

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Raffles Interior Limited (Stock Code: 1376) and three current and former executive directors

SANCTIONS AND DIRECTIONS

The Stock Exchange of Hong Kong Limited (the **Exchange**)

CENSURES:

(1) **Raffles Interior Limited** (Stock Code: 1376) (**Company**);

IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT against:

(2) **Mr Chua Boon Par (Mr Chua)**, former executive director, Chairman and CEO of the Company;

CENSURES:

(3) **Mr Ding Hing Hui (Mr Ding)**, executive director of the Company;

(4) **Mr Leong Wai Kit (Mr Leong)**, executive director of the Company;

AND FURTHER DIRECTS:

Mr Ding and Mr Leong to attend 17 hours of training on regulatory and legal topics and Listing Rule compliance, including at least three hours on each of (a) directors' duties; (b) the Corporate Governance Code; and (c) the Listing Rule requirements for accurate and complete disclosure in corporate communications, within 90 days.

The statement made in respect of Mr Chua above is made in addition to a public censure against him. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, had Mr Chua remained on the board of directors of the Company, the retention of office by him would have been prejudicial to the interests of investors.

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SUMMARY OF FACTS

The Company was listed on 7 May 2020, raising net proceeds of approximately \$68.3 million. Around the time of listing (or shortly thereafter), the Company entered into a number of agreements for professional and consultancy services (**Service Agreements**), together with a discretionary investment management agreement (**IMA**). Details of the agreements are set out in the table below:

Service Providers		Service fee (\$)	Services to be provided under service agreement
A	Leo Asset Management Limited (Leo)	700,000	IMA under which the Company provided the sum of \$12,825,100 to be managed by Leo for a period of 3 years.
B	Enlighten Securities Limited (Enlighten)	6,250,000	<p>The Company initially agreed to pay Enlighten a bonus of 5 per cent (of the aggregate offer shares at offer price) in appreciation of its work during the Company's listing.</p> <p>This was replaced by an agreement where Enlighten agreed to act as the exclusive facilitator for possible acquisition and restructuring transactions.</p>
C	Financial PR (HK) Limited	700,000	To provide public relations services in connection with the initial public offering of the Company.
D	Share News Media Limited	1,800,000	12-month sponsorship for a weekly finance programme of Sky Finance Channel.
		1,200,000	Placement of quarter-page advertisement on the finance page of Sing Pao daily from June to August 2020.

Service Providers		Service fee (\$)	Services to be provided under service agreement
E	Acctree Business Services & Consultancy Limited	9,500,000	Provision of business consultancy services for a period of 3 years.
		3,000,000	Provision of internal control consultancy services for a period of 3 years.
F	Easy Global Profits Limited	1,800,000	Business consultant and management fee at Cambodia, Malaysia and Macau for 1 year.
G	Fortune King Industries Limited	2,000,000	Investment advisory services for 2 years.
Total		26,950,000	

All service fees were prepaid by the Company.

During the Division's investigation of this matter, the Company made an initial submission to the Exchange which was signed by Mr Chua. This submission expressly stated that certain parties were only willing to act in the Company's listing if the Company would, in turn, help some recommended service providers by using their services. The IMA was also entered into as a request by one of the Company's advisers.

The Company subsequently withdrew its initial submission, and explained that the Service Providers were engaged to assist in carrying out the Company's business plans, including the Company's plan to expand its business in Hong Kong, to acquire interior design companies in Hong Kong, to expand production facilities to other countries, and to make investments with the aim of getting a higher return. As for the IMA, the Company believed that the investment might yield a favourable return and it was in the best interests of the Company and its shareholders.

There was no disclosure in the Company's prospectus of (i) the Service Agreements, (ii) the service fees to be paid, (iii) the Company's intention to engage the Service Providers, (iv) the Company's intention to enter in to the IMA, and/or (v) the Company's expansion, acquisition or investment plans.

