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Raffles Interior Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1376)

INSIDE INFORMATION SALE OF WHOLLY-OWNED SUBSIDIARY

This announcement is made by Raffles Interior Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) 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).

Reference is made to the announcement of the Company dated 1 August 2023, 15 August 2023, 29 August 2023, 8 January 2024, 27 November 2024 and 28 November 2024 (the “**28 November Announcement**”) in relation to the acquisition of 51% equity interest of 武漢二廠汽水有限公司 (the “**PRC Subsidiary**”) (the “**Acquisition**”) involving the issue of the convertible note as consideration to the Acquisition.

The board of directors (the “**Board**”) of the Company hereby announces that the Company entered into a sale and purchase agreement on 31 December 2024 (the “**SPA**”), pursuant to which the Company agreed to sell its entire interest in the share of China Soft Drinks Limited (“**China Soft Drinks**”) to a purchaser (the “**Purchaser**”) (the “**Sale**”) on an “as-is” basis at a nominal consideration of HK\$1 (the “**Consideration**”). China Soft Drinks is a wholly-owned subsidiary of the Company which indirectly holds 51% of the PRC Subsidiary. The Sale was completed on the same day.

FINANCIAL POSITION OF THE PRC SUBSIDIARY

As disclosed in the 28 November Announcement, pursuant to the agreement in relation to the Acquisition dated 1 August 2023, the original vendor of the PRC Subsidiary (the “**Original Vendor**”) guaranteed to the Company (as purchaser) that the net profit after tax of the PRC Subsidiary for each of year 2024 and 2025 (the “**Profit Guarantee Period**”) shall not be less than HK\$5,000,000 per annum (the “**Guaranteed Net Profit**”). However, the unaudited financial results and the unaudited management accounts of the PRC Subsidiary for the six months ended 30 June 2024 and the nine months ended 30 September 2024, respectively, revealed that the PRC Subsidiary continued to record a net loss and showed no visibility of profitability. The Company did not make any capital contribution

into the PRC Subsidiary since the Acquisition. For more details of the unaudited financial results of the PRC Subsidiary, please refer to the paragraph “Reasons for and benefits of the Sale” in this announcement below.

BASIS OF CONSIDERATION

The Consideration was determined after arm’s length negotiation between the Company and the Vendor with reference to, among other things, the financial position of the PRC Subsidiary and the market value of the 51% equity interest in the PRC Subsidiary based on a valuation report commissioned by the Company (“**Valuation Report**”).

SALE ON “AS-IS” BASIS

Pursuant to the terms of the SPA, the Purchaser accepts and acknowledges that (i) it has been informed of and is fully aware of the nature of business, the financial condition and status of China Soft Drinks and there may be certain existing and potential defects and risks in connection with the Sale and China Soft Drinks, and (ii) it is purchasing on an “as-is” basis. The Purchaser also agrees that it has no right to rescind or terminate the SPA to seek any abatement of the Consideration or to claim any compensation or damages from the Company as a result of, based upon or arising from any defect and/or risk of the Sale.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in Singapore with limited liability and is principally engaged in building construction including major upgrading works. To the best knowledge, information and belief of the directors of the Company (the “**Directors**”), the Purchaser is wholly-owned by Mr. Ni Shijie (“**Mr. Ni**”), who is a Singaporean citizen. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Purchaser and Mr. Ni are independent third parties of the Company.

To the best knowledge, information and belief of the Directors, the Purchaser, being an opportunistic investor, had acquired China Soft Drinks with the intention of rectifying the loss-making position of the PRC Subsidiary in the future and diversifying its business portfolio.

REASONS FOR AND BENEFITS OF THE SALE

The Company believes that there had been misrepresentations by the Original Vendor, among which:

- (a) the Original Vendor provided the Guaranteed Net Profit of HK\$5,000,000 for each of year 2024 and 2025. Yet based on the unaudited management accounts (i) as of 30 June 2024, the PRC Subsidiary had incurred approximately HK\$3,700,000 in net losses, and (ii) as of 30 September 2024, the PRC Subsidiary had incurred approximately RMB3,200,000 in net losses;

- (b) the Original Vendor misrepresented the amount of goodwill attributable to the purported ownership or ability to legally use the “二厂汽水” trademark. Yet it was found that the relevant trademark registrations had been repeatedly rejected by the relevant government authorities; and
- (c) it was revealed that the PRC Subsidiary obtained a RMB5,000,000 loan shortly prior to the Company’s completion of the Acquisition (the “**Unauthorised Loan**”) and such funds is suspected to have been misappropriated. The Company had attempted to investigate into the Unauthorised Loan but had not received cooperation from the relevant management member and representative of the PRC Subsidiary. The Unauthorised Loan remains unsettled by the PRC Subsidiary and such funds remain not recoverable as at the date of the SPA.

