

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 representations 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

- (1) ADDITIONAL WORK DONE BY THE INDEPENDENT PROFESSIONAL PARTY;**
- (2) KEY FINDINGS OF THE INTERNAL CONTROL REVIEW;**
- AND**
- (3) CONTINUED SUSPENSION OF TRADING**

This announcement is made by the board (the “**Board**”) of directors (the “**Directors**”) of CWT International Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to:

- (i) the announcement of the Company dated 31 March 2023 in relation to the delay in publication of its annual results for the year ended 31 December 2022, as the Board had received a letter issued by KPMG, the then auditor of the Company (the “**Former Auditor**”) relating to the commercial substance of certain trading transactions (the “**140 Transactions**”) conducted by the Group;
- (ii) the announcement of the Company dated 5 May 2023 in relation to the establishment of the independent investigation committee (the “**IIC**”) comprising all the then independent non-executive Directors and the engagement of an independent professional party to conduct an investigation on the 140 Transactions (the “**Investigation**”). Grant Thornton Advisory Services Limited (the “**Independent Professional Party**”) has been engaged in relation thereto;

- (iii) the announcement of the Company dated 14 June 2023 in relation to the resumption guidance given by the Stock Exchange, one of which being the need to conduct the Investigation;
- (iv) the quarterly update announcement of the Company dated 30 June 2023 in relation to, among other matters, the progress of the Investigation;
- (v) the announcement of the Company dated 11 August 2023 (the “**August Announcement**”) in relation to the then findings made by the Independent Professional Party;
- (vi) the announcement of the Company dated 4 September 2023 in relation to an additional resumption guidance given by the Stock Exchange, being the need to conduct an independent internal control review of the Group;
- (vii) the quarterly update announcement of the Company dated 3 October 2023 in relation to, among other matters, the commencement of an independent internal control review (the “**IC Review**”) on the Group; and
- (viii) the quarterly update announcement of the Company dated 2 April 2024 in relation to, among other matters, the additional work undertaken and being undertaken by the Independent Professional Party.

BACKGROUND OF THE ADDITIONAL WORK DONE BY THE INDEPENDENT PROFESSIONAL PARTY

The August Announcement

In July 2023, a draft report on the Investigation (the “**Draft Report**”) was submitted to the IIC. The then findings made by the Independent Professional Party set out therein were summarised in the August Announcement published on 11 August 2023.

Among other matters, it was stated in the August Announcement that:

- (i) the 140 Transactions were conducted by the trading subsidiaries of Straits Financial Group Pte. Ltd. (“**SF**”, which together with its subsidiaries, the “**SF Group**”), itself an indirect non-wholly-owned subsidiary of the Company; and
- (ii) based on the then key findings, the Independent Professional Party was of the view that the possible reasons and commercial substance of the 140 Transactions, the possible reasons for making the introduced business commissions and their connection to the 140 Transactions remained unclear (the “**Investigation Conclusion**”).

The Anonymous Letter

Subsequent to the August Announcement,

- (i) the Former Auditor received an informant email (the “**Anonymous Letter**”), alleging an internal email of the Company (the “**7.22 Email**”) was not covered by the Draft Report;
- (ii) the Former Auditor forwarded the Anonymous Letter to the IIC, which then provided the same to the Independent Professional Party;
- (iii) the Independent Professional Party considered the allegations in the Anonymous Letter represented new unverified information that required it to extend its scope of work and verify the facts associated with the allegations; and
- (iv) accordingly, additional work was carried out by the Independent Professional Party via (a) extended scope of electronic document/email review; and (b) conducting of supplemental interviews with certain key personnel of the Group.

The September Report

The Draft Report was thus updated to include such additional work done by the Independent Professional Party. A final report on Investigation (the “**September Report**”) was issued by the Independent Professional Party in September 2023. In the September Report, no change had been made to the Investigation Conclusion as set out in the Draft Report.

