

**IN THE CROWN COURT AT SOUTHWARK**  
**BETWEEN:**

**REGINA**  
**(SERIOUS FRAUD OFFICE)**

- v -

**GURALP SYSTEMS LIMITED**

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**STATEMENT OF FACTS**

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This Statement of Facts has been prepared pursuant to Paragraph 5(1) of Schedule 17 to the Crime and Courts Act 2013. It is agreed between the parties. It relates to the alleged commission by Guralp Systems Limited ("GSL") of offences of conspiracy to make corrupt payments (Count 1) and failing to prevent bribery by employees (Count 2), which are set out in the draft indictment.

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**Overview**

1. GSL was incorporated on 26 November 1987. GSL designs and manufactures seismological instruments and sells them all over the world. The applications of GSL's instruments include: academic research; civil protection programmes (i.e. earthquake early warning systems); structural monitoring; geophysical exploration, and monitoring to detect nuclear weapons tests. Typically, 90% to 95% of GSL sales are overseas. The bulk of GSL's customers are foreign governments or state funded entities.
2. Between 5 November 2003 and 27 May 2015, GSL made payments totalling **USD \$1,034,931** (approximately **GBP £640,000**) to a South Korean public official named Dr Heon-Cheol Chi ("Dr Chi"). Dr Chi was, at various times between 2002 and 2015, a Principal Researcher and Centre Head of the Earthquake Research Centre at the Korea Institute of Geoscience and Mineral Resources ("KIGAM"). KIGAM is a government-funded research institute established by statute. It is supervised by a Government Ministry and is subject to inspections and routine audits performed by the Government of the Republic of Korea.
3. The payments were made as an inducement or reward to Dr Chi for exploiting his position at KIGAM to influence the award of contracts to GSL. The payments were described by Dr Chi as "technical advice fees" and they were included within the breakdown of the sales price of GSL's instruments in the Republic of Korea, without being disclosed in the quote submitted by GSL, during the indictment period. Some of the payments to Dr Chi were in cash, the majority were made electronically to a personal bank account at Bank of America in the USA, which was owned and controlled by Dr Chi.
4. Between 2003 and 2015, GSL's revenue from the Republic of Korea grew very substantially. As set out in the table below, in the accounting year ending 31 January 2003 GSL's revenue from the Republic of Korea was approximately GBP £20,146. By 2015, GSL's revenue from the Republic of Korea had increased to approximately GBP £1,453,618. It is however agreed that not all business generated by GSL in this region over the relevant period was tainted by the conduct

involving Dr Chi. The total gross profit for the purposes of disgorgement has been calculated on the best evidence available and amounts to £2,069,861.

<b>Accounting Year</b>	<b>Total Revenue</b> (from GSL financial statements)	<b>Korean Invoices</b>	<b>Approximate Korean Share</b>
2003	£4,652,282	£20,146	0.43%
2004	£3,213,870	£9,357	0.29%
2005	£4,479,229	£53,392	1.19%
2006	£7,815,991	£355,166	4.54%
2007	£8,545,517	£200,782	2.35%
2008	£7,834,683	£211,332	2.70%
2009	£7,068,498	£342,163	4.84%
2010	£8,618,769	£1,198,025	13.90%
2011	£9,324,751	£153,225	1.64%
2012	£7,729,148	£423,270	5.48%
2013	£7,893,440	£845,465	10.71%
2014	£11,872,989	£778,672	6.56%
2015	£11,977,274	£1,453,618	12.14%

