

## APPENDIX 2

1. Officer Cummins knew from her experience as an Officer involved in MTIC investigations that the term “Z9” was usually associated with Central Processing Units (“CPUs”), (the full name being Intel Pentium 4 SL8 or SL9 HZ Computer Processing Units) and that the industry standard was 315 x CPUs per box, therefore 16 x 315 units would equal 5040 units.

2. There were various abbreviations and the ones relevant to Asylum were interpreted by Officer Cummins as follows:

“Z9” equals Central Processing Units (“CPUs”). “Point” equals Point of Logistics Ltd (the freight forwarder). “ASY” equals Asylum. “HLT” equals High Level Trading GmbH (as Swiss company registered in Germany who was a customer of both Asylum and of ITW). “TRX” equals Tradex Corporation Ltd. “STX” equals Stardex UK Ltd. “FRN” equals Fern Associates Ltd. “OPT” equals Optimal Group Ltd. “MGC” equals MG Components Ltd. “Walktalk” equals Walk and Talk Yorkshire Ltd. “PZP” equals PZP ENA D.O.O. (a Slovenian company). “IQT” equals IQ Trading APS (a Danish company).

3. The notebook entry for 30 March is as below:

30/03 16x Z9 @ POINT

HLT		£91.50
IQT	£91.50	£91.75
PZP	£91.75	£81.70
WLK	£81.70	£82.10
MGC	£82.10	£82.30
OPT	£82.30	£82.50
FRN	£82.50	£83
STX	£83	£84
TRX	£84	£84.50
ASY	£84.50	£88.00 to HLT

P.I. -£462,420.00

Comms - £3,552.20

W - £21,407.40

full paid 30/3

This chain for the most part mirrors the chain derived by Officer Ginn from Asylum's documents for deal March 4 and from electronic folders relating to other buffers in the chain, or in the case of the defaulter, Walk and Talk, documents relating to that party. However, in MG Components' electronic folder there was no deal information which matched the deal for 5040 CPUs on 30 March 2006. Nonetheless the folder did include a document called "Trader Letter" which consisted of 60 various documents including freight forwarder allocation notes, invoices and export documents, and included within them was a release allocation form dated 30 March 2006 advising the freight forwarder "Point" to release "Z9 tray 16 boxes (or 5040 units) from their supplier Walktalk" to their customer "Optimal". This in our judgment on the balance of probabilities confirms a deal between MG Components and Optimal on 30 March 2006 for 5040 units and this corresponds with the notebook entry.

4. Also in MG Components' electronic folder record was a Walk and Talk release note to the freight forwarder advising them to release 16 boxes of SL7Z9 CPUs on 30 March 2006 to MG Components. Walk and Talk's electronic folder includes an assessment schedule (made by another officer) which shows a deal on 30 March 2006 for 5040 CPUs sold at £82.30 by Walk and Talk to MG Components. This varies from the notebook which shows the price as £82.10. We do not consider this variation significant, given that the assessment value compiled by the Officer could well have been based on MG Components' selling price, which was £82.30. Walk and Talk, the defaulter in Asylum's chain, as at 2 December 2008 had a liability to the Commissioners of £1,568,069.43.

5. In the case of IQT, its allocation note instructed Point of Logistics to release 16 boxes (5040 units) of CPUs (the same items as involved in Asylum's deal) to PZP Ena on 30 March. That allocation note confirms that the goods have come from "High Level Trading", who was Asylum's customer on this deal as well as the EU supplier. This therefore is evidence of full circularity in this deal chain and evidence that the deal did not come about as a result of normal commercial market forces.

6. The notebook also shows that PZP bought at £91.75 per unit yet sold at £81.70 per unit. This price drop is according to Officer Cummins, a common feature of MTIC fraud and is explained by the fact that without it the unit cost would continue to grow down the chain to an unbelievable level.

7. With regard to the abbreviations at the foot of the page, "P.I." was taken to be "Payment Instruction", "Coms" to be "Commission" and "W" to be "World Wide Currencies". World Wide Currencies is a currency exchange bureau which does not appear as such in any of the documents related to Asylum, but which Officer Cummins had come across in other cases where the name appeared in notebooks to traders' deal sheets, sometimes with a bank account number. Officer Cummins concluded that in the deal 30/3 the reference to "Coms – £3,553.20" represented a payment to MG Components in that sum. The formula she believed was used to calculate this commission payment was by taking the selling price of the entity receiving the sum (i.e. MG Components) minus the selling price of the alleged price dropper, BZP ENA, multiplied by the number of units, and plus the then VAT rate which at time was 17.5%. In this case the price difference is 60p, which when multiplied by 5040 and then by 17.5% gives the figure of £3,553.20. This formula has been shown to work in a number of examples, and we accept that it has been proper to apply it in this case.

8. In the above case Optimal did not pay MG Components the full value of the supply made to them which was £487,380.60 gross. The evidence from the notebook suggests that Optimal made third party payments of £462,420 and £21,407.40 with the smaller sum going to World Wide Currencies. There is no evidence of Walk and Talk or PZP, the price dropper, receiving any money. It was suggested that the formula for calculating the third party payments was based on the price dropper (PZP)'s selling price multiplied by the number of units plus 17.5%. In this case that gives a figure of £483,827.40, i.e. £462,420 plus £21,407.40, the figure on the notebook entry. The FCIB evidence, which we turn to below, shows that on 30 March 2006, Optimal made a payment of £462,420 to IQ Trading, it should have paid MG Components according to the invoice trail, and MG Components should have paid Walk and Talk, but did not do so. However there is no evidence of an FCIB payment of £21,407.40 being made by IQT to anyone. The final piece of evidence from this page of the notebook is the note at the bottom "full paid 30/03", which is consistent with the FCIB evidence which shows all the payments in respect of 30 March 2006 were made on 30 March 2006 with the exception of the absent payment of £21,407.40.

