

AUDITOR'S REPORT ON DISCOVERY OF POTENTIAL FRAUD

1. INTRODUCTION

The Board of Directors (the “**Board**” or “**Directors**”) of KTL Global Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the Company's request for trading halt on 10 August 2021 (and extension thereon) and the request for suspension on 17 August 2021.

The Board wishes to announce that the Audit Committee (the “**AC**”) of the Company has received a report (the “**Report**”) from its statutory auditors (the “**Auditors**”). In the Report, the Auditors reported that, during the course of their audit, they discovered potential fraud in financial reporting (the “**Potential Fraud**”) in light of certain alleged unusual activities in trade receivables involving one of the Company's subsidiaries, Bluegas Pte Ltd (“**Bluegas**”). Further details of the Potential Fraud are set out in paragraph 2.1 of this Announcement.

At the material period when the Potential Fraud is alleged to have taken place, the management of Bluegas comprised the Company's former Chief Executive Officer, Mr Liu Changsheng and the Company's Chief Financial Officer (“**CFO**”), Mr Wong Ming Chun. The directors of Bluegas at the material time were Mr Liu Changsheng and Dr. Charlie In. Mr Liu Changsheng has resigned as both management and director of Bluegas with effect from 31 July 2021.

2. SUMMARY OF THE FINDINGS IN THE REPORT AND FURTHER BACKGROUND

2.1 The Auditors' salient findings of the Report in respect of the Potential Fraud in light of certain alleged unusual activities in trade receivables involving Bluegas are set out below:

- (i) **Unusual funds transaction from Lawrence Inc:** Bluegas had recorded an aggregate of US\$700,000 as receipts from Lawrence Group Inc (“**Lawrence Inc**”), in the period from September 2020 to November 2020 notwithstanding its knowledge of the litigation proceeding involving Lawrence Inc for the recovery of such amount. Notwithstanding that Bluegas is aware of the litigation case, such funds have not been returned to Lawrence Group. Please refer to paragraph 3 for more background / context on the payments from Lawrence Inc and the pre-action interrogatories in writing received by the Company from Lawrence Inc regarding certain information that the relevant parties may possess in relation to the alleged supply of surgical gloves (the “**Interrogatories**”), which had also previously been announced by the Company on 21 May 2021; and
- (ii) **Suspicious transactions in trade receivables:** there was alleged uncertainty as to the identity of the four Branding, Operation and Procurement (“**BOP**”) trade debtors of Bluegas during the financial year ended 31 December 2020 (“**FY2020**”), as the Auditors were unable to obtain direct confirmations from all BOP trade debtors as to trade receivable balances and were unable to perform alternative procedures for all BOP trade debtors. In addition, the Auditors had also raised concerns as to uncertainty over whether the purported receipts from the foregoing BOP trade debtors in FY2020 were genuine payments. In this regard, the Auditors had noted that (a) the BOP contracts were signed by Liu XiaoQing, who was the chief executive officer and authorised representative of Green Leopard Medical Technology Co., Ltd (“**Green Leopard**”), the BOP service partner of Bluegas on behalf of the BOP trade debtors, (b) payments from the BOP trade debtors

are received through third party agencies, and (c) management had relied on the statements by Liu XiaoQing to determine who the monies were from.

The Company wishes to clarify that the total affected BOP receipts for FY2020 amounted to an aggregate of S\$6,262,940 and includes the US\$700,000 paid by Lawrence Inc.

The AC of the Company has been notified on 13 August 2021 by the Auditors that the Auditors, as required under Section 207 of the Companies Act, have made a written report to the Ministry of Finance on certain matters which the Auditors found to be irregular. The AC and the Board has engaged DTFAS (as defined below) to carry out an independent review of the foregoing matters and also seek legal advice, if required. Please refer to paragraph 4 below for more information.