5. The Republic of Korea is an important market for GSL because it has a relatively high spend on seismic monitoring given its seismic activity and population size and proximity to North Korea. It was a high growth market for GSL during the indictment period and has varied between 2% to 14% of GSL's business over the last 10 year period to 31 March 2015. The Republic of Korea's use of GSL's instruments is an endorsement of GSL products.
6. Dr Cansun Güralp ("Dr Güralp") established GSL's relationship with Dr Chi in 2002. At the time, Dr Güralp owned GSL and managed every aspect of its business.
7. On 26 March 2010, the majority interest in GSL was acquired by a private equity firm. As part of the acquisition, in addition to the purchase price, Dr Güralp received the proceeds of dividend payments totalling £6,008,586. Dr Güralp remained a director of GSL after the acquisition, until 20 January 2015.
8. Natalie Pearce was employed by GSL from October 1997 until 15 November 2015. Natalie Pearce became Dr Chi's main point of contact at GSL. She administered the arrangement with Dr Chi and facilitated most of the payments made to him. By 2010, Natalie Pearce was the Head of Sales. Natalie Pearce was not a director of GSL but she did attend board meetings by invitation.
9. Andrew Bell joined GSL in January 2010. He became a director of GSL at the time of the acquisition on 26 March 2010 and he remained a director until 17 July 2015. Andrew Bell occupied senior positions at GSL, initially as the Finance Director and then from November 2013 as caretaker Managing Director. As part of the payment authorisation process, Mr Bell authorised GSL's finance department to make payments to Dr Chi.
10. Payments to Dr Chi continued after 1 July 2011, when section 7 of the Bribery Act 2010 came into force. The last payment made by GSL to Dr Chi was on 27 May 2015.
11. In December 2014, GSL recruited a new Executive Chairman. On 7 September 2015 the Acting Finance Director asked the Executive Chairman who would

authorise Dr Chi's invoices as the Head of Sales, Natalie Pearce, had provided notice of her resignation. The Executive Chairman formed suspicions that payments GSL made to Dr Chi might be corrupt. GSL commenced an internal investigation. On 15 September 2015, GSL informed Dr Chi that it would cease making payments to him. In the week commencing 21 September 2015 GSL instructed a law firm, which led to GSL self-reporting to both the Serious Fraud Office ("SFO") and the Department of Justice ("DoJ") on 23 October 2015.

12. Following the self-report, the SFO commenced its own independent and comprehensive investigation into suspected bribery offences involving GSL on 3 December 2015. During the course of that investigation, nine interviews were conducted under caution, 24 witness interviews were conducted, 51 Notices were issued pursuant to Section 2 of the Criminal Justice Act 1987 and requests for mutual legal assistance were made to two overseas jurisdictions.
13. GSL provided extensive and ongoing cooperation with the SFO investigation. This included:
  - a. responding to requests made for documentation and information and voluntarily providing additional relevant information;
  - b. deferring GSL's own interviews until the SFO was content for the interviews to proceed;
  - c. providing material relating to interviews held with Natalie Pearce and other GSL employees and provision of other relevant materials to the SFO;
  - d. consulting the SFO in relation to other matters including communications with GSL's customers and suppliers; and
  - e. keeping the SFO informed of all contact with Dr Chi and his travel arrangements.

## **Count 1: Conspiracy to Corrupt**

14. Conspiracy to corrupt between 1 April 2002 and 15 September 2015:

*"GURULP SYSTEMS LIMITED, CANSUN GÜRALP, NATALIE PEARCE and ANDREW BELL between the 1<sup>st</sup> day of April 2002 and the 15<sup>th</sup> day of September 2015 conspired together and with Dr Heon-Cheol Chi, that corrupt payments would be made to Dr Heon-Cheol Chi by or on behalf of Guralp Systems Limited as an inducement or reward for showing favour to Guralp Systems Limited in relation to the affairs of the Korea Institute of Geoscience and Mineral Resources, contrary to section 1 of the Prevention of Corruption Act 1906, namely by:*

- (i) recommending Guralp Systems Limited equipment to organisations in the Republic of Korea and/or;*
- (ii) advising Guralp Systems Limited on negotiation strategy with the procurement division of the Korea Institute of Geoscience and Mineral Resources and/or;*
- (iii) influencing the setting of equipment specifications to favour Guralp Systems Limited and/or;*
- (iv) providing confidential information to Guralp Systems Limited and/or;*
- (v) supporting the reputation of Guralp Systems Limited and its products."*

### **Establishing the relationship with Dr Chi**

15. In an email dated 23 July 1999, Dr Chi introduced himself to Dr Güralp, as Head of the Earthquake Research Centre at KIGAM. At that time, GSL already conducted a limited amount of business with KIGAM.
16. GSL's relationship with Dr Chi developed via correspondence between Dr Chi, Dr Güralp and Natalie Pearce. Then, in June 2002, Dr Chi visited GSL's offices. Among the stated reasons for the visit, Dr Chi wanted to look around the

facilities, meet GSL's technicians and discuss future cooperation. During that visit Dr Chi and Dr Güralp discussed a co-operation agreement.