The 7.22 Email

The 7.22 Email was circulated among certain key personnel of the Group. It contained, among other matters, a diagram (the “**Diagram**”) outlining a framework transaction structure that later transpired to have underpinned the 140 Transactions, and mentioned a meeting (the “**7.21 Meeting**”) taken place on the previous day among certain key personnel of the Group.

Further additional work conducted by the Independent Professional Party

The IIC had, in January 2024, decided to engage the Independent Professional Party to conduct further additional work based on queries raised by the Stock Exchange.

In March 2024, the Independent Professional Party submitted the draft additional report (the “**Additional Report**”) relating to the above further additional work to the IIC. In May 2024, the Independent Professional Party issued the Additional Report.

SCOPE AND LIMITATIONS OF THE ADDITIONAL REPORT

The scope of the Additional Report is to provide assistance to the IIC:

- (i) in response to the relevant enquiries raised by the Stock Exchange; and
- (ii) in addressing the management integrity concerned by the Stock Exchange.

The Independent Professional Party address the above scope by performing additional computer forensic work and conducting further interviews with certain management key personnel of the Group (the “**Management Key Personnel**”).

The Additional Report is subject to limitations as follows (collectively, the “**Limitations**”):

- (a) the interview with a Management Key Personnel (the “**Management Key Personnel B**”) could not be arranged because Management Key Personnel B had left the Group and declined the Independent Professional Party’s request for interview;
- (b) the computer previously assigned to Management Key Personnel B was disposed of. However, the Independent Professional Party was able to retrieve all of the incoming and outgoing emails of Management Key Personnel B, which contributed to the Independent Professional Party’s review work; and
- (c) the Investigation was based on voluntary cooperation of the Group and external parties. Therefore, the Independent Professional Party was not able to verify some of the statements made by the interviewees during the Investigation, and was unable to ensure the results of the Investigation were free from error or omissions.

SUMMARY OF FINDINGS IN THE ADDITIONAL REPORT

Trading structure

The 140 Transactions were conducted by the trade services department (the “**Trade Services Department**”) of the SF Group. It involved transactions in which the SF Group bought cargo from a counterparty and sold the same to another counterparty with an aim to making profit, thus constituting what the SF Group internally referred to as “sleeve trade”.

Sleeve trade is an approved trading structure within the SF Group and does not necessarily imply lack of commercial substance.

Instead, the elements in the transactions were the key factors to determine whether there was any commercial substance. The reason why the 140 Transactions were questioned by the Former Auditor was that the profile of 140 Transactions deviated from a typical sleeve trade in terms of, among other matters, profit margin, underlying cargo, cargo arrangement, settlement arrangement, trading term etc..

Knowledge and Involvement of the Management Key Personnel

The Initial Proposal

A then key personnel of the Trade Services Department (the “**Business Unit Key Personnel**”), who has since left the Group, represented to a Management Key Personnel (the “**Management Key Personnel A**”) that the Trade Services Department could conduct trades to reduce the revenue gap.

The Business Unit Key Personnel was solely responsible, in June/July 2022, for formulating the framework transaction structure of the proposed trade arrangements, outlining the potential cargo source, the cargo flow and fund flow, which essentially represented sleeve trades (the “**Initial Proposal**”).

The actual trade counterparties, the trade volume and profit margin, however, were never discussed in relation to the Initial Proposal. Based on SF Group’s then practices, such elements were always determined at the execution stage depending on market opportunities.

The 7.21 Meeting

At the 7.21 Meeting, it was mentioned by Management Key Personnel A, among other matters, that SF Group would like to conduct sleeve trades in order to generate more revenue. Management Key Personnel A did not go into detail about the sleeve trades though. However, Management Key Personnel B requested the risk involved therein should be ascertained.

The 7.22 Email

Management Key Personnel A therefore clarified with the Business Unit Key Personnel and visualised the relevant cargo and fund flows by drawing the Diagram in order to assess the cargo and credit risks. Again, trade counterparties, volume and profit margin were not discussed.