- 2.2** By way of background, the Company wishes to inform its shareholders ("**Shareholders**") that the sum of US\$700,000 (equivalent to approximately S\$949,768) constitutes approximately 7% of the audited BOP revenue in FY2019 and approximately 48% of the unaudited BOP revenue in FY2020 (approximately S\$1,961,092). The BOP business constituted 100% of the Group's business in continuing operation for FY2019 and FY2020. In addition, the Company wishes to highlight that the investment cost of the Company in Bluegas amounting to S\$49,900 has been fully provided for and recognised as loss on investment in the books of the Company and the amount of the outstanding trade receivables as at 31 December 2020 of S\$5,956,630 has been fully impaired as allowances for doubtful debts as at 31 December 2020¹. As such, there will be no further impact on the Group's financials in the event it is necessary to further write off / make impairments for the accounts receivable from BOP trade debtors or the investment in Bluegas. However, should the outcome of subsequent litigation (if any) following the Interrogatories not be in favour of Bluegas, Bluegas may be ordered to pay US\$700,000 to Lawrence Inc and the impairment loss for accounts receivable from BOP trade debtors recognised in the Group's income statement may be increased.
- 2.3** The Company also wishes to highlight that as advised by the Counsel for Interrogatories (as defined below), at the Interrogatories stage, Bluegas has no legal liability towards Lawrence Inc. It is also noted that there is no pending action from Lawrence Inc to seek the return of the foregoing sum from Bluegas. Accordingly, pending further investigations, the Company is currently unable to quantify the potential maximum impact (financial or otherwise) of the Potential Fraud (as described in paragraph 2.1) on the Group. Please refer to paragraph 4.2 of this Announcement for more information on the implications of the Interrogatories.

3. FURTHER INFORMATION ON THE PAYMENTS FROM LAWRENCE INC AND THE INTERROGATORIES

3.1 Background on the Interrogatories

The Interrogatories was filed on 19 May 2021 by Lawrence Inc in relation to alleged supply of surgical gloves. Lawrence Inc applied to the courts for permission to serve on several parties (including Bluegas, the Company and Mr. Liu Changsheng) pre-action interrogatories in writing, requesting certain information that the foregoing parties may possess. Lawrence Inc alleges that they had paid US\$700,000 in aggregate to the bank accounts of Bluegas and Crown Beauty Pte Ltd during October and November 2020 under the instructions of two individuals, namely Liu Xiaoqing and Chen Jiaoru, for alleged purchase of surgical gloves, but they did not receive any surgical gloves. These foregoing individuals were neither officers, management, nor

¹ The financial information of the Group for FY2020 presented above and in this Announcement is strictly for illustrative purposes only, and is based on a preliminary assessment of the unaudited consolidated management accounts of the Group which have not been audited or reviewed by the Auditors. Accordingly, Shareholders are cautioned not to place undue reliance on the information disclosed herein.

representatives of the Company, Bluegas or its associates. The Company understands that Lawrence Inc requested Liu Xiaoqing and Chen Jiaoru to refund the foregoing amount, but they became uncontactable and / or were not willing to respond to Lawrence Inc. The Interrogatories were then served by Lawrence Inc through its lawyers, for the purpose of identifying the right and proper parties to sue and frame a viable claim against.

As disclosed in the Company's announcement on 2 May 2019, Green Leopard is the business partner of the Company for the BOP business in People's Republic of China ("PRC"). Its role is to secure and assign current and future operators located throughout PRC and/or globally to Bluegas so that Bluegas can provide BOP services to such operators in consideration for the payment of service fees by each operator. Liu Xiaoqing, was the legal representative of Green Leopard and he represented Green Leopard to sign on BOP service agreements for and on behalf of all of Bluegas' trade debtors (being the clients of the Company's BOP business).

In addition, the Board understands that Bluegas and the Company had not entered into any form of agreements or engaged in any dealings with Lawrence Inc, including any agreement or dealings in connection with surgical gloves. The Board further understands that at no time did the Company, Bluegas or the Company's other subsidiaries receive any correspondence about the order confirmation from Lawrence Inc purportedly for purchase of surgical gloves or reference to any contract whatsoever, or any query on the delivery status.

Bluegas had recognised the aggregate sum of US\$700,000 received as a settlement of BOP service fees from its debtors on its books. The Board understands that Bluegas was informed by Liu Xiaoqing, who was the authorised collection agent in PRC for BOP service fees, that he arranged for an overseas third party to pay the aggregate sum of US\$700,000 to Bluegas as a settlement of the BOP service fees. Bluegas understood from Liu Xiaoqing that such third party was Lawrence Inc.

The Board further understands that Bluegas accepted the funds from Lawrence Inc. because it had through past practice received funds from overseas sources upon notification by Liu Xiaoqing and had no reason to suspect anything amiss.

