头或未包含在本合同内的，或未依据本合同制定的书面文件，均不对双方发生约束力。如本合同在履行过程中有任何变更、补充或修改，双方应另行签订书面协议。

3. 本合同一式[两]份，买方执[壹]份，卖方执[壹]份，并具有同等的法律效力。

附件目录：

附件[1]：[]

买方：

签字及盖章

Authorized Signatory of
IE Firm

卖方：宏天科技(香港)有限公司

For and on behalf of
DMX TECHNOLOGIES (HONG KONG) LIMITED



Authorized Signatory(s)

签字及盖章

Below is a template of the sales order form to be filled in by the sales team of the Company in order to seek approval from the management team in respect of any contract to be entered with the IE Firm. Ms. Teo and Mr. Tang were responsible to review the sales order form and grant approval to Mr. Chan to proceed with the relevant transactions.

DMX
DMX TECHNOLOGIES

SALES ORDER FORM

Page 1 of 1 Originating Date: 13 June 2014

in Distribution Channel: CM	in S.O. No. [REDACTED]	in Order Date: 13 June 14	in Latest Shipment Date	in Customer P.O. / Contract #	in Ship By	in Sales Group	in Currency: USD
☐ Amend ☐ Period Statement ☐ Allowed in JMS ☐ Not Allowed		☐ Local ☐ Multinational		☐ Bounding ☐ Overseas ☐ Local Source		☐ EE ☐ EE ☐ TC ☐ TG	
in Bill to Party / Paper: [REDACTED]		in Customer #		in Sold to Party: [REDACTED]		in Customer #	
in Ship to Party: [REDACTED]		in Customer #		in Ship to Party: [REDACTED]		in Customer #	
Contact: [REDACTED]		Contact: [REDACTED]		Contact: [REDACTED]		Contact: [REDACTED]	
Tel: [REDACTED]		Fax: [REDACTED]		Tel: [REDACTED]		Fax: [REDACTED]	
in	in DMX Part No.	in Description	in Qty	in Unit Price	in Amount		
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		
in Remarks					in Sub-total: [REDACTED]		
					in GRAND TOTAL:		
					in Remarks:		
					Planned Margin: [REDACTED] %		
					Equipment Margin: [REDACTED] %		
					Services Margin: [REDACTED] %		
in Payment Terms		Deposit _____ % by	Main Payment _____ % by	Balance _____ % by	in Others		in Penalty
		☐ LC ☐ T/T	☐ LC ☐ T/T	☐ T/T			
in Approvals:		Originating Relationship	Service Manager	General Manager	C.F.O. / Finance Director	C.E.O.	
Date: [Signature]		Date:	Date:	Date:	Date:	Date:	
in Order Processing		PO No.	PO No.	PO No.	Checked & Reviewed by		
Date: [REDACTED]		Date:	Date:	Date:	Date:		
☐ Copy of customer contract ☐ Quotation ☐ Correspondence ☐ Contract summary ☐ Others							

Please tick where appropriate in the boxes provided

[REDACTED]

Once a contract is entered with an IE Firm, DMX HK / DMX MCO would in turn place a purchase order with a PRC Supplier for the purpose of procuring the necessary equipment. Below is a sample purchase order placed by DMX HK in relation to the Transaction in Question.



Purchase Order

Purchase order number: [REDACTED] Date: [REDACTED] 2014

Purchase Order placed to:



Bill to:

DMX Technologies (HK) Ltd.
Room 4303, A1A Kowloon Tower,
100 How Ming Street,
Kwan Tong, Kowloon, H.K.



Ship to:

DMX Technologies (HK) Ltd.
Room 4303, A1A Kowloon Tower,
100 How Ming Street,
Kwan Tong, Kowloon, H.K.



→ Name of Agency

RICE SUMMARY

Total Hardware and Software [REDACTED]
(Details please see attached "Network Total")

US\$ [REDACTED]



US\$ [REDACTED]

Remarks:

1. End-user: [REDACTED]
2. Payment terms: [REDACTED]
3. Request delivery : On or before [REDACTED] Partial shipment is not allowed.
4. Port of destination: [REDACTED]
5. Packing: All goods should be divided by node according to attached configuration sheet.
Then packed in cartons of wooden cases, well protect good for long distance transportation.
6. Please mark the node number and node name outside of each wooden case.
7. Each wooden crate must be clearly marked with an appropriate shipping mark and shipping labels:
"Keep away from Moisture", "Handle with Care" and "This side up".
8. Warranty: [REDACTED]

Please send shipment advice including MAWB, flight #, HAWB, # of packages
invoice value, P.O.# attention to [REDACTED] by fax upon shipment is effected.

For and on behalf of
DMX Technologies (HK) Ltd.

Authorized Signature

A handwritten signature in black ink, written over a horizontal line.

Total US\$ [REDACTED]

Since January 2013, the Company mainly introduced the “tri-party offset settlement” arrangement to the Transactions in Question. In light of the “Tri-party offset settlement” arrangement, DMX HK / DMX MCO would instruct the IE Firm to directly pay the corresponding PRC Supplier as per the AP due by DMX HK / DMX MCO. Upon receipt of the relevant monetary sum from the corresponding IE Firm, the PRC Supplier would issue a receipt to DMX HK / DMX MCO acknowledging the receipt of the relevant AP due by DMX HK / DMX MCO from the corresponding IE Firm. Below are (1) sample payment instruction issued by DMX HK to an IE Firm and (2) sample receipt issued by the corresponding PRC Supplier acknowledging the receipt of the relevant AP due by DMX HK as stated in (1) herein:

致: [REDACTED] → Name Of IE Firm

据合同执行情况, 贵方计划支付下列货款予本公司:

对冲合同:

合同號	金額 (美元)
WI12-0402-01-DMX [REDACTED]	US\$ [REDACTED]
WI12-0813-02-DMX [REDACTED]	US\$ [REDACTED]

共計美元 US\$ 4,395,656.67

經商議, 本公司現授權 貴司代本公司直接划付美元 USD4,395,656.67 予下列賬号:

銀行: [REDACTED]
賬號: [REDACTED]
賬名: [REDACTED]

當划付完成, 貴公司對支付上述貸款予本公司的責任予以解除, 特此委托。

委托人:  宏天科技 (香港) 有限公司

宏天科技(香港)有限公司 / 2013年12月26日

受委托人: [REDACTED] → Company Chop of IE Firm Affixed herein

宏天科技(香港)有限公司 | Tel: +852 4003 1000
DMX Technologies (H.K.) Limited | Fax: +852 4003 1001
4003, AIA Kowloon Tower, 100 How Ming Street, Kwun Tong, Kowloon, Hong Kong | www.dmtx.com

[Redacted]

致：宏天科技(香港)有限公司

地址：[Redacted]

收款凭证

敬启者：

→ Name of IE Firm

您好！现确认收到 [Redacted] 一笔汇款 USD4,395,656.67.

