

Investigation Report:

██████████ ██████████ Co., Ltd.

1. TERMS OF REFERENCE

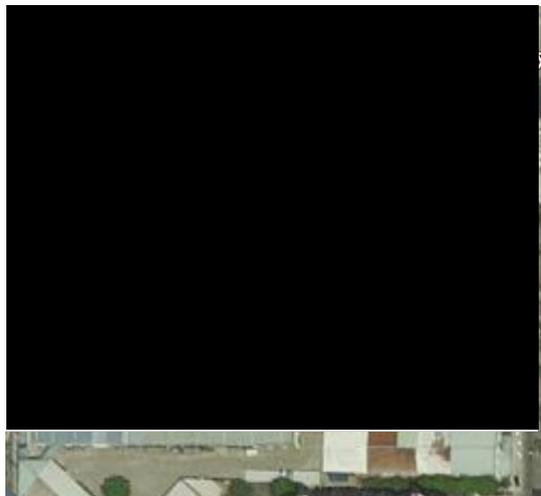
On April 20, 2020, we received instructions from ██████████ (“client”), to conduct a due diligence investigation of a company called ██████████ ██████████ Co., Ltd. (██████████ or the “company”).

2. CORPORATE BASICS

a. Registration Information

According to information provided by the client, the company’s name in Chinese is ██████████ ██████████ 有限公司. A search of Chinese company records confirmed the company’s legal existence. ██████████ was established on ██████████, 1997 in ██████████ City, Fujian Province.

A ██████████ land line (full number redacted on public records) is associated with the company, as well as an email address (██████████.com) and a nonfunctioning website (██████████). It is worth mentioning that this email address is associated with many related companies described (see Section 8). The company’s registered address (██████████ ☒ ██████████) is ██████████ ██████████ City. This was confirmed by the result of a Baidu Maps search.



Based on satellite imagery, [REDACTED] appears to operate a compound on [REDACTED] Road. The compound includes a street facing, modern looking office building. Next to and behind this office building there are older looking, shorter buildings, which may serve partly as dormitories, workshops and/or offices. There are also large, flat buildings, which may be production areas and/or warehouses. In the middle of the compound there is a parking area that may double as a loading dock.

b. Website

There is a functioning website hosted in the domain of the email provided above ([REDACTED]). This website is duly registered with the authorities in Fujian Province (ICP No. [REDACTED]) by an entity called [REDACTED]. Latin script is used to identify the company as the website owner. On the website, the company is referred to as both [REDACTED] and [REDACTED], which combines [REDACTED]'s proper name with a slightly different descriptor ([REDACTED] means "[REDACTED]," while [REDACTED] means "[REDACTED].")

On the website, [REDACTED] is listed as one of [REDACTED]'s companies. According to the website, [REDACTED] was established in [REDACTED] and it is in the [REDACTED] business. Based on a search of corporate records, it appears that [REDACTED] is not incorporated and is just used as a brand identity, with [REDACTED] (and possibly other related companies) serving as the corporate entity. [REDACTED]'s large amount of registered capital and shareholders indicate is consistent with a holding company role. (Note: The [REDACTED] establishment date may correspond to that of a defunct company or a precursor noncorporate entity).

3. REGISTERED CAPITAL

The company's registered capital is CNY [REDACTED] million (~USD [REDACTED] million as of April [REDACTED], 2020).

China's *Company Law* defines registered capital as "the capital contributions subscribed by all shareholders as registered with the company registration authority" (Art. 28). This concept of "registered capital" is different than the one under Anglo-American law, which refers to the amount of capital a company can raise by issuing shares.

Chinese law does not require a minimum amount of registered capital. However, when approving a new company's proposed capital contribution (or revisions to the original amount), Chinese authorities consider whether the proposed amount is adequate to protect potential creditors, as well as serve as a general indicator of a company's financial strength and overall capacity. Viewed in this light, CNY [REDACTED] million is a substantial amount.

