

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CWT INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 521)

INSIDE INFORMATION

FINDINGS BY THE INDEPENDENT PROFESSIONAL PARTY AND CONTINUED SUSPENSION OF TRADING

This announcement is made by CWT International Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Part XIVA of the Securities and Futures Ordinance.

References are made to (i) the announcement of the Company dated 31 March 2023 in relation to the delay in publication of the 2022 Final Results, (ii) the announcement of the Company dated 5 May 2023 in relation to the further delay in publication of the 2022 Final Results, the setting up of the independent investigation committee (the “**IIC**”), and the engagement of the Independent Professional Party to conduct the forensic Investigation, (iii) the announcement of the Company dated 14 June 2023 in relation to the Resumption Guidance, (iv) the announcement of the Company dated 30 June 2023 in relation to the quarterly update on resumption progress, and (v) the announcement of the Company dated 30 June 2023 in relation to the extension application to the High Court of Hong Kong to postpone the annual general meeting of the Company.

Unless otherwise defined or the context otherwise requires, capitalised terms in this announcement shall have the same meanings as defined in the above previous announcements of the Company.

INTRODUCTION

As disclosed in the announcement of the Company dated 31 March 2023, the Board received the Letter issued by the Auditor regarding the nature and commercial substance of certain transactions made by some of the physical commodity trading subsidiaries (the “**Affected Subsidiaries**”) of Straits Financial Group Pte. Ltd (“**SF**” and together with its other subsidiaries, the “**SF Group**”) which resulted in the delay in publication of the 2022 Final Results. Subsequently, the Company applied for suspension in trading of its Shares with effect from 9:00 a.m. on 3 April 2023.

As disclosed in the announcement of the Company dated 5 May 2023, on 11 April 2023, the Company formed the IIC which comprises all the Independent Non-executive Directors to lead the Investigation. On 17 April 2023, the IIC engaged a reputable advisory services firm as the Independent Professional Party to commence the Investigation (the “**Investigation**”) . On 28 July 2023, the Independent Professional Party finished their Investigation and outlined their findings of the Investigation.

The objectives and scope and a summary of the key findings of the Investigation are set out below based on the Investigation.

OBJECTIVES AND SCOPE OF THE INVESTIGATION

The Investigation made by the Independent Professional Party for the period from 1 January 2022 to 31 December 2022 (the “**Review Period**”) was to follow up on the Auditor’s identification of 140 physical commodity trading transactions amounting to US\$1.6 billion (collectively, the “**140 Transactions**”) conducted by Affected Subsidiaries. The 140 Transactions are broken down into (i) 70 DMCC Transactions totaling US\$905 million, conducted by Straits Asia DMCC (“**DMCC**”), and (ii) 70 OCL Transactions totaling US\$705 million, conducted by Orient Cache Limited (“**OCL**”). Both DMCC and OCL are the Affected Subsidiaries.

Other than the 140 Transactions, the Auditor identified further transactions with similar characteristics of the 140 Transactions conducted by another subsidiary of SF (collectively, the “**Other Transactions**”).

The objectives of the Investigation are to (i) clarify the details of the 140 Transactions including their commercial substance, consider the executed approval procedures, and identify the root cause(s) and the personnel involved, (ii) review and identify if there were any similar irregularities in the commodity trades, and (iii) render appropriate assistance to the Company’s legal counsel(s) on identifying the potential criminal, civil and regulatory risks, if required.

The scope of the Investigation of the 140 Transactions with respect to the Review Period includes, without limitation, the following:

- review documents related to the 140 Transactions including but not limited to invoices, agreements, warehouse documents, Know Your Customers (“KYC”) documents, accounting records, bank documents and other correspondence;
- conduct interviews with relevant personnel of the Company and certain personnel of the counterparties;
- send confirmation letters to the counterparties to confirm the transactions of the 140 Transactions, payment status of transactions, account balances and other general information;
- conduct independent background check on the counterparties of the 140 Transactions;
- perform site visits to the offices of the counterparties in Singapore and Shanghai;
- conduct specific internal control review to assess the internal control regarding the KYC procedures, payment procedures and relevant trading procedures; and
- conduct computer forensic review to obtain the image of the computers, emails, and the shared drive contents of the relevant personnel and perform computer forensic procedures, including the keywords searches to identify documents that might be relevant to the 140 Transactions.

The scope of the Investigation of the Other Transactions with respect to the Review Period includes without limitation, the following:

- review the relevant accounting documents and warehouse documents of the relevant subsidiaries of the Company to identify if there was any transaction with similar characteristics as the 140 Transactions;
- conduct interviews with the relevant personnel of the Company to identify and ascertain any other transaction with similar characteristics as the 140 Transactions;
- perform independent background check on the counterparties of the possible transactions identified; and
- conduct computer forensic review on the computers, emails and the shared drive contents of relevant personnel.