此致！

商祺！

→ Authorised Signatory of the Agency

[Redacted]

[Redacted]

[Redacted]

6. Investigation regarding the Transactions in Question and the Relevant Parties involved

(i) IE Firm

Normally, it is necessary for DMX HK or DMX MCO to engage IE Firms for the purposes of (1) delivering the equipment to PRC End Users and (2) currency exchange from RMB to foreign currency. The business and operation of IE Firms are regulated by PRC law.

DMX HK and DMX MCO engaged 8 IE Firms in the Transactions in Question. There are supporting documents from independent third party, such as customs documents and airway bill, indicating the delivery status of equipment for transactions involving China Electronic Appliance Corporation (中國電子器材總公司), being 1 of the 8 IE Firms. On the other hand, regarding the remaining 7 IE Firms, the Company only has the relevant agreements entered into with the respective IE Firms but no other supporting documents from independent third party, such as custom documents and documents from transport agents, could be found. Below are information regarding 5 out of the 8 IE Firms discovered so far:

(a) Beijing Hantz Development 北京漢馳科技發展有限公司

There are limited information in relation to the transactions between the Company and Hantz. The Company has requested Hantz to provide supporting documents such as bank slip indicating payment from Hantz to the PRC Supplier starting from January 2013 (i.e. since the introduction of the “tri-party offset settlement” arrangement mainly) and custom documents showing the delivery status of the equipment to end user from Hantz. However, Hantz rejected the said request because they alleged that those supporting documents are highly confidential, thus, could not be provided.

According to company search conducted by the Investigation Team, Hantz is established in 2000. An internet search indicated that the contact person of Hantz is the former chief operating officer of DMX BJ whilst the contact number of Hantz appears to be the mobile phone number of Mr. Fu (the former chairman of DMX BJ). Moreover, based on the review of Mr. Tang’s email records, it appears that DMX BJ payroll included part of Hantz’s payroll at least for the period from January to March 2008. Albeit we do not have sufficient information to comprehend the actual connection between DMX BJ and Hantz, the Company believes that there might be an overlap of management between Hantz and DMX BJ in which the Company has not been notified of such overlap and/or connection among the three entities. Hantz has

commenced voluntary liquidation proceedings since 21 May, 2015.

Stella,
FYI, here is the updated worksheet (BJ DMX, SDC and Hantz) effective 01 January 2008. Please prepare letters to related staff.
Lisa will update the payroll worksheet to ZhangQi today.
Regards,

Hantz Employee Info

Employee name	Salary
HT001	cn-rnd JAVA Software Engineer 2006-10-10
HT002	cn-rnd Test Engineer 2006-10-12
HT003	cn-rnd Test Engineer 2006-10-16
HT004	cn-rnd JAVA Software Engineer 2006-10-23
HT005	cn-rnd Software Engineer 2006-10-23
HT009	cn-rnd Graphics art designer 2006-11-06

(b) Winscom Guangzhou Technologies Company Limited 深圳市維新康實業有限公司

There are limited information in relation to the transactions between the Company and Winscom. The Company has requested Winscom to provide supporting documents such as bank slip indicating payment from Winscom to the PRC Supplier starting from January 2013 (i.e. since the introduction of the “tri-party offset settlement” arrangement) and custom documents showing the delivery status of the equipment to end user from Winscom. However, same as Hantz, Winscom rejected the said request because they alleged that those supporting documents are highly confidential, thus, could not be provided.

According to company search conducted by the Investigation Team, Winscom is established in 1997 currently with a registered capital of RMB103 million. We notice that in particular, from 24 November 2011 to 27 December 2011 (i.e. within 34 days), there were 4 capital injections and a total of RMB80 million were transferred to Winscom.

According to the website of Winscom, it has 6 offices in the PRC locating at Shenzhen, Guangzhou, Beijing, Shanghai and Chengdu. The said website also indicates that Winscom is currently recruiting for various positions. Hence, we believe that Winscom is a company with active operation unlike Hantz and Tianjin Chaoji.

Further, when representatives from DMX Group visited Hantz and Winscom with Mr. Fu on 6

March 2015 and 11 March 2015, respectively, Mr. Fu mentioned that PRC Suppliers and End users are of highly sensitive backgrounds and advised the visitors to be cautious.

(c) *Tianjin Chaoji Science & Technology Development Company* 天津超技科技發展有限公司

There are limited information about Tianjin Chaoji. According to the information extracted from website “全國企業信用信息公示系統（天津）”, there was no information as to the number of employees retained by Tianjin Chaoji. Further, according to the company search conducted by the Investigation Team, the last known address of Tianjin Chaoji is currently occupied by another company. Hence, it is doubtful whether Tianjin Chaoji has any actual operation.

(d) *Ming Po Hong* 明寶行

There are limited information about Ming Po Hong. According to the investigation conducted by the Investigation Team, Ming Po Hong is owned by a sole proprietor named Hui Ming. Suspicious bank remittance was discovered from the email records of Mr. Tang in which DMX HK transferred a sum of approximately HK\$1.9 million to Ming Po Hong in October 2008 thereby instructing a person who was possibly a representative of Ming Po Hong to convert such sum into RMB followed by transferring the same to various bank accounts in the PRC. The instructions given by Mr. Tang shows that Mr. Tang might be involved in the operation of Ming Po Hong in 2008. Further, it is peculiar for Ming Po Hong, as an IE Firm, to make payments for DMX HK into various bank accounts in the PRC in October 2008 where the “tri-party settlement” arrangement was not introduced yet.

(e) *Wuhan Caidan Foreign Trade D.*

According to the account record reviewed by the Investigation Team, the T/T transaction form showed that one “Wu Emmy” made T/T payment which was recorded in DMX record as deposit from Wuhan Caidan Foreign Trade D. in the sum of US\$549,998.07 in 2009. It is unclear why the record in account book and actual payer was different.

