Raffles Interior Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1376)

KEY FINDINGS OF THE INDEPENDENT INVESTIGATION REPORT

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

References are made to the announcements of the Company dated 23 March 2021, 24 March 2021, 31 March 2021, 1 April 2021, 23 April 2021, 26 May 2021, 30 June 2021, 10 September 2021, 30 September 2021, 31 December 2021 and 18 January 2022, in relation to (i) the possible delay in publication of (1) the Group's audited annual results announcement for the year ended 31 December 2020 and (2) the Group's 2021 interim results announcement; (ii) the suspension of trading of its shares; (iii) the appointments of independent advisor and internal control advisor; (iv) the quarterly update of suspension of trading; and (v) the resumption guidance set forth by the Stock Exchange (the "**Resumption Guidance**") (the "**Announcements**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

As mentioned in the announcements of the Company dated 23 April 2021 and 18 January 2022, the Stock Exchange sets out the Resumption Guidance for the Company to, among others, conduct an appropriate independent investigation into the audit issues raised by PwC, the former auditor of the Company (the "**Issues**").

As disclosed in the announcement of the Company dated 26 May 2021, Wellington Legal was appointed to act as the independent advisor to conduct an independent investigation into the Issues and to prepare the independent investigation report in respect of the Issues.

On 21 January 2022, the Company received an independent investigation report dated 14 January 2022 (the "**Independent Investigation Report**") issued by Wellington Legal. The summary of the major findings of the Independent Investigation Report and the views of the Company on the contents of the Independent Investigation Report are set out in this announcement.

SCOPE OF THE INVESTIGATION

Wellington Legal conducted an investigation on the nine agreements (the "**Agreements**") relating to the Issues, concerning seven service providers (each referred to as "**Service Provider A**" to "**Service Provider G**", collectively the "**Service Providers**"). For the purpose of the Investigation, Wellington Legal conducted a fact-finding exercise on:

1. Background of the Service Providers; their roles and involvements in the Company's IPO, if any, and their relationship with the Group and Quasar Securities, one of the Joint Lead Managers of the Company's IPO;

2. The commercial substance and business rationale for entering into each of the Agreements;

3. Details of the Group's due diligence, service procurement and vendor selection procedures, internal control and approval procedures conducted and proposals/materials considered before engaging the Service Providers;

4. Whether the level of service fees and payment terms are comparable to market price and practices for similar professional and consultancy services by service providers of similar sizes;

5. Details of the services already provided to date;

6. Reasons for the amounts initially withheld by Quasar Securities for payment of fees and expenses from the Company's IPO proceeds and subsequently paid back to the Company;

7. Whether any of the amounts paid to the Company represented listing expenses or form part of the planned use of proceeds as described in the Company's prospectus; and

8. In relation to the agreements with Service Provider A,

    a. Whether the Group had issued investment guidelines to Service Provider A, and, if so, whether the investments made exceeded the guidelines;

    b. The Group management's involvement in the investments made by Service Provider A; and

    c. The background, operations, financial and fair value assessment of the company invested in by Service Provider A.

SUMMARY OF THE MAJOR FINDINGS OF THE INDEPENDENT INVESTIGATION REPORT

(a) General Findings of The Agreements

(i) *Background of the Service Providers*

Save for those disclosed below, there is no other relationship between the shareholders, directors and key management of the Service Providers with the Group, the Group's shareholders and management and Quasar Securities:

i. Service Provider B was a lead sub-underwriter of Quasar Securities in the IPO; and

ii. A partner of the legal advisor to the Company in the IPO introduced Service Provider A to the Company. He is an independent non-executive director of the parent company of Service Provider A.

(ii) *Details of the Group's vendor selection and approval procedures*

Although the Company had a "procurement, accounts payable and payment" policy for construction project related matters, the Company did not have any internal control or approval procedures relating to service procurement. Mr. Chua Boon Par, the chairman, chief executive officer and executive director of the Company ("**Mr. Chua**"), had the authority to decide which service provider to engage, negotiate the terms of the service agreement, and to sign the relevant service agreements.