LIMITATIONS

The Investigation is subject to limitations, including without limitation, the following: (i) certain counterparties of the 140 Transactions were not available for interview, (ii) inconsistencies between certain crucial representations of interviewees and documents obtained and reviewed by the Independent Professional Party could not be verified as it was not practicable to do so, and (iii) in light of the voluntary nature of the cooperation of the Group and the external parties with the Investigation, certain statements made by the interviewees during the Investigation were not verified and may contain error or omissions.

SUMMARY OF FINDINGS BY THE INDEPENDENT PROFESSIONAL PARTY IN RELATION TO THE 140 TRANSACTIONS

Based upon the Investigation, the Independent Professional Party summarizes its key findings in relation to the 140 Transactions as follows:

1. Characteristics of the 140 Transactions

The 140 Transactions shared the common characteristics of (i) utilizing transferrable warehouse receipts of CWT Commodity Logistics (Malaysia) Sdn Bhd (“**CWT Logistics**”), being a bearer instrument, to transfer the title of gold concentrates, (ii) comprising two counterparties in each transaction, (iii) involving repeated transactions in a short period of time, i.e. DMCC or OCL sold and transferred the cargo containing gold concentrates to a designated counterparty, the designated counterparty then transferred the same to another designated counterparty, and DMCC or OCL bought back the same cargo from the second designated counterparty on the same day. The underlying cargo remained in CWT Logistics’ warehouse and was not physically lifted by the counterparties, and (iv) having a low profit margin of approximately 0.01%. The 140 Transactions completed the cargo transfers in August 2022 and September 2022.

In terms of fund flow, DMCC and OCL commenced to settle the relevant payables and receivables on 30 September 2022. The fund flows of the 140 Transactions were circulated between DMCC or OCL and the counterparties, with each transfer amounting to approximately US\$10 million. As of 31 December 2022, the total account receivables and payables of DMCC and OCL were approximately US\$1,257 million and US\$1,236 million, respectively. The settlement of these receivables and payables was ongoing.

2. Possible reason for the 140 Transactions

Based on the representations obtained from the Investigation, the 140 Transactions may be for the purpose of increasing the turnover of the counterparties and increasing the counterparties' chance of trading with bigger companies or selling the business. While certain staff of the SF Group represented that they conducted the 140 Transactions in response to the trading needs of the counterparties, it appeared that the 140 Transactions also served to close the revenue gap of the SF Group.

3. Commercial Substance of the 140 Transactions

Low Profit Margin Transactions

Based on the commercial documents, the gross profit of the 140 Transactions totaled approximately US\$158,000 or approximately 0.01% of the total revenue of US\$1.6 billion. The key personnel of the Affected Subsidiaries provided reasons for conducting such low profit margin transactions as being (i) low cargo and credit risk arising from the 140 Transactions, and (ii) the counterparties having brought other businesses to the SF Group due to the enhanced business relationships between them.

Payment of Introduced Business Commissions (the "IB Commissions") from the Affected Subsidiaries to four counterparties of the 140 Transactions

It is noted that IB Commissions of US\$310,000 were paid to four counterparties of the 140 Transactions. It also appeared that the IB Commissions were allocated to each of the 140 Transactions and on a transactional level, each of these 140 Transaction was loss making. The Affected Subsidiaries appeared to incur losses of approximately US\$152,000 in conducting the 140 Transactions.

While a key personnel of the Affected Subsidiaries represented that the IB Commissions paid to these counterparties were not related to the 140 Transactions but were instead derived from other parts of the business of SF Group, the Independent Professional Party was unable to verify such representation due to insufficient supporting documents on how the commissions were negotiated, derived, or calculated. The Independent Professional Party requested for internal memo, written agreements or email correspondence between the counterparties and Affected Subsidiaries but was not provided with any of the relevant information.

While the possible reasons for DMCC and OCL to have paid IB Commissions to the four counterparties of the 140 Transactions and whether the IB Commissions were related to the 140 Transactions remained unclear, the Independent Professional Party made key observations including: (i) it was unusual for such IB Commissions to be paid through DMCC and OCL; (ii) the IB commissions were broken down into 140 Transactions; (iii) the IB commissions paid to the counterparties were advance payments; the rationale of the IB commissions paid to a counterparty seemed to ensure that each trade did not appear to be loss making; and (iv) the working capital of Affected Subsidiaries, about US\$20 million, was withheld for more than one year to make a low profit margin of approximately 0.01% from the 140 Transactions.