Management Key Personnel A thereafter emailed the Diagram to certain Management Key Personnel (including Management Key Personnel B) in answer to the risk assessment request made by Management Key Personnel B – this being the 7.22 Email.

Observations made by the Independent Professional Party, based on its work done and subject to the Limitations:

- (i) the Business Unit Key Personnel was responsible for negotiating, initiating and executing the 140 Transactions;
- (ii) Management Key Personnel A was responsible for assessing the cargo and credit risks associated with the Initial Proposal, and had knowledge of the Initial Proposal as it was outlined in the Diagram and the 7.22 Email. Although the 140 Transactions happened subsequently to Management Key Personnel A's cargo and credit risk assessment, there was no evidence to show that Management Key Personnel A was involved in or had any obvious role relating to the initiation, approval or execution of the 140 Transactions, except for payment approval in accordance with the usual routine. Nevertheless, such payment approval did not entail Management Key Personnel A's knowledge of the details of the 140 Transactions. However, given the role of Management Key Personnel A, one might expect Management Key Personnel A might well have detected some red flags at an earlier stage if increased scepticism was exercised; and
- (iii) it appears all other Management Key Personnel had no obvious role in their capacity in relation to the approval of the structure associated with the 140 Transactions, or the initiation, approval or execution of the 140 Transactions, and there appears to have no substantive evidence showing they had any integrity issue in connection with the 140 Transactions.

VIEWS AND RECOMMENDATIONS OF THE IIC IN RESPECT OF THE INVESTIGATION

In view of the findings and observations by the Independent Professional Party, noting the Limitations, and based on the legal advice made available to the IIC, the IIC takes the view that:

- (i) the investigative works undertaken by the Independent Professional Party are appropriate and adequate to address the relevant issues in connection with the 140 Transactions as raised by the Stock Exchange;
- (ii) the Management Key Personnel did not have knowledge of the 140 Transactions in the relevant periods, save that Management Key Personnel A might have had some knowledge about the framework arrangement insofar as assessment of cargo and credit risks are concerned, as reflected from the 7.22 Email; and
- (iii) there is no substantive evidence showing there has been any issue as to impropriety or even dishonesty involving the Management Key Personnel, and hence there appears to have no concern about the integrity issue on their parts respectively.

Nevertheless, in view of the observations outlined in the Additional Report, the IIC recommended the Board to take appropriate steps to minimise the involvement of Management Key Personnel A in daily management or any approval process in the Group.

VIEWS OF AND ACTIONS UNDERTAKEN BY THE BOARD IN RESPECT OF THE INVESTIGATION

The Board concurs with the views of the Independent Professional Party and the IIC in respect of the Investigation as set out above. After due and careful consideration, the Board has resolved to adopt the IIC's recommendations, and resolved to implement necessary measures in relation thereto.

As set out in the Company's annual report for the year ended 31 December 2023, the Group had discontinued the structured trading services carried out by the Trade Services Department. Therefore, any transactions with characteristics similar to the 140 Transactions will not be carried out.

The personnel from the Trade Services Department had ceased employment with the Group. Management Key Personnel A's employment with the Group will also cease in June 2024.

The Company has engaged internal control adviser (the "**IC Consultant**") to conduct the IC Review, details of which are set out in the following sections of this announcement.

THE IC REVIEW

In December 2023, a report was issued in relation to IC Review after the issue of the September Report (the "**December IC Report**"). Additional work was thereafter conducted by the IC Consultant and a supplementary internal control review report was issued in May 2024 (the "**Supplementary IC Report**", which together with the December IC Report, the "**IC Reports**").

Scope

The scope of work of the December IC Report covers the following internal control aspects of the Group:

- (i) corporate controls;
- (ii) financial reporting and disclosure controls;
- (iii) revenue management;

- (iv) procurement and expenditure management;
- (v) inventory management;
- (vi) contract work-in-progress management;
- (vii) project management;
- (viii) cash and treasury management;
- (ix) fixed assets management; and
- (x) human resources and payroll management.

