

*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.*



## **Raffles Interior Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1376)**

### **KEY FINDINGS OF THE INDEPENDENT INTERNAL CONTROL REVIEW 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, 25 May 2021, 26 May 2021, 30 June 2021, 8 July 2021, 10 September 2021, 30 September 2021, 31 December 2021, 18 January 2022, 2 March 2022 and 31 March 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 change of auditor; (iv) the appointments of independent advisor and internal control advisor; (v) the quarterly update of suspension of trading; (vi) termination of Discretionary Investment Management Agreements and disposal of investment; (vii) profit warning for the Group’s 2021 Interim Period; (viii) the resumption guidance set forth by the Stock Exchange (the “**Resumption Guidance**”) and (ix) the key findings of the independent investigation report (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 18 January 2022, the Stock Exchange sets out the Additional Resumption Guidance for the Company to, among others, conduct an independent internal control review (the “**Internal Control Review**”) and demonstrate that the Company has adequate internal controls and procedures in place to meet obligations under the Listing Rules.

After PwC had brought the Issues to the attention of the Board, the Company has, as soon as practicable, engaged Baker Tilly to carry out a review of its internal control policies. The Company has been working closely with Baker Tilly to fulfil the Additional Resumption Guidance. On 26 April

2022, the Company received an internal control review report dated 14 April 2022 issued by Baker Tilly. The summary of the major findings of the Internal Control Review, recommendations made by Baker Tilly and the remedial actions taken by the Group are set out in this announcement.

## **OBJECTIVES, SCOPE AND METHODOLOGY OF THE INTERNAL CONTROL REVIEW**

The key objectives of the Internal Control Review are to assist the Company in assessing, reviewing, evaluating and testing the effectiveness of the internal controls at both the entity level and the process level over selected process of the Group, and to report findings and recommendations for improvements that Baker Tilly may identify on these controls.

The Internal Control Review covered the key internal controls of the following processes for the period from 1 January 2020 to 31 December 2020:

- contracting/vendor engagement;
- investment management; and
- compliance with financial reporting obligations.

A risk-based methodology was employed in the Internal Control Review. Baker Tilly identified areas of risk and evaluated the efficiency and effectiveness of the internal control of the Company.

The Internal Control Review consists of the following phases:

- systems walk-through and gap analysis;
- detailed testing and validation;
- reporting; and
- follow-up review.

## SUMMARY OF THE MAJOR FINDINGS OF THE INTERNAL CONTROL REVIEW

Key findings	Remedies/actions taken by the Group as recommended by Baker Tilly	Status
<i>Management Issues</i>		
<p>The Company's policy &amp; procedural manual titled "Procurement, Accounts Payables, and Payment" (the "<b>Procurement, Accounts Payables, and Payment Manual</b>") related mainly to general goods and services procurement in relation to construction projects. It, however, did not address the procedures and controls in relation to the engagement of the Service Providers.</p>	<p><u>Recommendation(s)</u></p> <p>The policies and procedures of the Group should be enhanced to cover engagement of consultancy service providers. In particular, there should be clear guidelines on the following areas:</p> <ul style="list-style-type: none"><li>— requisition of ad-hoc service providers;</li><li>— competitive sourcing;</li><li>— vendor evaluation; and</li><li>— contracting with vendors.</li></ul>	Remediated
<p>No formal documentation was kept to record the requisition and requirement specifications, competitive sourcing and price comparison, due diligence, checks and declaration for conflict of interest or evaluations and justifications in relation to the engagement of the Service Providers.</p>	<p><u>Remedial action(s)</u></p> <p>The Procurement, Accounts Payables, and Payment Manual was revised to include guidelines and a clear line of reporting on the recommended segments.</p> <p>For instance,</p> <ul style="list-style-type: none"><li>— vendor requirements and procurement objectives have to be stated clearly prior to the sourcing of quotations and engagement of vendors;</li><li>— price comparisons among vendors have to be made;</li><li>— requirements for waiver of competition and competitive sourcing have been stated clearly;</li><li>— background checks, due diligence, assessment for potential conflict of interest have to be conducted on vendors;</li><li>— contract terms and conditions have to be reviewed carefully; and</li><li>— performance and/or obligations of the vendors should be monitored closely.</li></ul>	