The Company was only made aware of the above when it received the Interrogatories on 19 May 2021. The Group then consulted with the Counsel for Interrogatories (as defined below in paragraph 3.2) for legal advice including appropriate action it should take thereof.

The Company wishes to highlight that, save as described above, the Company and its subsidiaries (including Bluegas) do not have any business dealings with Lawrence Inc. and are not aware of any relationship or dealings between Bluegas and Lawrence Inc.

3.2 Implications of the Interrogatories

The Company was advised by its legal counsel in respect of the Interrogatories, being a lawyer formerly practicing with Optimus Chambers LLC at the commencement of the Interrogatories, ("**Counsel for Interrogatories**") on 4 June 2021 that Bluegas does not have any legal liability to Lawrence Group at the Interrogatories stage. It is also noted that as at the date of this announcement, there is no certainty that Lawrence Inc will commence proceeding (following from the Interrogatories) against Bluegas. In the event that Lawrence Inc commences and prevails in legal proceedings against Bluegas, Bluegas' rights and obligations will be determined by the court.

The Company also understands that the Counsel for Interrogatories had indicated in their legal confirmation dated 20 June 2021 and 23 June 2021 to the Auditors that, based on its best

knowledge/ assessment of the information and evidence available, it appears probable that the potential outcome of the litigation, if any (following from the Interrogatories), would not be in favour of Lawrence Inc.. The relevant confirmation provided by the Counsel for Interrogatories is attached to this announcement as **Appendix**.

4. INDEPENDENT REVIEW INTO THE POTENTIAL FRAUD AND SAFEGUARDS

4.1 Pursuant to Rule 719(2) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual Section A: Rules of Mainboard (the “**Listing Rules**”), the AC has reported the matter to the Board promptly, and has engaged in discussions with the Auditors for further information / clarifications pertaining to the Potential Fraud. The AC and the Board has, in consultation with the SGX-ST RegCo, engaged Deloitte & Touche Financial Advisory Services Pte Ltd (“**DTFAS**”), to undertake an independent review of the concerns raised by RT LLP in the Report, including the BOP business segment of Bluegas (“**Review**”). The scope of the Review will be subject to SGX-ST RegCo’s approval. DTFAS will liaise with, take instructions from and report its findings directly to the AC and SGX-ST RegCo. Rajah & Tann Singapore LLP has also been appointed to act as Singapore legal advisers to the AC of the Company in relation to the legal issues arising from the Review pertaining to the Report (including compliance with SGX-ST listing requirements and other disclosure requirements as well as remedies available to the Company).

4.2 The Board understood from the management that it is a common commercial practice at that time in PRC to arrange for an authorised party to collect receivables and remit to overseas in one consolidated sum taking into account the foreign exchange controls in PRC. Liu Xiaoqing, being the business partner of Bluegas was therefore appointed as the authorised collection agent of the Company to collect the BOP service fees in PRC on behalf of Bluegas as all of the BOP services were rendered in PRC. As at the date of this announcement, the Group no longer undertakes any BOP business through Bluegas.

4.3 Further to the termination of the BOP business, the Company has appointed three (3) directors and changed its Board composition in 2021 as part of its efforts to strengthen the overall oversight of the Group’s new businesses. The AC also intends to review the Company’s existing internal controls with the assistance of the Review to identify and address any weaknesses in internal controls, propose remedial actions and recommend areas of improvement, if necessary

4.4 The Board also wishes to highlight that the following safeguards were previously implemented in respect of the purported cash receipts of Bluegas:

- (i) to review and reconcile bank statements regularly; and
- (ii) to seek requisite approval from all directors of Bluegas prior to proceeding with any bank payments and withdrawal.

As mentioned above, the Board was only made aware of (a) the circumstances relating to the Interrogatories, and (b) the Report in 2021. The Company also wishes to clarify that as the business of BOP has been suspended since January 2021, there were no cash receipts of Bluegas during 2021. The safeguards previously implemented in respect of operating Bluegas' bank accounts are only applicable before April 2021 as its bank accounts have been cancelled/closed since April 2021.