The scope of work of the Supplementary IC Report covers a further review over the internal control of management oversight by the Company (at the listed company level) on its subsidiaries in respect of the elements of the Group's financial procedures, systems and internal controls.

Review period

The December IC Report covers the review period from 1 September 2022 to 31 August 2023 and a follow-up review period from 25 September 2023 to 13 November 2023. The Supplementary IC Report covers the review period from 19 April 2023 to 18 April 2024 and a follow-up review period from 24 April 2024 to 25 April 2024.

SUMMARY OF FINDINGS IN THE IC REPORTS

The key internal controls findings identified by the IC Consultant throughout the IC Review as set out in the IC Reports, the recommendations made by the IC Consultant and the responses from the management of the Company to the recommendations are summarised as follows:

Findings	Recommendations/ management's responses/ remediation work
<p><u>Lack of formal mechanisms to handle certain corporate level controls and deal with the potential compliance issues with the Listing Rules</u></p> <p>The Group had not established any formal mechanisms to handle and/or deal with certain corporate level controls and Listing Rules, especially for the Code on Corporate Governance Practices (Appendix 14 (now Appendix C1) to the Listing Rules).</p>	<p>The Company is recommended to establish measures to handle listing matters and monitor the corporate level controls as well as compliance with applicable Listing Rules requirements.</p>
<p>1. No policy or procedure to govern the enterprise-wide risk management processes for the Company</p>	<p>The Company accepted the recommendation and has established the enterprise risk management policy with effect from 5 October 2023 to set out the key aspects of enterprise-wide risk management. Furthermore, the subsidiaries of the Company are required to submit the risk registers to the management team of the Company to report the risk identified and the relevant treatment implementation annually and bi-annually respectively, which will then be presented to the Board and the audit committee of the Board.</p>

Findings	Recommendations/ management’s responses/ remediation work
2. Risk assessment being performed on an ad-hoc basis only when there are triggering events such as new projects or business initiatives, which was not systematically performed in the enterprise-wide level in SF	The Company accepted the recommendation and has delegated works including holding discussions with various business heads/ heads of department to provide guidance on identifying the risks of their business operations. Each department will also be required to work on its risk register. The final risk registers will be submitted to the Board for discussion by December 2024. Furthermore, biennial risk register refresher exercises will be conducted and presented to the Board to ensure the risk register remains up-to-date starting from 2025.
3. No policy for the identification, monitoring, review and report of notifiable, connected and related party transactions under Chapter 14 and Chapter 14A of the Listing Rules and relevant accounting standards applicable to the Company	The Company accepted the recommendation and has established connected and related party transactions policy and notifiable transactions policy. The Company has also assigned its assistant company secretary to prepare and submit the “monthly report” that includes all connected transactions and continuing connected transactions to the management and company secretary of the Company. A corporate governance service team (the “CGST”) was established to perform regular review in relation thereto.
4. No communication mechanism, such as reporting procedures for responding to enquiries from regulatory authorities and distribution of annual/interim reports and publication of results announcements	The Company accepted the recommendation and has established the communication policy for responding to enquiries from regulatory authorities and for the distribution of annual/ interim reports and publication of results announcements. The CGST would perform regular review in relation thereto.
5. No enterprise-wide business continuity plan and disaster recovery plan for the Company	The Company accepted the recommendation and has established the business continuity and disaster recovery plan.