(ii) **PRC Suppliers**

It is unclear why DMX HK and DMX MCO engaged PRC Suppliers to liaise with the Ultimate Supplier as oppose to liaising with the Ultimate Supplier by DMX HK and DMX MCO directly in relation to the Transactions in Question. DMX HK and DMX MCO engaged 3 PRC Suppliers (namely, Northway, San Tai, Hanyang) in relation to the Transactions in Question. As at the date

of this Report, their legal existence, ownership and financial capacity cannot be verified, and their respective business registrations are unknown. Payments have been made to these PRC Suppliers via their receiving agent named Tacoma, and as of FY 2014, there are no outstanding AP against these 3 PRC Suppliers. A background summary of Northway, SanTai and Hanyang is as follows:-

(a) Northway Industrial Limited 北威實業有限公司

There were substantial transactions between Northway and DMX HK/DMX MCO. Company searches conducted by the Investigation Team against Northway revealed that there is no company of such name registered in the PRC. The legal existence, ownership and financial capacity of Northway cannot be verified.

(b) San Tai Computer (Hefei) Corporation

The Company note that the former correspondence address of San Tai was found on an audit confirmation of DMX HK in 2012 and the confirmation was endorsed by San Tai. According to the land search, this is a property formerly owned by Mr. Tang and another party. Mr. Tang on 2 April 2015 (soon after his arrest by Hong Kong Police Force) transferred his interest in such property to whom we suspect to be Mr. Tang's daughter.

Further, company searches conducted by the Investigation Team against San Tai revealed that there is no company of such names registered in the PRC. The legal existence, ownership and financial capacity of San Tai cannot be verified.

(c) Hanyang Information Technology Co 漢陽信息科技有限公司

According to company search conducted by the Investigation Team, no company of such name was located. The legal existence, ownership and financial capacity of Hanyang cannot be verified.

(iii) *Paying / Receiving Agents*

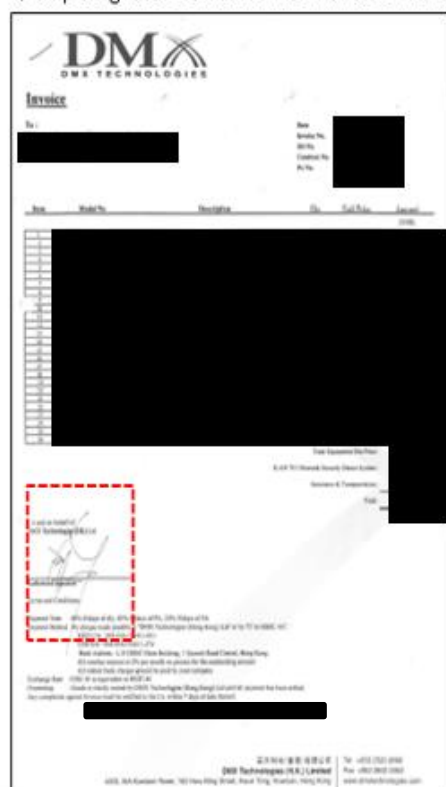
(a) Mozart Management Co., Limited

For those Transactions in Question, although it is recorded in the accounting books of DMX HK and DMX MCO that the AR received by the Company were originated from various IE Firms, there is insufficient evidence to verify the identity of the actual payer of the said AR. Therefore, the Company requested the banks for the production of cheque copies concerning the payments of the AR in order to identify the actual payer of the AR. As such, it is discovered that almost all the identified payments from IE Firms were payments deposited to the account of DMX HK

and/or DMX MCO from a paying agent, namely, Mozart Management Co., Limited. It is further discovered that the cheques obtained from the banks were appeared to be signed by Mr. Tang on behalf of Mozart (for signatures that are identifiable). Hence, the records in the accounting books of DMX HK and DMX MCO did not record the true identity of the actual payer of the AR in relation to the Transactions in Question. The Company was not previously informed of this arrangement until its discovery by the Investigation Team and does not know the reason of such payment. Moreover, given that it appeared that Mr. Tang was authorised to sign the cheques of Mozart, it is likely that Mr. Tang has control over the cash flow of Mozart.

Below are (1) sample invoice issued by DMX HK which is signed by Mr. Tang and (2) two cheques from Mozart. These images show that the signature of the authorised signatories of Mozart largely resembles with the signature of Mr. Tang.

◆ Skip's signature on DMX internal documents



◆ Skip's signature on bank cheques



Further, below is bill issued by a secretarial service provider to Mozart which is to the attention of Mr. Tang. It appears that Mr. Tang may have control over Mozart.

TO: <u>MOZART MANAGEMENT CO., LTD.</u> Attn: <u>Mr. Skip Tang</u>																																			
<table> <tr> <th>PARTICULARS</th><th></th><th></th><th></th></tr> <tr> <td>MOZART MANAGEMENT CO., LTD.] Company Matters</td><td></td><td></td><td></td></tr> <tr> <td>TO OUR CHARGES for services rendered in respect of the abovenamed BVI Company including maintaining and updating the statutory records; liaising with the Registered Agent inclusive of all miscellaneous matter, correspondence and care throughout.</td><td></td><td></td><td></td></tr> <tr> <td><u>DISBURSEMENTS</u></td><td></td><td></td><td></td></tr> <tr> <td>Registered Agents fees</td><td></td><td></td><td></td></tr> <tr> <td>BVI Government filing fees &</td><td></td><td></td><td></td></tr> <tr> <td>Late payment penalty</td><td></td><td></td><td></td></tr> <tr> <td>Photocopying charges, traveling expenses and other minor expenses</td><td></td><td></td><td></td></tr> </table>				PARTICULARS				MOZART MANAGEMENT CO., LTD.] Company Matters				TO OUR CHARGES for services rendered in respect of the abovenamed BVI Company including maintaining and updating the statutory records; liaising with the Registered Agent inclusive of all miscellaneous matter, correspondence and care throughout.				<u>DISBURSEMENTS</u>				Registered Agents fees				BVI Government filing fees &				Late payment penalty				Photocopying charges, traveling expenses and other minor expenses			
PARTICULARS																																			
MOZART MANAGEMENT CO., LTD.] Company Matters																																			
TO OUR CHARGES for services rendered in respect of the abovenamed BVI Company including maintaining and updating the statutory records; liaising with the Registered Agent inclusive of all miscellaneous matter, correspondence and care throughout.																																			
<u>DISBURSEMENTS</u>																																			
Registered Agents fees																																			
BVI Government filing fees &																																			
Late payment penalty																																			
Photocopying charges, traveling expenses and other minor expenses																																			

To fully understand the paying arrangement among End Users, IE Firms and DMX HK / DMX MCO, the charts below indicate (1) the cash flow from end users to DMX HK or DMX MCO recorded in the accounting books of the DMX HK and DMX MCO and (2) the actual cash flow from End Users to DMX HK or DMX MCO:

The Cash Flow from End Users to DMX HK or DMX MCO Recorded in the Accounting Books of the DMX HK and DMX MCO



The Suspected Actual Cash Flow from End Users to DMX HK or DMX MCO



← Cash flow

Apart from Mr. Tang, there is prima facie evidence showing that Ms. Teo was the director and bank authorized signatory of Mozart. Hence, it is highly possible that both Ms. Teo and Mr. Tang have substantial control of the cash flow and operation of Mozart.