9. The notebook entry relating to Asylum's deals March 7 and 8 is as follows:

31/03 28 Boxes @ POINT

HL	13 @ 91	HL 15 @91.50
IQT	13 @ 91.25	AVM @ 92.25
PZP	↑	81.70
WT	81.70	82.10
MG	82.10	82.30
OPT	82.30	82.50
FN	82.50	83
STDY	83	84
TRX	84	84.50
ASY	84.50 →	87.88 → 88.00 to HLT
IQT	- £373,668.75	
AVM	- £435,881.25	
MG Coms	- £6,281.10	
W	- £37,147.95	

The abbreviations are on occasion slightly different from the earlier example but still recognisable. The only abbreviation which appears here but not in the notebook entry for deal March 4 is “AVM” which Officer Cummins interpreted as representing the Spanish Trader AVM Euromoviles SL, which appears as the supplier to PZP ENA, and is the EU supplier in Asylum’s deal March 8. On this occasion the notebook shows that 28 boxes (8820 units) of CPUs were sold, the supply coming from HLT before 13 box (4095 units) passed to IQ, whilst 15 boxes (4725 units) were supplied by HLT to AVM. These two different amounts correspond with the supplies shown on the invoices and other documents captured on the electronic folders of the traders in Asylum’s deals March 7 and 8, although there was no selling price for Walk and Talk and no deal information in the electronic folder for MG Components matching a deal for 8820 CPUs made on 31 March 2006. However, Optimal’s deal log shows MGC as the supplier of 8820 CPUs at £82.30 per unit on 31 March 2006 which matches exactly the notebook entry. In Asylum’s deal chain the supply according to the invoices travels from the defaulter, Walk and Talk, through the buffers down to Tradex as 8820 units, but Tradex then splits the deal, making two separate supplies to Asylum, one of 4095 units and one of 4725 units. Asylum then makes two separate supplies to HLT in Switzerland. The notebook entry thus shows a circularity beginning and ending with HLT which is not revealed by the invoices, the invoice trail ending at Walk and Talk.

10. As in the notebook entry in respect of the 30 March which we accept refers to Asylum’s deal March 4, PZP is the “price dropper” and Officer Cummins applies the same reasoning and formula on this occasion as previously. The VAT due from Walk and Talk, the defaulter, was removed by the use of a third party payment. Officer Cummins took the amount of £6,218.10 next to “MG Coms” to be the sum paid by Optimal to MGT whereas it should have paid MGT £725,886 net, £852,916 gross. After the minimal payment to MGT, this sum was divided between the parties appearing at the bottom of the entry, IQT, AVM and W, and the amounts represent third party payments in the sums shown of £373,668.75 to IQT, £435,881.25 to AVM and £37,147.95 to W, making a total of £846,697.95. We accept Officer Cummins’ conclusion that this sum had been arrived at by taking PZP (the price dropper)’s selling price of £81.70 times the number of units (8820) plus 17.5%.

11. The FCIB evidence reflects the above although it shows a payment on 31 March by Optimal to IQ Trading of £373,668.79, this sum was recognised in evidence by Mr Mendes as being a typographical error, the exhibit shows the sum as being £373,668.75 as per the notebook entry. The FCIB evidence shows Optimal paying AVM Euromoviles £435,881.25.

12. Officer Cummins also produced a detailed analysis in similar form to the above in respect of a notebook entry relating to a transaction by Asylum on 30 November 2005, on this occasion the entry has the year included as well as the day and the month. There is an abbreviation “ASS” not “ASY” on this occasion, but on the basis of the evidence we accept her conclusion that this refers to Asylum. There is at the foot of the entry an abbreviation “WWC” which strengthens Officer Cummins’ conclusion, which we accepted earlier in respect of the other two notebook entries that “W” refers to “World Wide Currencies”. We do not have any of the relevant deal sheets on this occasion nor was there any FCIB evidence in relation to the period, we take account of the fact that here, as in the two other notebook entries analysed above, there are references to High Level Trading (“HLT”), Tradex and Asylum which also feature in the Officer’s fourth, fifth, sixth, eighth and ninth examples. In her seventh

example, in respect of 17 February 2006, there is a reference to Asylum and also to ITW and HLT. On this occasion, the abbreviation “STML” appears which was interpreted by the Officer as referring to Starmill, a conclusion which again we accept.

13. In her Witness Statement, Officer Lisa Orr details four occasions when a reference to ITW appears in the notebooks, and her analysis of the parties and layout mirrors that of Officer Cummins. By checking the documentation relating to ITW’s deal chains held by other Officers investigating ITW’s business, she was able to confirm that the notebook entries reflect the deals carried out by ITW as broker trader on all four of those occasions which relate to transactions carried out by ITW in 2006.

14. The first relevant notebook entry relates to 20 March 2006, where again HLT and Tradex feature as well as ITW, the freight forwarder is again Point of Logistics Ltd. There is notebook evidence of a deal dated 17 February 2006 in which Starmill bought 7,245 CPU units from Fern and sold 1,260 to Asylum and 5,985 to ITW. Both Asylum and ITW sold the units on to HLT. On 10 March 2006, ITW bought from Tradex and sold to HLT who had been the company at the head of that chain as well as at the foot. The entry for 15 March 2006 is similar to that for 10 March 2006. None of the above four deals were the subject of ITW’s appeal.