As such, the decision to engage the Service Providers were all made by Mr. Chua without formally consulting the Board or putting the matter to the Board for consideration. Also, the service agreements were all entered within a very short period of time after the IPO because these services were essentially related to (a) fulfilling the Group's ambition to expand its business/operations outside of Singapore after it being successfully listed on 7 May 2020; and (b) achieving higher returns on the Group's cashflow through investments.

Wellington Legal has not found any impropriety on the part of Mr. Chua in making these decisions to enter into the service agreements but rather, Mr. Chua relied heavily on the fact that the Service Providers were introduced to him by persons he trusted and did not carry out a detailed due diligence and did not seek comparables before engaging the Service Providers reflecting a weakness in the Company's internal control procedures.

Wellington Legal suggested that the Company could consider to establish a committee to review and approve expenditure or contracts which exceed a specified amount.

(iii) *Payment Term*

During negotiation of terms, Service Provider B first indicated to the Company that it would provide a discount in service fees if the Company paid the entire amount of the fees upfront. The Company was satisfied with such prepayment arrangement.

In light of Service Provider B agreeing to a discount with upfront payment, the Company proposed such prepayment arrangement to other service providers in return for discounts.

While other service providers agreed and offered discounted fees to the Group, Service Provider E only agreed to provide 2 extra months of services for the prepayment arrangements, instead of a discounted service fee.

Nevertheless, Wellington Legal noted that Mr. Chua appears to have underestimated the seriousness and protracted impact of the COVID-19 pandemic and did not negotiate with the service providers to include provisions to adjust the fees or to terminate the service agreements to provide for this possibility.

(iv) *Source of funds*

As the Singapore Government imposed certain restrictions to counter the COVID-19 pandemic, the Company had initially instructed Quasar Securities to withhold a sum of HK$7.5 million to pay the Service Providers as the staff of the Company had difficulties in arranging payments.

As the Company was not providing essential services, the staff of the Company was not allowed to go to the office where their cheque book was kept in order to arrange payments that became due during the circuit breaker period.

However, when the Company anticipated that it could make payments on its own, the Company instructed Quasar Securities to return the sum of HK$7.5 million. Therefore, Quasar Securities did not make any payments from the sum withheld. The entire sum was refunded to the Company on 25 May 2021.

The Company considered and Wellington Legal concurred that none of the payment made to the Service Providers represents listing expenses or forms part of the planned use of proceeds.

The Agreements were all paid by the Group's internal cash balance as the Company was entitled to use the sum of HK$28.3 million as internal funds available which could be freely utilized by the Company, comprising of (1) HK$21.6 million being paid previously by the Group as listing expenses prior to the IPO, and (2) HK$6.7 million being the portion of the IPO proceeds reserved as general working capital.

(b) Specific Findings of The Agreements

Wellington Legal noted that the Agreements were essentially related to (1) expanding the Group's business/operations outside of Singapore; and (2) increasing the returns on idle funds through investment which were consistent with the Group's plans to expand the business and operations and also the use of the additional cash generated from the IPO.

Other key findings specific to each agreement are set out below:

Service Provider	Service Fee *(HK$'000)*	Major Finding
A	558	**Commercial substance and business rationale** The Group engaged Service Provider A to provide discretionary investment management services as the Group wanted to explore investment opportunities which might yield a higher return than for the cash held in a bank, specifically, alternative investments. **Service fee** The Company found the fees to be reasonable. The Company understood that the fees were within the range of fees charged by Service Provider A and that a discount had been given. **Service provided** Service Provider A invested the funds provided by the Group into shares of a private company which had acquired a valuable collection of artwork/antiques. According to the unsigned valuation report prepared by Access Partner Consultancy & Appraisals Limited dated 24 February 2021, the market value of the artwork/antique collection owned by the private company was HK$74,980,000 as at 31 December 2020. No other financial information of the private company was provided apart from the valuation report. As at 31 December 2020, the Group held approximately 11.51% of issued shareholding of the private company, and the market value of which was approximately HK$8,630,198. **Other findings** The Group had issued investment guidelines to Service Provider A and the investments made were within the scope of the guidelines. Pursuant to the Discretionary Investment Management Agreement, the Service Provider A did not need to consult with or seek the authorization of the Group before making the investment. The Group terminated the Discretionary Investment Management Agreement on 1 March 2021 and Service Provider A proceeded to liquidate the portfolio by disposing all the investments with a net investment gain of HK$389,305 and a partial refund of the management fee of HK$310,000.