Key findings	Remedies/actions taken by the Group as recommended by Baker Tilly	Status
<p>The authorized bank signatories for the bank accounts of the Company are divided into Group A and Group B. Anyone from Group A and anyone from Group B can sign jointly for any amount.</p>	<p><u>Recommendation(s)</u></p> <p>Dual approval controls should be established for bank transfer payments made via the online banking platform.</p> <p><u>Remedial action(s)</u></p> <p>Dual approval controls for bank transfer payments via the online banking platform has been established by the Group.</p> <p>Furthermore, the Use of Proceeds Monitoring Policy has been formalized to ensure that the use of proceeds is in accordance with the disclosure in the prospectus or the latest announcements.</p>	Remediated
<p>However, any one bank signatory can singly approve bank transfer payments via the online banking platform.</p>	<p>Dual approval controls for bank transfer payments via the online banking platform has been established by the Group.</p> <p>Furthermore, the Use of Proceeds Monitoring Policy has been formalized to ensure that the use of proceeds is in accordance with the disclosure in the prospectus or the latest announcements.</p>	Remediated
<p>The following omissions were noted in the Agreements relating to the Issues:</p>	<p><u>Recommendation(s)</u></p> <p>The Company should ensure that pertinent information is not omitted in contractual agreements entered into with third parties.</p>	Remediated
<p><b>Service Provider</b>      <b>Omission(s)</b></p>	<p><u>Remedial action(s)</u></p> <p>The various process owners tasked with contract management have been reminded to ensure that pertinent information have not been omitted from the contracts.</p> <p>A process has been formally established in the Procurement, Accounts Payables, and Payment Manual for the Finance team to review purchase contracts.</p>	Remediated
<p>C      Commencement date — The contract stated that it should commence from the signing of the agreement. However, the agreement was not dated and the signing date was not indicated.</p>	<p>The various process owners tasked with contract management have been reminded to ensure that pertinent information have not been omitted from the contracts.</p> <p>A process has been formally established in the Procurement, Accounts Payables, and Payment Manual for the Finance team to review purchase contracts.</p>	Remediated
<p>D      Commencement date</p>		Remediated
<p>F      Scope of work — There were no specifications in the type of consultancy and management services provided.</p>		Remediated

Key findings	Remedies/actions taken by the Group as recommended by Baker Tilly	Status
<p>Prepayment by the Company to Service Provider B was made despite the omission of the Chief Executive Officer's signature on the engagement letter.</p>	<p><u>Recommendation(s)</u></p> <p>Supporting agreements should be signed by authorized personnel before prepayments are processed.</p> <p><u>Remedial action(s)</u></p> <p>The Procurement, Accounts Payables, and Payment Manual states that in the case where prepayments are to be made, they must be supported by invoices and authorized agreements/ contracts to justify the prepayments.</p>	Remediated
<p>The Group did not have a formalised delegation of authority for entering into investments or investment management agreements. Consequently, all investment-related decisions and approvals were made by executive directors of the Company.</p>	<p><u>Recommendation(s)</u></p> <p>The delegation of authority for investment-related decisions and approvals should be formalised. To enhance the control over investment decisions, investment amounts exceeding a defined threshold may require approval or ratification of the Board.</p> <p><u>Remedial action(s)</u></p> <p>The delegation of authority for investment management has been established within the Investment Policy effective from 1 January 2022 (the “<b>Investment Policy</b>”).</p>	Remediated

Key findings	Remedies/actions taken by the Group as recommended by Baker Tilly	Status
An exercise to formally align the Group’s risks assessment with internal audit planning was not carried out prior to 2020, and was only carried out in the financial year ended 31 December 2020.	<p data-bbox="587 283 817 304"><u>Recommendation(s)</u></p> <p data-bbox="587 357 1321 421">A formal exercise to align the Group’s risks with internal audit planning should be carried out on a periodic basis.</p> <p data-bbox="587 474 804 495"><u>Remedial action(s)</u></p> <p data-bbox="587 549 1321 868">Since the Company was listed on the Stock Exchange, (a) a 3-year rotational internal audit plan has been approved by the Audit Committee of the Company (the “<b>Audit Committee</b>”), (b) an internal audit and enterprise risk assessment has been performed during the financial year ended 31 December 2020, and (c) the results of the internal audit and enterprise risk assessment has been reviewed by the Audit Committee and the Board with internal audit planning aligned with the results of the enterprise risk assessment exercise.</p> <p data-bbox="587 921 1295 1017">Internal audit and enterprise risk assessment update was performed for the financial year ended 31 December 2021 in line with the 3-year internal audit plan.</p>	Remediated
<i>Observations</i>	<p data-bbox="587 1144 817 1166"><u>Recommendation(s)</u></p> <p data-bbox="587 1219 1257 1283">Bank transfer advices should be reviewed in line with the current standard operating procedures.</p> <p data-bbox="587 1336 804 1357"><u>Remedial action(s)</u></p> <p data-bbox="587 1410 1279 1474">Process owners were reminded to comply with the standard operating procedures.</p> <p data-bbox="587 1527 1232 1615">Due to a change in process, the Procurement, Accounts Payables, and Payment Manual has been revised to be consistent with the revised practice.</p>	Remediated