Further, there are documents obtained during the investigation revealed that a number of remittance transactions were made from Mozart to Group Equity between 2008 and 2012. Group Equity is a BVI company in which Ms. Teo and Mr. Wu are the directors and shareholders. Although the source of fund of Mozart is unknown, the Company suspects that the reason (or part of the reason) of the remittances from Mozart to Group Equity is that the overdue amount from Group Equity towards the bank had exceeded the bank limit, therefore, injection of fund was then required to reduce the overdue amount. Hence, it is possible that Ms. Teo and/or Mr. Wu have/has knowledge in respect of Mozart.

(b) Tacoma Associates Limited

Since 2008 or before, the Company has engaged Tacoma Associates Limited to be the receiving agent for the PRC Suppliers to receive any sum payable from the Company.

Based on the limited information available, the Company believes that Mr. Tang is highly connected with Tacoma because the Investigation Team discovered email records indicating that Mr. Tang was involved in the opening of a HSBC account for Tacoma. Mr. Tang was also aware of the closure of 2 bank accounts of Tacoma. Based on the aforementioned, it is believed that Mr. Tang has a degree of control over the operations of Tacoma which was not reported to the Company.

Below are (1) email received by Mr. Tang informing him that a new bank account is activated for Tacoma and (2) bill issued by a secretarial service provider to Tacoma addressed to the attention of Mr. Tang. By drawing inference from (1) and (2), the Company believes that Mr. Tang may have a degree of control in Tacoma.

寄件者: [REDACTED]
寄件日期: [REDACTED]
收件者: Skip Tang
主题: Fw: Tacoma Associates Limited
附件: Account Opening - Tacoma Associates Limited.doc.zip

Dear Skip,

Please be advised that the account of Tacoma has been activated.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

BILL NO.
FILE NO.
DATE

PARTICULARS

TO OUR CHARGES for services rendered in respect of the abovenamed BVI Company including maintaining and updating the statutory records; liaising with the Registered Agent inclusive of all miscellaneous matter, correspondence and care throughout.

Registered Agents fees [REDACTED]
BVI Government filing fees for [REDACTED]
Photocopying charges, traveling expenses and other
minor expenses

Cash Flow of DMX HK or DMX MCO through paying agents until December 2012



Before the tri-party offset settlement was mainly introduced by the Company in January 2013, in respect of the payment arrangement of the Transactions in Question, the cash flows from the IE Firms to the PRC Suppliers in the following sequence: (1) IE Firms, (2) Mozart, (3) DMX HK or DMX MCO, (4) Tacoma, (5) PRC Suppliers.

Tacoma is a receiving agent of the PRC Suppliers, which is meant to receive payment from DMX HK or DMX MCO to the PRC Suppliers. According to the findings of the investigation, the Company believes that Mr. Tang is highly likely to be connected with Tacoma. Further, it is highly possible that both Ms. Teo and Mr. Tang have substantial control of the cash flow and operation of Mozart. Prior to the investigation regarding the Transaction in Question, the Company had no knowledge that IE Firms had been making payment to DMX HK or DMX MCO through Mozart.

(iv) *Software Development Vendor*

DMX HK purchased software from software development vendors to its selling products and capitalized it as intangible assets since January 2013. DMX HK adopted the “tri-party offset settlement” arrangement which offset (1) AR due by IE Firm to DMX HK against (2) AP due by DMX HK to software development vendors. Further, the Company has insufficient information to verify the existence of these transactions between DMX HK and software development vendors and to identify the intangible assets.

7. Collection of the Account Receivables

In the Company's unaudited financial statement for the FY 2014, the Company's AR and OR amounted to US\$378 million. As of FY 2014, the amount of AR due by Hantz and Winscom are as follow:-

- Hantz : approximately US\$140 million; and
- Winscom : approximately US\$190 million.

With the help of Mr. Fu, the Company visited a few IE Firms in order to expedite the process regarding the collection of AR. During the visit to Hantz, the Company's representative requested Hantz to produce information in relation to the delivery status of each purchase order/agreement and to provide supporting documents (such as customs documents or airway bills) for auditing purposes. However, the director of Hantz refused to produce any documents as he alleged that the End Users and PRC Suppliers are of highly sensitive backgrounds.

As per the visit to Winscom, the Company's representative requested Winscom to produce information in relation to the delivery status of each purchase order/agreement and to provide supporting documents (such as customs documents or airway bills). However, the director of Winscom refused to produce any documents as he alleged that those documents are confidential.

After the aforementioned visits to the Hantz and Winscom, the Company issued demand letters to the respective IE Firms requesting (1) payment of the outstanding AR or (2) the production of information in relation to the delivery status of each purchase order/agreement so as to confirm the amount of outstanding AR to be received by the Company. Hantz did not respond to the Company's request and Winscom asked the Company to seek clarification from Mr. Chan.

Considering the aforesaid, on 31 March 2015, the Board instructed Mr. Wu to collect the AR as the Company believed that Mr. Wu has knowledge in relation to the Transactions in Question. However, Mr. Wu informed the Board that the End Users are of highly sensitive backgrounds and he would not be able to collect the AR from these End Users in the coming few months. Later, the Company discovered that Hantz commenced voluntary liquidation proceedings on 21 May 2015 while Mr. Wu was attempting to collect the AR but Mr. Wu did not make any report regarding Hantz's voluntary liquidation to the Board. As at the date of this Report, Winscom still refuses to meet with representatives of the Company.

8. Audit

In the course of preparing the Accountant's Report for FY 2014, the external auditor was unable to obtain sufficient supporting documents to prove both the delivery flow and cash flow of the equipment in relation to the Transactions in Question. Based on the searches conducted regarding various PRC Suppliers and IE Firms, the legal existence and operation of certain PRC Suppliers cannot be verified or there are discrepancies between the office addresses shown in the search reports and those stated on the agreements/purchase orders entered by the Company with certain IE Firms. On the other hand, the Company was also not able to arrange site visits with the End Users for the external auditor to complete their due diligence exercise. There is no evidence that the former management of the Company, DMX HK and DMX MCO, in particular Ms. Teo and Mr. Tang, conducted prior due diligence before dealing with PRC Suppliers, IE Firms and End Users. Further, the external auditor could not complete full-scope auditing, i.e. conducting auditing exercise for the entire Group because Mr. Fu refuses to cooperate with the external auditor.