4.5 In addition, pending the Review by DTFAS, the AC of the Company has further implemented the following, with a view to safeguarding the interests and assets of the Group and protect the interests of minority Shareholders:

- (i) suspend Wong Ming Chun from his key executive position as CFO. Following such suspension, Wong Ming Chun will not perform any executive functions but will continue to assist the Company with regard to the investigations and such other directions of the AC;
- (ii) look into the appointment of an interim CFO or such other person, regardless of his / her title, who has the capacity to perform any function or responsibility equivalent to that of a CFO ("**Interim CFO**"). The duties of the Interim CFO shall be to supervise the day-to-day operations of the Group, safeguard the Group's assets and to facilitate any investigation into the affairs of the Group. The Interim CFO shall report directly to the AC and shall report any irregularities to the AC and the Board; and
- (iii) putting in place appropriate procedures relating to revenue recording and recognition in respect of the current operations of the Group, such as trade debtor identification protocols.

4.6 The Board and the AC wish to assure Shareholders that the Company takes a serious view of the abovementioned matters and will render all necessary efforts and assistance to working with relevant parties in respect of the foregoing matters. The Board also wishes to highlight that, as at the date of this announcement, the Group has ceased and not undertaken any further BOP business through Bluegas, and that Potential Fraud is not expected to have any material impact on the other businesses of the Group.

4.7 The Company will update Shareholders once the scope of the Review is confirmed. The Company will also keep Shareholders updated on any developments and make the appropriate announcements as and when there are any material updates on the Potential Fraud and the Interrogatories.

5. TRADING SUSPENSION

5.1 Further to the Company's announcement in relation to the voluntary suspension of the trading of its shares ("**Shares**") on 17 August 2021, the Board would like to inform Shareholders that the trading suspension will remain in place until:

- (i) DTFAS has completed the Review and its comments (if any) arising from the Review have been adequately addressed by the Company; and
- (ii) the Company has released its annual report for FY2020,

with a view to determine the Company's state of affairs and ensure all requisite information has been appropriately disclosed by the Company such that the Shares can be traded on a fair, orderly and transparent basis.

5.2 The Company will submit a proposal to the SGX-ST with a view to resuming trading in its Shares as soon as it is appropriate to do so thereafter and in any case within 12 months of the date of the voluntary trading suspension pursuant to Rule 1304 of the Listing Manual. Shareholders should note that if no resumption proposals are received to enable trading to resume within 12 months of the date of suspension, the SGX-ST may remove the Company from the Official List of the SGX-ST.

6. FURTHER ANNOUNCEMENTS

The Company wishes to assure Shareholders that as and when there are material developments, it would make appropriate announcements on the SGXNET in a timely manner to update all Shareholders.

7. TRADING CAUTION

Shareholders and potential investors of the Company are advised to read this announcement and any further announcements by the Company carefully. Shareholders of the Company are advised to refrain from taking any action in respect of their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. In the event of any doubt, shareholders and potential investors of the Company should consult their stockbrokers, bank managers, solicitors, accountants and other professional advisers.

By Order of the Board

Chin Teck Oon
Executive Director and Chief Executive Officer

26 August 2021

Appendix

The Counsel for Interrogatories' Confirmation

Please refer to the enclosed.

Redacted

From: Redacted
Sent: 30 June 2021 15:52
To: Redacted
Cc: Redacted
Subject: RE: KTL Global - legal confirmation letter for audit purpose

Dear Redacted

Thank you for the meeting earlier.

I would like to clarify the response in the table below:-

The likelihood of outcome was described to be “not in favour” of the suits as questioned as I am of the view that the Plaintiff’s case would fail.

In respect of HC/OS 438/2021, i am virtually certain that this case would not be in favour of the Plaintiff. In respect of HC/ S347/2021, it is probable that the case would not be in favour of the Plaintiff.

Warm Regards

Redacted

M/s Optimus Chambers LLC
10 Raeburn Park
#01-01
Singapore 088702

From: Redacted
Sent: 23 June 2021 09:53
To: Redacted
Cc: Redacted
Subject: RE: KTL Global - legal confirmation letter for audit purpose

Dear Sirs

Thank you for your email.

Please see our response as follows:-

	HC/OS438/2021	HC/S347/2021
Estimate of potential outcome:	In favour of/ Not in favour of*	In favour of/ Not in favour of*
Likelihood of outcome#	Not in favour	Not in favour
(i) Virtually certain	X	

(ii) Probable		X
(iii) Possible		
(iv) Remote		

Warm Regards

Redacted

M/s Optimus Chambers LLC
10 Raeburn Park
#01-01
Singapore 088702