[REDACTED]. This means that a competitor cannot legally use the logo on [REDACTED] but could on pencils, furniture, surgical masks, etc.)

The company also owns numerous patents, all for [REDACTED] related inventions.

5. DEROGATORY INFORMATION

a. Lawsuits

According to publicly available information, [REDACTED] has been sued on several occasions, mostly for copyright infringement.

In [REDACTED], [REDACTED] was sued by a company in [REDACTED] over a contractual sales dispute ([REDACTED] [REDACTED]). The [REDACTED] company withdrew the lawsuit for unspecified reasons.

A [REDACTED] lawsuit for [REDACTED] ([REDACTED] [REDACTED]) was withdrawn by the plaintiff, [REDACTED] company, after the parties reached a settlement.

In [REDACTED] the company was involved in a separate [REDACTED] action ([REDACTED] [REDACTED]), this one brought by a [REDACTED] company. The lawsuit was withdrawn after [REDACTED] compensated the plaintiff.

Another 2019 [REDACTED] lawsuit ([REDACTED] [REDACTED]) was withdrawn by the plaintiff, a [REDACTED] company. Yet another [REDACTED] action ([REDACTED] [REDACTED]) was withdrawn by the plaintiff, an [REDACTED] company.

b. Equity Freezes

Equity freezes refer to asset protection orders issued by courts.

[REDACTED] shares held by [REDACTED] have also been subject to several equity freezes, including the following outstanding orders:

Validity	Amount of Equity	Authority	Court Order
[REDACTED]	[REDACTED]	Intermediate People's Court of [REDACTED], Fujian Province	(2019) [REDACTED]

[REDACTED]	[REDACTED]	Fujian Higher People's Court	(2019) 闽 [REDACTED]
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Other freeze orders issued against [REDACTED] have been lifted. These freezes appear to be the result of litigation involving [REDACTED] in his personal capacity, as they have not been extended to [REDACTED] shares held by other shareholders.

c. Taxes

[REDACTED] is classified as a Class A taxpayer (highest rating).

5. BUSINESS SCOPE

The company's business scope was modified on February 10, 2020, to add "R&D, production and sales of masks, protective shoe covers, and protective clothing."

On March 5, 2020, the business scope was modified, with the above changed to "R&D, production and sales of non medical daily protective masks, medical protective masks, protective shoe covers and protective clothing," as well as "manufacturing and sales of medical devices."

6. SHAREHOLDERS

According to corporate records, the company has 14 shareholders, including both legal and natural persons. By Chinese standards, this is a large number of shareholders for a private company. (Note 1: English translations of company names are unofficial. Note 2: Actual contributions have exceeded the registered capital amount)

Shareholder	Actual Contribution (CNY) (%)
[REDACTED]	[REDACTED]

7. KEY PERSONNEL

Name	Position
	Executive Director
	Director
	Director
	Director

		Director
		Supervisor
		Supervisor
		Supervisor

██████████'s three person supervisory board is consistent with a company of comparatively large scale. China's *Company Law* provides that a company "shall have a board of supervisors, which shall have no fewer than three members." (Art. 51). Exceptions are for companies that are "comparatively small in scale." It would be unusual for a company to choose to have a three person board if the registration authorities did not require it. By deduction this suggests that ██████████ is required to have a three person board, on account of its size.