Given the aforesaid, the external auditor could not:-

- (i) confirm the existence of both tangible (spare parts purchased for end users) and intangible assets (software) acquired by the Company;
- (ii) opine the sustainability of the Transactions in Question; and
- (iii) issue any positive opinion in relation to the accounts of the Company and the Group as a whole.

From the incorporation of the company in 2001 to the year of 2013, Deloitte, the former auditor, has issued the "clean opinion" where they should have been able to obtain all the requisite confirmation from the PRC Suppliers, IE Firms and end users.

9. Removal / Dismissal of the Company's Employees

In light of the apparent non-compliance of internal procedures of the Company and the breach of duties owed to the Company by the following persons in relation to the Transactions in Question and with reference to the results of the investigation conducted by the Investigation Team and the Company, the Company has removed / dismissed Mr. Wu, Ms. Teo, Mr. Tang, Mr. Fu and Mr. Chan with immediate effect:

Name	Title before Removal/ Dismissal	Date of Removal / Dismissal	Reasons for Removal/ Dismissal
Mr. Wu	Chairman of the Group	7 September 2015	– Acted negligently in the course of his duties in his position as an Executive Director of the Company
Ms. Teo	Chief Executive Officer of the Group	3 September 2015	– Committed serious misconduct and acted negligently in the course of her duties in the positions as the Executive Director and Chief Executive Officer of the Company
Mr. Tang	Chief Financial Officer of the Group	3 September 2015	– Committed serious misconduct and acted negligently in the course of his duties in the position as the Chief Financial Officer of the Company
Mr. Fu	Chairman of DMX BJ	21 September 2015	– Committed serious misconduct and acted negligently in the course of his duties in the position as the Chairman of DMX BJ
Mr. Chan	Sales Director of DMX HK	5 September 2015	– Committed serious misconduct and acted negligently in the course of his duties in the position as the Sales Director of DMX HK

Note: Subject to any further investigation to be conducted by the Company and/or the Investigation Team and as at the date of this Report, no director was found to be involved in the Transactions in Question save and except those being removed/dismissed by the Company as stated in this paragraph.

10. Conclusion

The Company suspects that the Transactions in Question were never carried out due to the following findings:-

- (i) Legal existence of certain IE Firms and PRC Suppliers cannot be verified;
- (ii) The Company requested certain IE Firms to (1) pay the outstanding AR due by such IE Firm to the Company or (2) to produce information in relation to the delivery status of each purchase order/agreement. However, those IE Firms did not respond to the Company's request or refuse to produce any documents;
- (iii) The potential connections among paying agents (i.e. Mozart and Tacoma) and Mr. Tang and/or Ms. Teo; and
- (iv) There are insufficient supporting documents to substantiate the existence of the Transactions in Question.

Given the possible connections between the Company's certain former management and the paying agent of IE firms (i.e. Mozart) / the receiving agent of PRC Suppliers (i.e. Tacoma), the Transactions in Question may be regarded as related party transactions. Hence, subject to further disclosure by the former management of the Company, the Company reasonably suspects that certain former management of the Company have not acted in the best interest of the Company.

BY ORDER OF THE BOARD

Iwao Oishi

Executive Director, Vice Chairman, and Acting Chief Executive Officer

22 April 2016

Reference

The findings from an internet search appear to indicate that:

- (a) there is uncertainty over the collectability of certain AR in Datacraft as stated in the Annual Report 2002 of Datacraft;
- (b) TVH processed the bad debt allowance; and
- (c) certain former management of the Company were employed by Datacraft and TVH in the past.

Publicly available information in relation to the former management of the Company and each of Datacraft and TVH are as follows:-

- Mr. Wu

Mr. Wu has been serving as Executive Chairman of the Company from June 2002 to September 2015.¹ Mr. Wu began his career at the Mitsubishi-Ryoden Group in 1982 where he was senior accounts executive. He left the Mitsubishi-Ryoden Group in 1986 to join Data General, initially as account manager, and later as PRC sales and marketing manager. He was subsequently promoted to regional sales and marketing manager for the PRC and Hong Kong. Mr. Wu left Data General in 1991 and joined the Datacraft Asia Group in a series of positions, including general manager and managing director for Datacraft China Limited, regional director for North Asia of Datacraft Asia Limited, sales director for Datacraft Asia Limited and adviser to Datacraft Japan Limited. Apart from his position at the Company, he served as a Deputy Chairman of Green Global Resources Limited (Formerly “Venture International Investment Holdings Limited” and “TVH”) until 10 October 2006.²

¹ Please refer to the announcement of the Company dated 7 September 2015 and 5 April 2016.

² For further information, please refer to the Annual Report 2013 of the Company, announcement of the Company dated 5 April 2016 and announcement of TVH dated 10 October 2006

- Ms. Teo

Ms. Teo had been the Chief Executive Officer of the Company from September 2006 to September 2015.³ Prior to her role as the Chief Executive Officer, Ms. Teo served as the CFO of the Company. She joined the Company in January 2001 and was appointed as the Company's Director in December 2001. Ms Teo worked for Ernst & Whinney as an assistant accountant from January 1984 to June 1985. She joined the Datacraft in June 1985 as an accountant, and was promoted to finance and administration manager where she stayed until October 1990. In November 1990, she joined Chin, Lim & Co Pty Ltd as an accountant and left in June 1991 to work for Frigstag Offshore Pte Ltd, Singapore as an accounts and administration manager from January 1992 to November 1992. Ms Teo rejoined the Datacraft in November 1992 as finance and administration manager and continued to work for them in a series of positions, including regional finance manager, joint company secretary and regional director of operations. She left the Datacraft Asia Group in January 2001 to join TVH in January 2001 and was assigned the Chief Financial Officer of the Company.⁴

- Mr. Tang

Mr. Tang had been the Chief Financial Officer of the Company since June 2008 until September 2015.⁵ He joined DMX in July 2001 as Business Management Manager and was part of the corporate team that led the Company's IPO on the Singapore Exchange in 2002. Prior to his CFO appointment, he was the Business Operations Director, responsible for Treasury, Operational and Human Resources matters of the Group; and logistics and sales contract advisory to China offices.⁶

- Mr. Fu

Mr. Fu served as the Regional Chief Executive Officer of China at the Company until September 2015. Mr. Fu started his career in 1975 at the