Service Provider	Service Fee *(HK$'000)*	Major Finding
B	6,250	**Commercial substance and business rationale** Service Provider B was a lead sub-underwriter of Quasar Securities in the IPO. The Company understood that Service Provider B had contributed considerably to the underwriting of the Company's listing. The Company agreed awarding Service Provider B 5% of the gross proceeds from the IPO upon proposal of Quasar Securities. Nevertheless, the bonus arrangement was subsequently rescinded and replaced by a facilitator agreement as the Company wanted Service Provider B to provide additional services to the Company for the payment to be made to Service Provider B. After discussions between Service Provider B and the Company, Service Provider B indicated that it would introduce potential acquisition targets to the Company to assist the Company in the acquisitions of interior design companies which lead to the Facilitator Agreement. **Service fee** The Company considered the fee of HK$6,250,000 to be reasonable as it was a constructive and practical utilization of the sum originally designated for the Bonus by requiring Service Provider B to provide additional services. Since the services fees were agreed based upon the unique circumstances, no comparable could be obtained by Wellington Legal. **Service provided** Service Provider B introduced a potential acquisition target company to the Company. Numerous meetings have been held between the Company and the target company. However, the Company has decided not to proceed with the acquisition in the end.

Service Provider	Service Fee *(HK$'000)*	Major Finding
C	700	**Commercial substance and business rationale** The Company engaged Service Provider C to provide financial public relations services in connection with the IPO of the Company and strategic investment public relations for the period commencing on the date of signing of the agreement by the Company and to end one week after the listing. **Service fee** The Company believed that the fees were reasonable as Quasar Securities had indicated that the fees charged by Service Provider C were within the usual range and Service Provider C was one of the leading public relations firms in Singapore. Wellington Legal has not been able to obtain a comparable for the services as the details of the services to be provided by Service Provider C were not clearly defined. **Service provided** Service Provider C monitored the news and collated daily media reports in relation to the Company relating to the IPO for the Company. The services to be provided by Service Provider C have been completed save for the listing ceremony, which are yet to be held because of the pandemic situation and the travelling restrictions.

Service Provider	Service Fee *(HK$'000)*	Major Finding
D	**Advertising Campaign Agreement:** 1,800 **Media Placement Agreement:** 1,200	**Commercial substance and business rationale** The Company engaged Service Provider D to provide media exposure in Hong Kong after its listing to assist with the Company's plans to expand their business in Hong Kong as it would help to allow more people to know about the Company and also to attract investors. **Service fee** The Company believed that the fees proposed by Service Provider D for both the Advertising Campaign and the Media Placement Campaign were the usual fee charged by a media company in Hong Kong and in light of the discount given, the fees were reasonable. As there was no clearly detailed scope of works set out in the agreements, no comparable quote could be obtained by Wellington Legal. **Service provided** *Advertising Campaign Agreement* Service Provider D arranged title sponsorship, provided media placement for media coverage, consolidated clippings and prepared summary report for the whole campaign. *Media Placement Agreement* Service Provider D provided production and media placement services on the Finance Page of Sing Pao Daily News for quarter page-sized advertisements during the period from June to July 2020. The services to be provided by Service Provider D have been completed save for the closing meeting to be held between the Company and Service Provider D for debriefing and feedback and further service to be provided to the Company to make up for the days which the advertisements were not published.