Findings	Recommendations/ management’s responses/ remediation work
<p><u>Lack of formally written policies and procedures</u></p> <p>Although certain entities of the Group had adopted the existing policies and standard operating policies (the “SOP”) to govern the business process, the following policies and procedures were not comprehensive or did not include certain key controls or sub-processes.</p>	<p>The Company is recommended to finalise and document the policies and procedures.</p>
<p>1. Employee handbook and code of conduct of the Company of certain subsidiaries of the Company</p>	<p>The Company accepted the recommendation and has circulated the revised employee handbook and code of conduct to the staff accordingly.</p>
<p>2. Financial closing, reporting and disclosure procedures for the Company</p>	<p>The Company accepted the recommendation and has established and approved the financial reporting and disclosure manual that covers the group financial closing, reporting and disclosure processes. Such manual has also been circulated to the finance department of the Company on 5 October 2023. Accordingly, the month-end closing, year-end closing and consolidation procedures have been established along with the timeline to govern the progress of closing and consolidation procedures. The CGST would perform regular review in relation thereto.</p>
<p>3. Written policies and procedures for revenue management for a subsidiary of the Company</p>	<p>The Company accepted the recommendation and has updated the anti-money laundering policy of the subsidiaries of the Company. Furthermore, financial documentation process has been established, approved and circulated to the relevant staff. The CGST would perform regular review in relation thereto.</p>

Findings	Recommendations/ management's responses/ remediation work
4. Procedural flow for handling long outstanding accounts receivable for certain subsidiaries of the Company including SF	The Company accepted the recommendation and has established the SOP for handling long outstanding unpaid broking fees to govern the procedural flow of handling along outstanding accounts receivable.
5. Written policies and procedures for cash and treasury management for the Company	The Company accepted the recommendation and has established the cash flow management policy and business investment policy that cover cash management principles, bank reconciliation, cash forecasting, intercompany borrowing, investment and project financing. The CGST would perform regular review in relation thereto.
6. Human resources management policies and procedures for a subsidiary of the Company	The Company accepted the recommendation and has updated the human resource procedures to set out written guidelines on hiring of employees, calculating and processing payroll and performance evaluation for the subsidiary of the Company. The CGST would perform regular review in relation thereto.
<p><u>Insufficient evidence of performance of controls</u></p> <p>Certain transactions did not maintain appropriate documentary evidence to record the performance of controls especially for the review and approval processes of such control measures.</p>	The Group is recommended to emphasise the importance of producing and maintaining documents to support the operating processes and monitoring controls, as well as the performance of reviews and approvals.
1. Lack of acknowledgement of understanding by new employees on the employee handbook and code of conduct for the Company and SF	The Company accepted the recommendation and the new joiners are required to confirm understanding and compliance of the employee handbook.

Findings	Recommendations/ management's responses/ remediation work
2. Financial closing schedule and disclosure checklist for the Company not being used or provided to the relevant parties	The Company accepted the recommendation and has established financial closing and disclosure checklist which was incorporated as an appendix in the financial reporting and disclosure manual that was established on 5 October 2023.
3. No written evidence of approval maintained on the recruitment request for new staff for a subsidiary of the Company	The Company accepted the recommendation and has updated the human resource procedures to set out hiring process and note that approval of the chief executive officer should be properly documented for engaging in recruitment activities of new staff through agencies or webpage application. The CGST would perform regular review in relation thereto.
4. Inadequate follow-up actions taken on the doubtful debt listing for certain subsidiaries of the Company	The Company accepted the recommendation and has established the SOP for handling long outstanding unpaid broking fees to govern the procedural flow of handling long outstanding accounts. The finance team is responsible for reporting the status of outstanding accounts receivables while the legal team is responsible for preparing and issuing the necessary demand letters.
5. Lack of proper record of visiting customer for credit application for a subsidiary of the Company	The Company accepted the recommendation and has adopted a new credit application form which has incorporated a new column for documenting the record of visiting customer. The CGST would perform regular review in relation thereto.
6. Undated approval signature on new account/credit application form for a subsidiary of the Company	The Company accepted the recommendation and has reminded the finance team to include the approval date on new account/credit application forms and other forms that require approval, in order to ensure the timeliness of the approval is reflected in the relevant form.