### **Handwritten draft agreement**

17. On 28 June 2002, shortly after his visit to GSL, Dr Chi asked Dr Güralp whether he had drafted the co-operation document.
18. GSL provided to the SFO as part of the SFO's investigation various undated handwritten notes from a file at GSL's offices. The notes include an undated handwritten draft agreement, which states:

#### *Agreement*

#### *Guralp Systems*

*Both Dr. Güralp and Dr Chi agreed the following:*

- 1) *Dr Chi must be un-biased and reasonable with respect to the demand and requirement of buyers (users) on the seismic monitoring systems. Dr Chi should give his best support to the associated orders from Korea with his technical group.*
- 2) *Dr Güralp must supply his best assistance to Dr Chi with his members if requested.*
- 3) *The basic price applied to the order from Korea includes the technical advice fee, \$500. The basic price would be updated when the costs of relevant items change enough. But the updated price is applied to the order after notified.*
- 4) *Dr Güralp should give the agentship to Hee-Song Geotek Co. which can be changed when Dr Chi wishes and the agent is responsible for the associated order.*
- 5) *This agreement can be modified by both discussion and acceptance.*

*\*length of Agreement\**

**Signed personal agreement with Dr Chi (4 Feb 2003)**

19. Dr Güralp and Dr Chi both signed the following agreement, signed by Dr Güralp on 4 February 2003 and by Dr Chi on 7 February 2003:

*“Agreement between Güralp Systems Ltd and Dr Chi Heon Cheol*

*It has been agreed that Dr Chi and his working partners will be providing technical advice and technical and installation support to Guralp Systems within the South Korean seismological market. Dr Chi will be recommending Guralp Systems products in general to South Korean Seismological equipment users and seismological institutions. The interests of both of parties will be upheld under all circumstances. Guralp systems products will be actively supported and recommended to the seismic community.*

*The product's [sic] that will be actively supported by Dr.Chi and his Colleagues are in the fields of strong motion sensors and weak [sic] motion sensors. The application of these sensors can vary from borehole sensors to surface and ocean bottom sensors encompassing all of Güralp Systems products.*

*This agreement will last for one year from the dated of signing the agreement.*

*If required, Dr Chi's colleagues will be trained technically and on the issues of installing sensors at the premises of Güralp System.” [Emphasis added]*

**Sales & Technical Representation Agreement with Heesong (5 Nov 2003)**

20. GSL signed a further agreement with a Korean company called Heesong Geotek Co Limited (“Heesong”), which provided that Heesong would act as GSL’s sales and technical representative in the Republic of Korea. Dr Chi had provided GSL



with the draft for this agreement, and he had invited GSL to use Heesong as a representative. Heesong, established in 1996, was a distributor in the South Korean market used by many geophysical manufacturers prior to and since 2003. Heesong was engaged as the Korean distributor for GSL's products.

### **Assistance provided by Dr Chi**

21. Dr Chi provided assistance to GSL in the following areas, which are dealt with in more detail below:
  - a. Recommending GSL's products to end-users and supporting the reputation of GSL;
  - b. Advising GSL on pricing and strategy in the Republic of Korea;
  - c. Influencing the setting of equipment specifications in favour of GSL; and
  - d. Providing GSL with confidential information.

### **Recommending GSL's products and supporting the reputation of GSL**

22. Dr Chi's position at KIGAM enabled him to offer authoritative advice on seismological matters in the Republic of Korea to end users, including those on whose projects he had specific responsibility and which included the Korea Railroad Corporation ("KORAIL"), the Korean Meteorological Agency ("KMA"), the South Korean public natural gas company ("KOGAS") and the Korea Water Resources Corporation ("KOWACO"). Dr Chi used his position to recommend GSL's products. There is some evidence to suggest that Dr Chi also identified certain people within KIGAM who were in a position to exercise their influence to assist GSL, or was willing to use money from "advice fees" to seek to influence them himself.
23. Between 2006 and 2008, GSL suffered software and hardware issues, particularly associated with products DM24 and DCM, which necessitated the repair of equipment, and additional work on KIGAM's part to monitor the operation of GSL's systems. The issues described by Dr Chi included issues with systems being down, rebooting and GPS issues. During this period Dr Chi continued to support and promote GSL's DM24 and DCM systems and he

attested to their reliability. Dr Chi repeatedly expressed concern about the potential reputational damage to GSL in the event that the problems could not be fixed and his frustration with the speed with which these issues were resolved.