Relationship with a Counterparty

Based upon the Investigation, it is noticeable that a key personnel of the Affected Subsidiaries had access to such counterparty's bank account and email account. Further, the Independent Professional Party was unable to interview the counterparty's representative and ascertain its business address in Shanghai. It is unclear whether the relevant counterparty has ongoing business operations.

Based on the key findings above, the Independent Professional Party is of the view that the possible reasons and commercial substance of the 140 Transactions, the possible reasons for making the IB Commissions and their connection to the 140 Transactions remained unclear.

4. Internal Control Issues

The Independent Professional Party conducted specific internal control assessment in relation to the 140 Transactions regarding the KYC procedures, payment procedures, and relevant physical trading processes of the SF Group. Certain internal control issues of the SF Group were identified including: (i) insufficiencies regarding approval of physical trading structure; and lack of written documentation regarding authorised signatories of the SF Group for commercial documents relating to physical trading; (ii) certain staff of the SF Group who were handling the 140 Transactions of the Affected Subsidiaries (the "**Relevant Staff**") were listed as the authorised user of a counterparty's bank account and that the Affected Subsidiaries had login information of certain counterparties' bank accounts and a counterparty's email account; and (iii) lack of proper documentation for the basis of IB Commissions paid for the physical trading business; insufficient control over funds deployed for the conduct of the 140 Transactions; and the Relevant Staff used their personal email for business communication.

SUMMARY OF FINDINGS BY THE INDEPENDENT PROFESSIONAL PARTY IN RELATION TO THE OTHER TRANSACTIONS

The Independent Professional Party identified seven other transactions during the Review Period which shared one or more characteristics of the 140 Transactions , i.e. (i) transactions had a low profit margin of approximately 0.01%; (ii) transactions involved some counterparties identified from the 140 Transactions; (iii) transactions with transferrable warehouse receipts; and (iv) repeated transactions in a short period of time.

Based on the Independent Professional Party's review of the underlying supporting documents of these seven transactions and the interview with the relevant personnel of the Affected Subsidiaries, the Independent Professional Party observed that the commercial rationale, underlying cargo and shipping documents, the frequency and settlement pattern of the seven transactions differed from the 140 Transactions. Therefore, it was concluded that these seven transactions were not similar to the 140 Transactions.

VIEWS AND RECOMMENDATION OF THE IIC AND ADOPTION BY THE BOARD

Having reviewed the findings and observations of the Independent Professional Party, IIC took the view that the three objectives of the Investigation have been sufficiently addressed and the Investigation has come to an end. Based on the findings of the Independent Professional Party, no other similar transactions have occurred during the Review Period.

In view of the findings and observations by the Independent Professional Party and based on the legal advice made available to the IIC, at this stage, there appears to have no substantive evidence showing that the 140 Transactions have posed criminal, civil and regulatory risks to the Company, nor that those transactions have given rise to management integrity issues of the Company. Nevertheless, the 140 Transactions do not appear to be consistent with the Company's usual mode of business operations and any transactions with similar characteristics to the 140 Transactions should not be conducted with immediate effect. In these circumstances, the IIC made the following recommendations to the Board:

1. any transactions with similar characteristics to the 140 Transactions should not be conducted with immediate effect;
2. appropriate actions shall be taken against the individual relevant personnel; and
3. implement a series of measures to strengthen internal controls of the Company, including engaging an internal control consultant with respect to the business operations of Affected Subsidiaries for the avoidance of the recurrence of any similar transactions in the future.

After due and careful consideration, the Board would like to inform the shareholders of the Company that the Investigation was completed on 28 July 2023 and the Board (i) has accepted and resolved to adopt the IIC's views and recommendations with immediate effect and (ii) will implement necessary measures to continuously and steadily develop the Company's core business and create more value for all shareholders.

The Company will make further announcement(s) in due course to inform its Shareholders and potential investors of any information update.

CONTINUED SUSPENSION OF TRADING IN SHARES

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 3 April 2023 and will continue to be suspended pending publication of the 2022 Final Results.

The Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

By order of the Board
CWT INTERNATIONAL LIMITED
Wang Kan
Executive Director

Hong Kong, 11 August 2023

As at the date of this announcement, the Board comprises Mr. Wang Kan (Executive Director, Chairman and Chief Executive Officer), Mr. Zhao Quan (Executive Director), Mr. Peng Biao (Executive Director), Mr. Xu Xu (Executive Director), Mr. Leung Shun Sang, Tony (Independent Non-executive Director), Mr. Liem Chi Kit, Kevin (Independent Non-executive Director) and Mr. Lam Kin Fung, Jeffrey (Independent Non-executive Director).