Key findings	Remedies/actions taken by the Group as recommended by Baker Tilly	Status
There were no formalised policies and procedures for investment management.	<p data-bbox="587 283 817 308"><u>Recommendation(s)</u></p> <p data-bbox="587 357 1270 421">Investment management policies and procedures should be formalised and include the followings:</p> <ul data-bbox="587 470 1270 942" style="list-style-type: none"> <li data-bbox="587 470 943 495">— Roles and responsibilities;</li> <li data-bbox="587 544 916 570">— Delegation of authority;</li> <li data-bbox="587 619 1206 644">— Investment objectives, constraints and strategies;</li> <li data-bbox="587 693 962 719">— Investment making process;</li> <li data-bbox="587 768 978 793">— Investment risk management;</li> <li data-bbox="587 842 962 868">— Divestment procedures; and</li> <li data-bbox="587 917 1270 942">— Public announcement and regulatory filing procedures.</li> </ul>	Remediated
The following inadequacies in the due diligence process against Service Provider A were noted:	<p data-bbox="587 991 804 1017"><u>Remedial action(s)</u></p> <p data-bbox="587 1066 1326 1129">The Investment Policy containing the recommended policies on the abovementioned scope has been established.</p> <p data-bbox="587 1178 817 1204"><u>Recommendation(s)</u></p> <p data-bbox="587 1253 1238 1317">Investment due diligence process should be enhanced to include:</p> <ul data-bbox="587 1366 1326 1619" style="list-style-type: none"> <li data-bbox="587 1366 1326 1506">— obtaining the necessary track records, fact sheets, historical performance and/or projected returns provided by the investment manager to support the decision to enter into any investment agreements; and</li> <li data-bbox="587 1555 1302 1619">— obtaining formal conflict of interest declarations with the controlling shareholders.</li> </ul>	Remediated
<p data-bbox="76 1327 520 1391">(a) there was no evidence of the due diligence checks performed; and</p> <p data-bbox="76 1440 467 1544">(b) there was no evidence of the conflict-of-interest checks performed.</p>	<p data-bbox="587 1668 804 1693"><u>Remedial action(s)</u></p> <p data-bbox="587 1742 1270 1834">The Investment Policy has been established to ensure due diligence and conflict of interest checks are performed and documented.</p>	

## **OVERALL RESPONSE OF THE BOARD**

The Board (including the IBC) has reviewed the internal control review report prepared by Baker Tilly and considers that (i) the Internal Control Review has adequately assessed the effectiveness of the internal controls of the Group and ascertained certain internal control deficiencies; (ii) the identified internal control deficiencies have been remediated; and (iii) the remedial actions and improvement measures implemented by the Group are adequate and sufficient to address the identified internal control deficiencies.

Having considered the internal control review report, the IBC suggested that (i) there should be more frequent communication between the executive directors and the independent non-executive directors of the Company on the affairs of the Company; (ii) a lead independent non-executive director should be appointed to provide and ensure adequate check and balance within the Board; and (iii) the executive directors should attend compulsory training to strengthen their knowledge on the Listing Rules, directors' duties and various corporate governance codes.

The Board has endorsed and accepted the abovementioned suggestions by the IBC during the Board meeting on 28 April 2022 and the Company shall take appropriate action to carry out and implement such suggestions.

The Company will make further announcement(s) to keep its shareholders and potential investors informed of the progress of appointment of the lead independent non-executive director and compulsory training to be attended by the executive directors 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, 6 May 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.*