24. In February 2008, Dr Chi indicated that he was anxious to avoid a government audit of GSL's systems, which would reveal the reliability problems. Dr Chi questioned how he would be able to defend the problems encountered with the DM24 and DCM hardware installed at "three valve stations" and "some Dams" if they became known outside KIGAM. Furthermore, Dr Chi complained that GSL failed to provide any manuals or cables with the RTU relay systems they shipped.

#### **Advice on pricing and strategy**

25. Dr Chi's inside knowledge at KIGAM and his knowledge of public sector procurement practices in the Republic of Korea enabled him to advise GSL on pricing and negotiation strategy. Dr Chi used his knowledge to assist GSL notwithstanding that this may have been to the detriment of his employer, KIGAM. At times Dr Chi created price lists that included his own 'technical advice fee' within the price.
26. Dr Chi encouraged Dr Güralp and Natalie Pearce to maintain GSL's pricing throughout the Republic of Korea because historical prices were recorded and purchase departments could request those records. Therefore, if GSL were to offer a discount, that could lead to a price reduction across all GSL's customers in the Republic of Korea.
27. In August 2003, Dr Chi reported to Natalie Pearce (copied to Dr Güralp) that he had submitted a price list to a Korean governmental organisation called the Public Procurement Service ("PPS"). Dr Chi explained that the PPS dealt with most governmental orders. The PPS would refer to the price list held on file and would require a lower price on subsequent contracts. Therefore, Dr Chi had increased GSL's list price by "about 40%" when he submitted the price list to the PPS. In the same email, Dr Chi reported that he had personally asked a favour from one of

KIGAM's purchase department staff, Dr Cho, to not request any performance bonds related to GSL's products.

28. In an email to Natalie Pearce (copied to Dr Güralp) dated 22 September 2003, Dr Chi sent a quotation back in which \$3,000 had been added to cover his fee. He went on to suggest how GSL could increase previously quoted prices to include his fee. Dr Chi explained that a quotation provided to KIGAM (which included Dr Chi's fee) would serve as the basic price. He suggested that to avoid drawing attention to the price rise, GSL's quotation could be quoted in sterling rather than dollars.
29. In January 2004, Dr Chi again advised Natalie Pearce, in an email copying in Dr Güralp, to refuse a request from the procurement department at KIGAM for a further discount. He explained that the procurement department would request a discount because that was their duty. However, Dr Chi had agreed the price with GSL so they did not need to offer any further discount. Dr Chi advised Natalie Pearce to respond to the procurement department by stating that the price had already been discounted and it was the best price.
30. Further discussion on pricing took place on 13 January 2005 in an email to Natalie Pearce (copied to Dr Güralp), sparked by a question from Natalie Pearce to Dr Chi about whether a particular piece of equipment was subject to his fee. Dr Chi replied saying that the general rule was that all orders from Korea should include his fee. If the order is placed through Heesong, an agent fee will be added. Dr Chi confirmed that he had agreed with Natalie Pearce that GSL would increase their prices from February 2005. The new prices would apply to all new orders except an order for KORAIL, the high-speed railway in South Korea. Dr Chi said that many companies were asking him how much it would cost to install earthquake rapid warning systems. Dr Chi indicated that he wanted to discuss with Natalie Pearce an increase to his fees. He reported to Natalie Pearce that he had already warned the purchase division at KIGAM that GSL would increase its prices due to fluctuations in the exchange rate.

31. In October 2010, after GSL lost a bid to a competitor, Dr Chi reported to Dr Güralp, Natalie Pearce and another former member of GSL that there was a “*kind of anti-cartel*” against GSL and GSL's distributor, Heesong. Dr Chi stated this was because only GSL's systems were sold with a qualified test certificate in the two years prior to May 2010, this certificate being issued by KIGAM. Dr Chi went on to state that “*in order to destroy*” the “*anti-cartel*” he would make Heesong supply GSL's systems to an organisation called KIT Valley and if possible also to an organisation called Korea Maintenance (“KM”). According to Dr Chi, KM were an existing supplier of Kinematics sensors and GeoSIG dataloggers. Kinematics and GeoSIG were competitors of GSL. KIT Valley and KM wanted to resell GSL equipment.