³ Please refer to the announcement of the Company dated 4 September 2015 and 5 April 2016

⁴ For further detail, please refer to the Annual Report 2013 of the Company

⁵ Please refer to the announcement of the Company dated 4 September 2015

⁶ For further detail, please refer to the Annual Report 2013 of the Company

Ministry of Electronic Industry of China. He founded Wide Trade Foundation Ltd in 1982, a company in Hong Kong in the distribution and installation of computer and office automation systems to government agencies in China. He joined Datacraft China Ltd. as General Manager from 1996 to 2003. Mr. Fu served as an Independent Non-Executive Director of TVH from June 2003 to June 2007.⁷

■ Datacraft

According to the Annual Report 2002 of Datacraft, a provision of US\$8 million was made against long outstanding and doubtful debtors in its China subsidiary. After finalisation of the review early in the current period, Datacraft decided to increase this by US\$15 million to US\$23 million and to reflect this as an operating exceptional item. This provision was later increased by a further US\$2.9 million to reflect uncertainty over the collectability of certain amounts due by an entity called Worldcom.⁸

■ TVH

In October 2002, TVH announced the disposal of its entire 61% interests in the Company for HK\$50 million, incurring a non-recurring loss of approximately HK\$119 million that posted a significant negative impact on TVH's results for the year. Further, it is observed that both the sales and accounts receivable increased yet bad debts were written off as incurred.⁹

Below is the financial information of TVH for the financial years from 1998 to 2003:

- TVH increase Revenue & AR from 1998 to 2001 and process the bad debt allowance in 2001.¹⁰
- In 2002, TVH process the disposal of the Company as discontinued operation with HK\$119 Million loss.¹¹

⁷ For further details, please refer to the Annual Report 2013 of the Company, announcement of TVH dated 9 June 2003 and 29 June 2007

⁸ For further details, please refer to the Annual Report 2002 of Datacraft

⁹ For further details, please refer to announcement of TVH dated 8 October 2002 and the Annual Reports 2001 of TVH

¹⁰ For further details, please refer to the Annual Reports from 1999 to 2001 of TVH

¹¹ For further details, please refer to the Annual Report 2002 of TVH

HK\$'000

PL						
FY	1998	1999	2000	2001	2002	2003
Revenue	251,490	350,298	417,247	576,387	343,868	261,692
Loss on disposal of subsidiaries relating to discontinued operation (DMX)	0	0	0	0	-119,309	0
Profit before Tax	27,780	42,405	20,712	-84,323	-135,180	-15,734

HK\$'000

FY			1998	1999	2000	2001	2002	2003
ASSETS	CURRENT ASSETS	Accounts and bills receivable			184,898	197,797	69,122	69,364
		Cash and bank balances			130,569	97,109	60,230	91,833
	sub Total		175,589	245,195	378,610	400,488	264,275	281,019
	NON-CURRENT ASSETS		6,152	27,983	94,675	137,165	58,761	90,257
	TOTAL			273,178	473,285	537,653	323,036	371,276
LIABILITIES & EQUITY	CURRENT LIABILITIES		151,651	139,564	128,364	239,205	143,632	205,835
	NON-CURRENT LIABILITIES		1,037	1,833	1,529	629	953	737
	MINORITY INTERESTS		544	2,158	4,540	52,072	5,909	7,531
	CAPITAL AND RESERVES		28,509	129,623	338,852	245,747	172,542	157,173
	TOTAL			273,178	473,285	537,653	323,036	371,276

The Company received queries from SGX regarding increase and collectability of AR, intangible assets from 2005 to 2008.

22 February 2006	✓ Feb 22, 2005
Dear Sirs	✓ Mar 03, 2005
Clarification to queries on DMX half year result announcement	✓ Aug 05, 2005
Dear Sirs	✓ Aug 10, 2006
DMX TECHNOLOGIES GROUP LIMITED	✓ Mar 07, 2007
REPLY TO QUERIES FROM SGX ON FULL YEAR 2006 FINANCIAL RESULTS	✓ Mar 13, 2007
DMX TECHNOLOGIES GROUP LIMITED	✓ Mar 06, 2008
FURTHER CLARIFICATION TO QUERIES FROM SGX ON FULL YEAR 2007 FINANCIAL RESULTS	

Further to the Full Year 2007 Financial Results released on 29 February 2008, and in response to the query raised by the Singapore Exchange Securities Trading Limited, the Directors of DMX Technologies Group Limited (the "Company") are pleased to provide the following information:

Question:

(i) We noted that there was an increase of US\$0.5m in inventories from US\$0.5m in FY06 to US\$1.0m in FY07 which was attributed by the Group to "higher value of goods intended for customers at year-end". Please elaborate whether there are confirmed orders from customers for most or all of these goods. To discuss Director's views on whether there is a possibility of the inventories diminishing in value or obsolescence risks.

Answer:

Most of the inventories at year-end are goods intended for customers. Indent inventories are inventories purchased specifically for customers after receipt of their confirmed orders. As at year-end, the Group has made allowance for stock obsolescence by considering the age of the stocks. Allowance for stock obsolescence was made according to the Group's policy. The Directors are of the view that the inventories will not diminish in value and all obsolescence risks have been adequately provided for.

Question:

(ii) Under the review of Balance Sheet figures, the Company stated that there was an additional of US\$0.1m in intangible assets in FY07. Please provide the details and a breakdown of the major additional costs included in intangible assets. To quantify.

Answer:

The Group incurs expenditure for the purchase, licensing, development and enhancement of software and licenses owned or controlled by the Group. The costs are incurred to develop new or enhance the product features of the Group's multi-media software which is targeted at the digital media market. These costs are capitalised as intangible assets and amortised on a straight line basis over 3 years, upon their commercial deployment. Details of the intangible assets as reported in our financial reports are as follow:

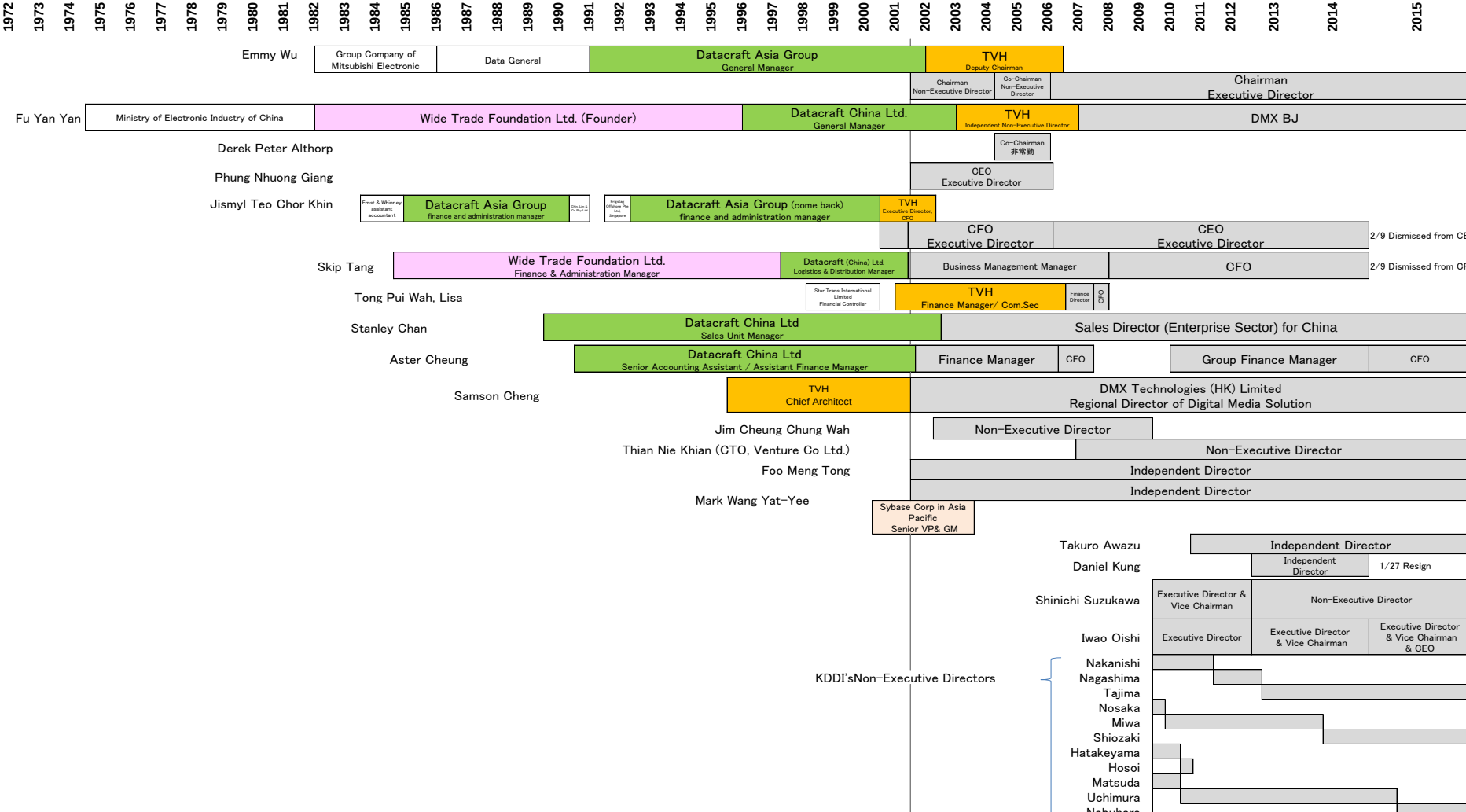
Below is the Company's past financial statement summary:-

- The revenue and AR of the Company increased rapidly, totaling US\$378 million, from FY 2002 to FY 2015;
- The free cash flow, however, were continuously negative, totally a loss of US\$220 million; and
- In 2006 and 2009, the Company has two capital injections from Venture Corporation Limited and KDDI Corporation Co., Ltd, respectively.

000' USD	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Total
Rev	33,835	41,992	70,975	129,156	160,731	161,552	172,744	190,394	270,615	335,716	379,592	398,898	374,425	129,991	
GP	9,491	12,752	21,935	36,373	42,768	39,444	45,688	50,145	61,500	74,761	87,376	91,790	83,073	29,873	
GP rate	28.1%	30.4%	30.9%	28.2%	26.6%	24.4%	26.4%	26.3%	22.7%	22.3%	23.0%	23.0%	22.2%	23.0%	
PBT	4,855	5,839	9,457	17,274	19,499	10,696	4,946	10,784	17,502	21,257	25,894	26,795	26,903	-26,099	
AR increase	-6,596	-7,560	-11,415	-26,464	-26,726	2,571	-34,565	-9,854	-63,818	-47,733	-49,629	-35,649	-33,759	-25,973	-377,170
OR increase	5,004	-265	-1,614	-2,486	2,153	-1,449	2,245	-5,201	-663	-4,445	-1,172	-875	-808	2,621	
Stock increase	903	-668	628	-1,526	-2,797	-3,819	-336	1,016	-3,503	-4,485	-6,392	-13,231	6,228	7,513	
AP increase	-1,301	-2,022	2,192	10,400	736	-7,179	-1,199	2,734	4,074	12,386	9,129	-8,959	-812	1,243	
OP increase	978	-723	28	1,603	2,087	3,135	1,981	-4,149	5,652	2,749	3,368	6,398	2,501	-4,387	
Operating CF	3,613	-5,438	2,411	3,021	-1,300	9,408	-8,533	14,838	-24,828	-2,639	656	-6,189	21,389	-24,195	
Investing CF	1,770	-1,360	-8,898	-14,695	-25,591	-22,070	-17,516	-14,887	-50,003	-28,223	-4,522	-1,723	-19,235	5,017	
FCF	5,383	-6,798	-6,487	-11,674	-26,891	-12,662	-26,049	-49	-74,831	-30,862	-3,866	-7,912	2,154	-19,178	-219,722
Financial CF	4,397	8,573	30,325	2,372	47,445	6,170	238	133,134	5,152	-2,693	-2,281	5,550	-1,472	-6,996	
Exchange effect	-11	-5	18	248	1,207	894	879	249	1,312	-305	-459	-437	487	-928	
Cash increase	9,769	1,770	23,856	-9,054	21,761	-5,598	-24,932	133,334	-68,367	-33,860	-6,606	-2,799	1,169	-27,103	
Cash BB	-	7,252	9,022	32,878	23,824	45,585	39,987	15,055	148,389	80,022	46,162	39,556	36,757	37,926	
Cash EB	7,252	9,022	32,878	23,824	45,585	39,987	15,055	148,389	80,022	46,162	39,556	36,757	37,926	10,823	

↑
 Venture participation
 ↑
 KDDI participation

Note: Figures in 2014 and 2015 are unaudited number. These figures are not reviewed by external auditor.