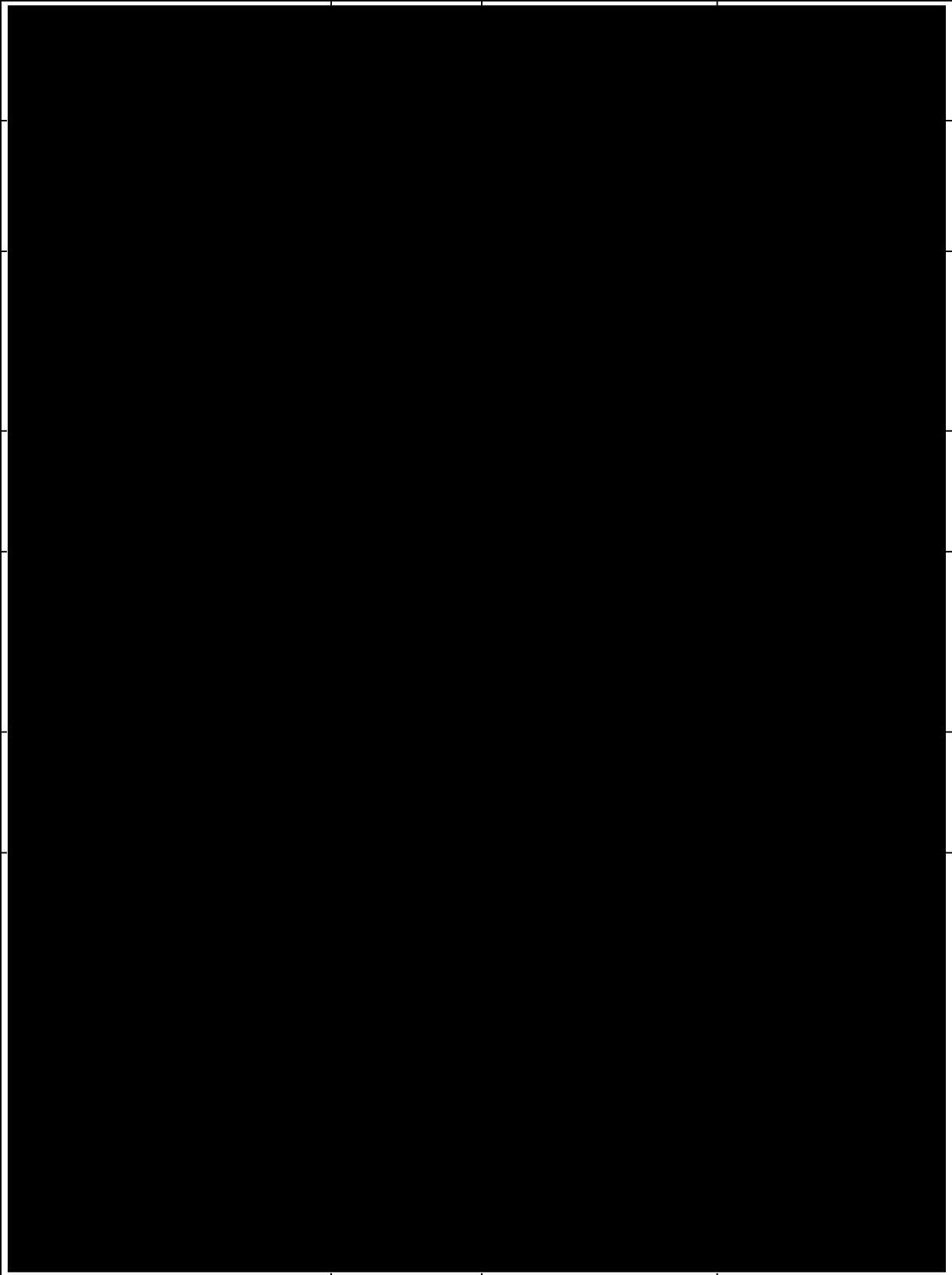
Similarly, a company "with comparatively few shareholders or comparatively small in scale may have one executive director instead of a board of directors" (Art. 50). The fact that ██████████ has a board, instead of a single executive director, again suggests that it is not considered to be "comparatively small in scale."