### **Influencing the setting of equipment specifications**

32. In an email to Dr Güralp (copied to Natalie Pearce) dated 22 July 2003, Dr Chi claimed that “*My institute [KIGAM] is the only official organization to give a certificate of seismic instruments in Korea*”. Dr Chi also claimed in an email to Natalie Pearce (copied to Dr Güralp) dated 15 January 2008 that KIGAM was also responsible for issuing certificates for seismological instruments.
33. In June 2006, Dr Chi reported to Natalie Pearce that “*...the regulation of seismic instruments in gas facilities was decided to change to fit your [GSL's] system*” (sic).
34. In September 2009, Dr Chi indicated in an email to Natalie Pearce (copied to Dr Güralp) that he would use \$1,000 from his advice fee to pay for dinner and accommodation for three of his colleagues, one of whom Dr Chi said was usually responsible for testing GSL's systems and providing the test sheet to Heesong.
35. From May 2010 onwards, an organisation called KRISS (Korea Research Institute of Standards and Science) was also able to issue test certificates. Dr Chi claimed in an email to Natalie Pearce (copied to Dr Güralp) dated 24 August 2011 that out of five companies, KIGAM only certified GSL's instruments, but KRISS had certified those companies that KIGAM did not certify. In June 2012,

Dr Chi reported that staff from KRISS had visited KIGAM to learn how to properly test all items on the specification. He further reported that the relevant staff from KRISS had agreed that the test results from both institutes should be the same to prevent any conflict.

36. In July 2014, Dr Chi informed Natalie Pearce that KIGAM would “officially [...] control the specification” relating to construction of seismic stations for Korea Meteorological Administration.
37. In October 2014, Dr Chi reported that KIGAM had been refused permission by the *"director of purchase division"* to directly award a private contract to GSL. Dr Chi said that he had therefore provided a commodity description for a broadband seismometer that exactly matched GSL’s specification, for the public tender. Dr Chi said that GSL did not need to participate in the tender bidding and that *"after the nominal procedure [KIGAM] would do a private contract with [GSL]"*.

### **Providing confidential information**

38. Dr Chi’s position at KIGAM meant that he had access to information that was not in the public domain. He sometimes provided that information to GSL, which could assist GSL to compete for business in the Republic of Korea.
39. In May 2010, Dr Chi shared with Natalie Pearce a presentation that one of GSL’s competitors had delivered to KIGAM. In March 2010, Dr Chi also shared with Natalie Pearce information about a competitor’s pricing.

### **Secrecy**

40. The true nature and extent of Dr Chi’s relationship with GSL was kept secret from the outside world. Dr Chi was particularly keen to keep the fact that GSL was making payments to him a secret from his employer and his colleagues. In communications with Dr Güralp and Natalie Pearce, Dr Chi urged caution around contact with his colleagues at KIGAM, and also with

others at organisations, including Heesong. Dr Chi made it clear to them that he was a government official and accordingly prohibited from publicly supporting any private company.

41. Dr Chi asked Dr Güralp and Natalie Pearce to delete certain emails that referred to advice fees and the assistance that Dr Chi provided to GSL. Dr Chi also indicated that he deleted emails from his own mailbox relating to *"agent fee or advice fee"* because he was *"not allowed to be involved in it"*. In January 2010, Dr Chi asked Dr Güralp and Natalie Pearce to confirm that they had transferred his advice fee by sending a separate email stating simply, "yes, done".
42. On some occasions when Dr Chi was planning to meet with Dr Güralp or Natalie Pearce in person, he asked for cash payments to be made to him and not revealed to his colleagues or representatives of Heesong. On these occasions, these requests were complied with.