◆ Board members history

From FY 2002 to FY 2015

Name	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Emmy Wu	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair
Phung Nhuong Giang	ED	ED	ED	ED										
Jismyl Teo	ED	ED	ED	ED	ED	ED	ED	ED	ED	ED	ED	ED	ED	ED
Jim Cheung Chung Wah	NED	NED	NED	NED	NED	NED	NED							
Foo Meng Tong	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED
Mark Wang Yat-Yee	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED	NED
Derek Peter Althorp			ED	ED										
Thian Nie Khian						NED	NED	NED	NED	NED	NED	NED	NED	NED
Shinichi Suzukawa								ED	ED	ED	ED	NED	NED	NED
Iwao Oishi								ED	ED	ED	ED	ED	ED	ED
Masaaki Nakanishi								NED	NED					
Akio Nozaka								NED						
Shigenobu Hatakeyama								NED						
Yasunori Matsuda								NED						
Kazuo Miwa									NED	NED	NED	NED		
Kenichiro Uchimura									NED	NED	NED	NED	NED	
Takuro Awazu									NED	NED	NED	NED	NED	NED
Takashi Nagashima										NED	NED			
Daniel Kung											NED	NED	NED	
Hidehiko Tajima												NED	NED	NED
Masatoshi Nobuhara														NED
Yasuhiko Shiozaki													NED	NED

ED: Executive Director

NED: Non-Executive Director

◆ Committee members history

◆ AC member history

Name	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Foo Meng Tong	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair
Mark Wang Yat-Yee														
Emmy Wu														
Jim Cheung Chung Wah														
Thian Nie Khian														
Shigenobu Hatakeyama														
Kenichiro Uchimura														
Takuro Awazu														
Shinichi Suzukawa														
Daniel Kung														
Masatoshi Nobuhara														

◆ RC member history

Name	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Jim Cheung Chung Wah	Chair	Chair	Chair	Chair	Chair									
Foo Meng Tong														
Mark Wang Yat-Yee						Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair
Thian Nie Khian														
Masaaki Nakanishi														
Takuro Awazu														
Takashi Nagashima														
Shinichi Suzukawa														
Daniel Kung														
Hidehiko Tajima														

◆ NC member history

Name	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Foo Meng Tong	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair	Chair
Mark Wang Yat-Yee														
Emmy Wu														
Yasunori Matsuda														
Masaaki Nakanishi														
Takuro Awazu														
Takashi Nagashima														
Shinichi Suzukawa														
Daniel Kung														
Hidehiko Tajima														

The assumption of financial statements summary without the Transaction in Question

If the Company excludes the Transactions in Question from the financial statements of the Company for 6 financial years ended 31 December 2015, the Company would not be able to create profit.

Below are the summary of Sales and Profit of 6 financial years ended 31 December 2015, figures herein are set out with the assumption that the Transactions in Question are excluded. Based on the figures below:

- There is a cumulative loss of US\$ 93 million from FY 2010 to FY 2015.
- No profit was made by the Company.

1. Original : Including Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015	6 years total
Sales	271	336	380	396	374	130	1,886
Gross Profit	62	75	87	92	83	30	428
PBT	18	21	26	27	27	-26	92

2. Substantial* : Excluding Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015	6 years total
Sales	102	152	153	139	126	103	774
Gross Profit	9	23	27	23	35	30	148
PBT	-19	-14	-16	-26	-6	-10	-93

3. Variance : Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015	6 years total
Sales	169	184	226	257	249	27	1,112
Gross Profit	52	52	60	69	48	0	281
PBT	37	35	42	53	33	-16	185

* Excluding;

Estimated (1) Sales, (2) Cost of sales, (3) Depreciation and Amortization of the Transactions in Question.

Note: Figures in 2014 and 2015 are unaudited number. These figures are not reviewed by external auditor.

Below are the summary of Cash Flow statement of the Company for 6 financial years ended 31 December 2015, figures herein are set out with the assumption that the Transactions in Question are excluded and that the depleted cash flow was due to the continuous mismanagement of huge amount of expenses. Based on the figures below:

- US\$ 138 million cash was flowed away from FY 2010 to FY 2015.
- The accumulated loss of US\$134 million in Free Cash Flow was due to unprofitable operation.

1. Original : Including Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015	6 years total
PBT	18	21	26	27	27	-26	92
AR+OR	-64	-52	-51	-37	-35	-23	-262
AP+OP	10	15	12	-3	2	-3	33
Operating CF	-25	-3	1	-6	21	-24	-36
Investing CF	-50	-28	-5	-2	-19	5	-99
FCF	-75	-31	-4	-8	2	-19	-134
Financing CF	5	-3	-2	6	-1	-7	-3
Increase/Decrease	-68	-34	-7	-3	1	-27	-138

2. Substantial : Excluding Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015	6 years total
PBT	-19	-14	-16	-26	-6	-10	-93
AR+OR	-14	-16	-0	19	11	-2	-2
AP+OP	6	13	3	-8	11	-12	12
Operating CF	-42	-23	-19	-26	-0	-24	-134
Investing CF	-33	-8	15	18	3	5	-1
FCF	-75	-31	-4	-8	2	-19	-134
Financing CF	5	-3	-2	6	-1	-7	-3
Increase/Decrease	-68	-34	-7	-3	1	-27	-138

OR : Other Receivables

OP : Other Payables

Note: Figures in 2014 and 2015 are unaudited number. These figures are not reviewed by external auditor.

Below are the summary of AR, AP and fixed assets of the Company for 6 financial years ended 31 December 2015, figures herein are set out with the assumption that the Transactions in Question are excluded. Based on the figures below:

- It is highly likely that there is no substantiality of AR nor Capital Expenditure for the fixed assets.
- AR has been expanded by Transactions in Question
- Intangible Assets have been acquired by mostly Transaction in Question

1. Original : Including Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015
AR+OR balance	207	259	310	342	378	399
AP+OP balance	32	47	59	55	57	53
Tangible fixed assets	11	12	11	10	12	8
Intangible fixed assets	23	25	26	25	24	12

2. Substantial : Excluding Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015
AR+OR balance	37	57	58	58	49	49
AP+OP balance	30	46	51	49	57	48
Tangible fixed assets	3	3	3	3	5	5
Intangible fixed assets	2	1	1	2	3	3

3. Variance : Transactions in Question

(Mil US\$)	2010	2011	2012	2013	2014	2015
AR+OR balance	170	202	252	284	329	351
AP+OP balance	2	0	8	6	0	5
Tangible fixed assets	8	9	8	7	7	3
Intangible fixed assets	21	23	24	23	21	10

OR : Other Receivables

OP : Other Payables

Note: Figures in 2014 and 2015 are unaudited number. These figures are not reviewed by external auditor.

◆ DMX Group Structure