Service Provider	Service Fee *(HK$'000)*	Major Finding
E	**Business and Consultancy Agreement:** 9,500 **Internal Control Consultancy Agreement:** 3,000	**Commercial substance and business rationale** The Company engaged Service Provider E to provide (a) business and consultancy services; and (b) internal control consultancy services to carry out the Group's plan for expansion of its business in Hong Kong as they did not have any permanent staff or office in Hong Kong. **Service fee** The Company believed that the fees were reasonable based on its assessment of the services to be provided under the Business and Consultancy Agreement and the Internal Control Agreement and after taking into account the additional two months of services provided by Service Provider E for free. As the services to be provided by Service Provider E were not fully described in the agreements and included matters which were not stated in the agreements, no comparable quote could be obtained by Wellington Legal. **Service provided** *Business and Consultancy Agreement* Service Provider E provided the Company with monthly marketing research reports. The reports cover updates regarding licensing requirements, construction costs, upcoming developments and financial indicators for the industry. Service Provider E also provided comments on the Company's Results Announcement for the year ended 31 December 2020 in January 2021. *Internal Control Consultancy Agreement* Service Provider E provided the Company with information and documents relating to compliance with the Listing Rules in respect of internal control and environmental, social and governance reporting. Service Provider E also provided various internal control policies, namely, Code of Conduct, Corporate Social Responsibility Policy and Enterprise Risk Management Policy, and advised the Company on enhancing corporate governance.

Service Provider	Service Fee *(HK$'000)*	Major Finding
F	1,800	**Commercial substance and business rationale** The Company engaged Service Provider F to provide business consultancy and management services to the Group in Cambodia, Malaysia and Macau as the Group wanted to explore (a) the feasibility of establishing manufacturing facilities/representative offices in Malaysia and Cambodia which had lower operation costs; and (b) the business potential of Cambodia, Malaysia and Macau. During discussion, it was agreed that the services to be provided by Service Provider F would include carrying out market research and feasibility analysis, preparing a research report and carrying out site visits. **Service fee** The Company believed that the fees were reasonable based on its assessment of the services to be provided by Service Provider F and the experience of Mr. Chua. As there is no clearly defined scope of works set out in the agreement, Wellington Legal was unable to obtain comparable for the services to be provided by Service Provider F. **Service provided** Service Provider F submitted a preliminary market research report on Cambodia to the Company but not for Malaysia and Macau. However, due to the COVID-19 pandemic and travelling restrictions, Service Provider F have yet to arrange and conduct site visits to Cambodia, Macau, and Malaysia. The information obtained from these site visits may be included into a further report.

Service Provider	Service Fee *(HK$'000)*	Major Finding
G	2,000	**Commercial substance and business rationale** The Company engaged Service Provider G to provide investment advisory services as the Company wanted to explore investment opportunities which might yield a higher rate of return as compared to keeping the funds in a bank account. The Company believed that Service Provider G could identify and recommend companies in China which would be good investments for the Company. **Service fee** The Company considered the reduced fees charged by Service Provider G to be reasonable based on its assessment of the services to be provided by Service Provider G and the views of the other executive directors of the Company. As the services to be provided by Service Provider G are not defined, no comparable quote could be obtained by Wellington Legal. **Service provided and termination of agreement** No service has been provided by Service Provider G. As the impact of COVID-19 was worse than what the Company had anticipated, the Company expected that its business in 2021 might not be as good as before and might require more cash flow. Therefore, the agreement with Service Provider G was terminated on 15 June 2021 and the amount of the service fees was refunded to the Company in full.

OVERALL RESPONSES OF THE BOARD

The Board (including the IBC) has reviewed the contents of the Independent Investigation Report and considers that the Independent Investigation Report has adequately addressed the Issues. However, further investigation may be conducted at the request from the regulators. Therefore, the Group will make further announcement(s) as and when appropriate.

After PwC had brought the Issues to the attention of the Board, the Company has quickly engaged Baker Tilly to carry out a review of its internal control policies. Upon conclusion of the internal control assessment, the Board shall review the internal control review report and consider to adopt and implement appropriate remedial actions recommended by Baker Tilly to remedy the identified deficiencies in internal control, if any. As Baker Tilly is still in the course of preparing the internal control review report, further announcements regarding the key findings of the internal control review report and the responses of the Board will be made as and when appropriate.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2021 and will remain suspended until further notice.

Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

By order of the Board
Raffles Interior Limited
Chua Boon Par
Chairman, chief executive officer and executive director

Hong Kong, 2 March 2022

As at the date of this announcement, the executive directors of the Company are Mr. Chua Boon Par, Mr. Ding Hing Hui and Mr. Leong Wai Kit; and the independent non-executive directors of the Company are Mr. Chia Kok Seng, Mr. Gay Soon Watt and Mr. Wong Heung Ming Henry.