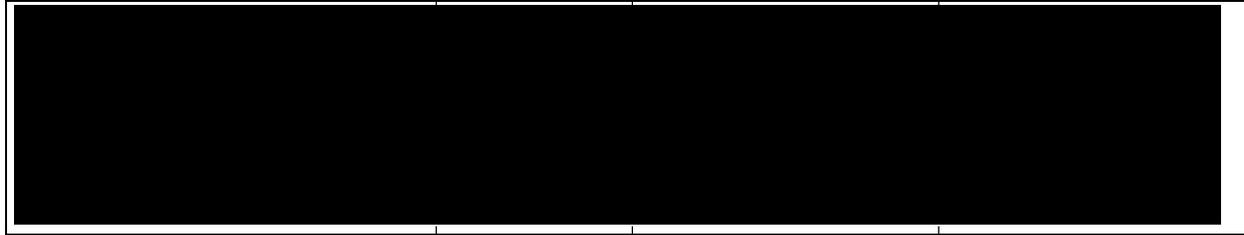
Of course, the company's considerable registered capital and extensive shareholding are even stronger indicators.

8. RELATED COMPANIES

██████████ is a shareholder in a number of other companies. (Note: English translations of company names are unofficial.)

Name	Registered Capital (CNY)	Other Shareholders	Notes





9. OTHER INFORMATION

According to news reports, on [REDACTED], 2020, the company donated CNY [REDACTED],000 to help combat COVID 19.

A photograph on the [REDACTED] website shows a wall display of numerous logos and brand names, which includes the [REDACTED] is a Texas based apparel brand, part of the [REDACTED] family, which also includes [REDACTED]. This suggests that [REDACTED] is, or was at some point in the past, an authorized supplier for [REDACTED]. According to the [REDACTED] website, other customers include [REDACTED].

[REDACTED] is listed as a participant in a [REDACTED] research and innovation program. According to the [REDACTED] website, [REDACTED] “is a leading enterprise in the [REDACTED], one of the 100 key industrial enterprises in Fujian Province.”

10. COMMENTARY

Based on the information available, [REDACTED] appears to be a large, established, well funded company that is part of a larger corporate family. At the same time, the evidence indicates that [REDACTED] is a newcomer to the medical products field. Its business scope was only recently changed to cover relevant products. All indications are that [REDACTED] and its related companies have traditionally been engaged in the [REDACTED] sector.

Given the limited details available regarding the lawsuits in which the company was involved, definitive conclusions cannot be drawn. However, it seems unlikely that the company would be sued for [REDACTED] by plaintiffs across China during the same general timeframe if its actions were entirely appropriate. On the other hand, all of the lawsuits were (or, in some cases, likely were) resolved with [REDACTED] settlement payouts, which indicates [REDACTED] has sufficient funds to pay on lawsuits and that it prefers to do so rather than risk its assets with a litigation loss.

The information available presents an unflattering portrait of majority shareholder [REDACTED]. In all likelihood, the fact that different courts in China to have, at different times, frozen

his shares is indicative of involvement in risky business activities and it must be pointed out that other [REDACTED] assets might have been frozen as well. There is also [REDACTED]'s involvement in the creation of a string of companies. While, in and of itself, inconclusive, analyzed together with other information, it conforms to a picture of wheeling and dealing. In theory, [REDACTED]'s other shareholders should provide a bulwark to protect the company, but the company's use as an investment vehicle in other entities in which [REDACTED] is involved suggests that, ultimately, he calls the shots.

Overall, [REDACTED] as a corporate entity does not raise red flags from the perspective of a product buyer. Involvement in litigation as a defendant does raise yellow flags regarding management competence and company values, but at the same time it would be hard to find a company that is more than two decades' old that has not been sued. Likewise, though fellow shareholders may have cause for concern regarding [REDACTED]'s oversized presence, this is likely of little relevance to the company's buyers.

[REDACTED] as a manufacturer of medical products is another story. This is clearly not the company's forte, or at least that has historically not been the case. Given its evident heft, it will likely be able to effectively retool. [REDACTED] is a well known [REDACTED] hub, and it can be expected that local authorities will do all they can to support adaptive economic activity as the city gets back on its feet after the COVID 19 shutdown; notice the approval of an expanded business scope by the relevant organs. That said, anything other than transparency from [REDACTED] regarding its traditional expertise should be viewed with concern and issues stemming from its relative inexperience should be expected.