Findings	Recommendations/ management's responses/ remediation work
7. No documentary evidence on the regular review on trading structure/business initiative for certain subsidiaries of the Company	The Company accepted the recommendation and review documentation has been maintained. For any new trading structure/business initiative, a SOP is defined by the business unit and rolled out for implementation. Subsequent review will depend on nature of the business and be performed by the respective the chief financial officer and the chief operating officer of business unit. The CGST would perform regular review in relation thereto.
8. Lack of proper record of review on the accounts payable aging report for certain subsidiaries of the Company	The Company accepted the recommendation and has established a process for properly maintaining review evidence as audit trail.
9. No written evidence of review on monthly bank reconciliation performed for all bank accounts of the Company	The Company accepted the recommendation and has compared the bank balance from general ledger to bank statements each month during month end closing procedure. Furthermore, the Company has established the cash flow management policy to ensure monthly reconciliation is performed by the treasury manager for all bank accounts, with email record maintained as a confirmation of the completion of the reconciliation.
<p><u>Inadequate segregation of duties</u></p> <p>The Company did not maintain an appropriate level of checks and balances upon the review activities of accounting vouchers and bank reconciliation for a subsidiary of the Company. There was a lack of independent review in place.</p>	<p>The Company is recommended to implement appropriate segregation of duties such as incompatible duties on authorization, custody, checking and reconciliation.</p> <p>The Company accepted the recommendation and the analytical review on the financial figures of the subsidiary of the Company has been performed by an independent finance personnel. Furthermore, the Company has implemented a process to review the bank reconciliation once every quarter, at random, for any entities of the Group with only 1 finance staff.</p>

Findings	Recommendations/ management’s responses/ remediation work
<p><u>Inadequate senior management oversight by the Company management (at listed company level) on its subsidiaries</u></p> <p>Most of the businesses of the Group were carried out by its intermediate holding company (the “Intermediate Holdco”) and its subsidiaries, and majority of the operational decisions were decided by the management of the Intermediate Holdco without much involvement of the Company’s senior management. There was no clear monitoring mechanism between the Company and its subsidiaries in order to exercise a proper management oversight by the Company.</p>	<p>The Company is recommended to establish measures and mechanism to monitor the compliance of its subsidiaries in accordance with the Company’s policies and the applicable laws and regulations.</p> <p>The Company accepted the recommendation and has adopted a regulation for strengthening business management of the Company including the establishment of specific committee to enhance the monitoring procedures of its subsidiaries. The Company has updated the limits of authority framework. The Company has also scheduled offline training sessions for internal control system development and listing rules compliance.</p>

The Company is pleased to announce that all remediation work as recommended by the IC Consultant has been completed.

VIEW OF THE IIC IN RESPECT OF IC REVIEW

Based on the work done by the IC Consultant and the responses by the management of the Company as set out in the IC Reports and based on the legal advice made available to the IIC, the IIC accepted and endorsed the IC Reports, in particular, in relation to the findings and recommendations set out therein. The IIC therefore also recommended the Board to accept the IC Reports.

VIEW OF THE BOARD IN RESPECT OF IC REVIEW

Having taken into account the findings set out in the IC Reports, the remedial actions taken by the Group and the view of the IIC, the Board accepted and endorsed the IC Reports, and is of the view that incident similar to the 140 Transactions will be prevented, monitored and detected in the future, and that proper personnel have been assigned to oversee the proper operation of the internal control mechanism.

The Directors (including the independent non-executive Directors) are of the view that the internal control measures implemented by the Company based on the recommendations of the IC Consultant are adequate and sufficient to address the key findings of the IC Reports, and that the Company has now in place adequate internal control systems to meet its obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING IN SHARES

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 3 April 2023 and will continue to be suspended until further notice.

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

Hong Kong, 14 May 2024

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. Wang Qi (Executive Director), Mr. Huang Fenglin (Executive Director), Mr. Leung Shun Sang, Tony (Independent Non-executive Director), Mr. Liem Chi Kit, Kevin (Independent Non-executive Director), Mr. Lam Kin Fung, Jeffrey (Independent Non-executive Director) and Ms. Liu Yifei (Independent Non-executive Director).