Given the above, the Company suspects potential fraud, misrepresentations and breaches of representations and warranties under the Acquisition by the Original Vendor. The Sale represents an effort from the Company to react timely to the uncooperative nature of the relevant management member and representative of the PRC Subsidiary, preventing any hindrance to the Group’s financial reporting process for the preparation of the consolidated financial statements and the related audit procedure on such PRC Subsidiary, and ultimately, to limit its downside risk in connection with the Acquisition.

Moreover, the PRC Subsidiary recorded a net loss ever since the Acquisition and showed no visibility of profitability as at the date of the SPA. Based on information available to the Company and considering the nature of the potential misrepresentations and breaches identified above, the Company remains doubtful on the PRC Subsidiary’s ability to meet the Guaranteed Net Profit. After reassessing the financial prospect of the PRC Subsidiary, the Company believes the PRC Subsidiary is unable to demonstrate an ability to generate through the ordinary course of its business the Guaranteed Net Profit that the Original Vendor had guaranteed.

Having considered the above, and especially given that the Company did not make any capital contribution into the PRC Subsidiary since the Acquisition, the Board considers that the Sale is in the best interest of the Company and the shareholders of the Company (the “**Shareholders**”) as a whole.

INTERNAL CONTROL AND OTHER MITIGATION STEPS

The Company is also seeking legal advice in respect of the possible cause of action(s) against the Original Vendor, including but not limited to potential fraud, misrepresentations and breaches of representations and warranties under the Acquisition, to (i) recover any losses that the Company had suffered in the Acquisition, (ii) claim for penalties from the Original Vendor for failure to fulfil the Guaranteed Net Profits, and (iii) cancel the convertible note issued pursuant to the Acquisition.

It is important to note that the Company did not make any capital contribution into the PRC Subsidiary since the Acquisition which already limits the Company’s risk exposure. The Company will continue to adhere to its internal control policies to ensure due protection of the interest of the Company and the Shareholders.

IMPAIRMENT LOSS AND FINANCIAL EFFECT ARISING FROM THE SALE

Upon completion of the Sale, the Group will cease to have any interests in China Soft Drinks and the financial results of China Soft Drinks will no longer be consolidated in the financial statements of the Group.

Based on the Board's preliminary assessment on the unaudited consolidated financial information of the China Soft Drinks by reference to the information currently available to them, the impairment, the Group expects to record an impairment loss of approximately S\$5,348,000 in the profit or loss for the year ending 31 December 2024 as a result of the Sale, which is calculated by reference to the intangible assets and goodwill recognised based on the purchase price allocation at its initial recognition on the Acquisition of approximately S\$5,937,000 and net liability of the China Soft Drinks S\$589,000 based on the unaudited management accounts as of 30 September 2024. The actual impairment loss as a result of the Sale is subject to final audit to be performed by the auditors of the Company.

Besides, as above-mentioned, in respect of the possible course of action(s) against the Original Vendor, including claim for penalties from the Original Vendor for failure to fulfil the Guaranteed Net Profits and to cancel the convertible note issued pursuant to the Acquisition, the Group expects to claim an amount of approximately S\$1,751,000 (HK\$10,000,000, i.e. HK\$5,000,000 $\times$ 2.0 as specified in the SPA), assuming the PRC Subsidiary remains loss-making for the financial year ending 31 December 2024. For the potential cancellation of the convertible note, when the convertible note is cancelled, the outstanding carrying amount of such convertible note is expected to be recognised as other gain in the profit or loss. Based on the unaudited management accounts as of 30 September 2024, the carrying amount of the convertible note is approximately S\$5,345,000.

There will not be any net proceeds from the Sale by reference to the amount of the Consideration and the professional fees incurred in the Sale.

The Company will keep the Shareholders and potential investors of the Company informed of any significant development by way of announcement as and when appropriate in accordance with the Listing Rules.

By order of the Board
Raffles Interior Limited
Wong Heung Ming Henry
*Non-executive Chairman and
independent non-executive director*

Hong Kong, 31 December 2024

As at the date of this announcement, the executive Director is Mr. Ding Hing Hui; and the independent non-executive Directors are Mr. Gay Soon Watt, Mr. Wong Heung Ming Henry and Mr. Tan Chong Huat.