The Service Agreements and the IMA were discovered by the Company's former auditors during its audit work for the financial year ended 31 December 2020, which led to a delay in the publication of the Company's financial information. The former auditors discovered that the entire investment amount under the IMA had been used to subscribe for shares in a private company which was engaged in the trading of antique jewellery. Leo was not required to seek the Company's approval before making the investment.

Mr Chua took a lead role in the decision to enter into the Service Agreements and the IMA. Whilst Mr Ding and Mr Leong were generally aware of the engagement of service providers to purportedly assist the Company, they deferred to Mr Chua in the selection process and trusted Mr Chua to negotiate the most favourable terms for the Company.

According to the evidence, the Service Providers were all referred to Mr Chua via his friends or parties connected with the Company's listing. Mr Chua did not procure the Company to do any due diligence on the Service Providers other than a basic company search and/or a search on their websites, where this was available. No comparisons with other service providers were made, and no other quotations for similar services were obtained, because Mr Chua trusted the recommendations which had been made to him.

The Division raised numerous concerns about the Service Agreements and the IMA, including the commercial rationale for entering into such agreements, the duplication of services under a number of the agreements, the excessive fees charged by the Service Providers, why no quotations from other service providers were obtained and the limited and/or questionable quality of services actually provided under the Service Agreements.

LISTING RULE REQUIREMENTS

Rules 13.46(2)(a), 13.48, 13.49(1) and 13.49(6) relate to the timely publication of an issuer's annual and interim results and the timely despatch of an issuer's annual and interim reports.

Rule 2.13(2) provides that the information contained in any announcement or corporate communication must be accurate and complete in all material respects and not be misleading or deceptive.

Rule 11.07 provides that the prospectus must contain such particulars and information which is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer.

Rule 3.08 provides that the Exchange expects the directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include a duty to apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer (Rule 3.08(f)).

Each of Mr Chua, Mr Ding and Mr Leong is subject to the obligations in the Director's Undertaking, which provides, *inter alia*, that he undertakes to comply with the Listing Rules to the best of his ability, and to use his best endeavours to procure the Company's Listing Rule compliance.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached Rules 13.46(2)(a), 13.48, 13.49(1) and 13.49(6) in respect of the delay in the publication of its annual and interim results and the despatch of its annual and interim reports.
- (2) The Company breached Rule 2.13(2) and/or 11.07 by failing to mention its intention to enter into the Service Agreements and/or its expansion, acquisition or investment plans in its prospectus.
- (3) Mr Chua, Mr Ding and Mr Leong breached Rule 3.08 and their Undertakings by failing to exercise due skill, care and diligence in respect of the Service Agreements and the IMA:
 - (a) Mr Chua failed to ensure there was sufficient commercial rationale to justify (i) the Company's need for the services to be provided under the Service Agreements, (ii) the entering into of the IMA, and (iii) the selection of the Service Providers;
 - (b) Mr Chua failed to ensure that adequate due diligence had been conducted on the Service Providers or that comparisons with the services and/or fees of similar service providers were made;
 - (c) Mr Chua failed to ensure that the Service Agreements and the fees paid to the Service Providers were properly considered by the Board;
 - (d) Mr Ding and Mr Leong failed to exercise independent judgement in respect of the engagement of the Service Providers and the fees paid to such providers;

- (e) Mr Chua, Mr Ding and Mr Leong had no or insufficient supervision of the investments made by Leo under the IMA and the discretionary power given to Leo under the IMA was unreasonably wide; and
 - (f) Mr Chua, Mr Ding and Mr Leong failed to procure the Company's Listing Rule compliance.
- (4) Mr Chua breached Rule 3.08 and his Directors' Undertaking by failing to ensure that information provided to the Exchange was accurate and complete in all material respects and not be misleading or deceptive.

CONCLUSION

The Listing Committee decided to impose the sanctions and directions set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions and directions apply only to the Company, Mr Chua, Mr Ding and Mr Leong, and not to any other past or present members of the board of directors of the Company.

Hong Kong, 12 December 2022