### **Payment mechanisms**

43. Between 2003 and September 2009, certain GSL employees gave Dr Chi cash payments totalling USD \$70,451. There were eight separate payments ranging in value from USD \$5,500 to USD \$19,000, plus one additional payment of GBP £50 for a taxi. Sometimes the cash was handed to Dr Chi during his visits to GSL's offices. On at least two occasions Dr Chi asked to be met at Heathrow Airport in order for the cash to be handed over to him. Dr Chi sent Dr Güralp and/or Natalie Pearce emails setting out the amounts that he wished to collect and the currency he wanted to be paid in. On at least one occasion, Dr Chi asked Natalie Pearce for large denomination notes in order to reduce the physical volume of the cash.
44. As the invoiced amounts grew larger over time, the majority of payments were made to a bank account in the United States of America that was owned and controlled by Dr Chi. Dr Chi told Natalie Pearce about this account in December 2004 whilst discussing the advice fees for a large order relating to an express train project: *"Frankly speaking, I want to make a large fortune by the order*

*[...] You might worry about the payment but you did not need. I have a bank account in America and you can send the technical advice fee to my bank account like as agent fee.” (sic)*

45. In March 2010, Dr Chi told Natalie Pearce that the reason he used an account in the USA to receive his advice fees was that his family assets and cash flow had to be reported to the South Korean Government every year.
46. Between 2005 and 2015, GSL transferred USD \$964,480 to Dr Chi’s account at Bank of America in 31 separate payments.
47. On 15 December 2015, after the payments to Dr Chi had been terminated, Dr Chi explained to GSL’s Executive Chairman that "the distributor" was required to send him data setting out all the instruments sold in the Republic of Korea. Dr Chi said that he had used that data to calculate his invoices. At this time GSL had two distributors in the Republic of Korea, Heesong and Korea EMT.
48. Heesong contracted with GSL for a significant number of orders on which Dr Chi was not paid an advice fee, particularly after the investment by a private equity firm in 2010, significantly in the period, 2013 – 2015. In October 2018 GSL took the decision to terminate its distributor relationship with Heesong on notice.

## **Count 2**

49. Failure to prevent bribery between 1 July 2011 and 15 September 2015:

*"GURALP SYSTEMS LIMITED between the 1<sup>st</sup> day of July 2011 and the 15<sup>th</sup> day of September 2015, failed to prevent employees of Guralp Systems Limited from bribing another person, namely Dr Heon-Cheol Chi at the Korea Institute of Geoscience and Mineral Resources, intending to obtain or retain business for Guralp Systems Limited, or to obtain or retain an advantage in the conduct of business for Guralp Systems Limited."*

## **Anti-Bribery and Corruption Policy**

50. Prior to 2012, GSL had not adopted any Anti-Bribery and Corruption (“ABC”) policy, did not routinely offer ABC training to its staff, save for the presentation on 18 November 2011 mentioned in paragraph 51, and did not undertake any due diligence of its agents and distributors for the purpose of preventing bribery and corruption.
51. After the Bribery Act 2010 came into force on 1 July 2011, the new majority shareholder of the parent company of GSL arranged for a law firm to deliver a presentation on the new legislation to GSL. That presentation took place on 18 November 2011. Following the presentation, Andrew Bell (then Finance Director at GSL) was tasked with preparing an ABC policy, which was subsequently agreed by the Board on 27 July 2012. Neither the presentation nor the ABC policy was effective in preventing the arrangement with Dr Chi continuing.
52. Andrew Bell, in his capacity as Finance Director, continued to authorise GSL's finance department to make payments to Dr Chi after he had devised GSL's ABC policy in 2012 and whilst he was caretaker Managing Director at GSL from November 2013.
53. In May 2012, Natalie Pearce and Andrew Bell agreed the form of words to be used by Dr Chi when raising invoices for the advice fees to GSL. The wording was vague: *“Invoice for technical consultancy on parametric information and product development”*. Andrew Bell's reply to Natalie Pearce's proposed form of words is consistent with them having deliberately chosen vague wording for Dr Chi's invoices: *“Perfect !! No one will ever understand any of that!”* Dr Chi subsequently used that wording when submitting all of his invoices to GSL between 30 May 2012 and 20 April 2015.
54. GSL did not take any action to terminate the arrangement with Dr Chi until 15 September 2015, when the new Executive Chairman, upon becoming aware of the potential issues with the relationship, took prompt action



in conjunction with other members of the senior management of GSL to stop any further payments to Dr Chi and to terminate the arrangement with him (this does not include Dr Güralp, Natalie Pearce and Andrew Bell).