ROYALE FURNITURE HOLDINGS LIMITED
皇朝傢俬控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1198)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS

The board of directors (the "Board") of Royale Furniture Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017. The annual results for the year ended 31 December 2018 have been reviewed by the Company's audit committee.

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
REVENUE	4	**834,149**	848,925
Cost of sales		**(566,944)**	(599,302)
Gross profit		**267,205**	249,623
Other income and gains	4	**47,258**	35,312
Selling and distribution expenses		**(85,189)**	(105,465)
Administrative expenses		**(89,416)**	(89,537)
Finance costs	6	**(22,011)**	(22,308)
Impairment of trade receivables and financial assets included in prepayments, deposits and other receivables		**(276)**	(2,514)
Share of loss of an associate		**(352)**	–
Other expenses		**(28,341)**	(3,302)
PROFIT BEFORE TAX	5	**88,878**	61,809
Income tax expense	7	**(22,423)**	(6,068)
PROFIT FOR THE YEAR		**66,455**	55,741
Attributable to:			
Owners of the parent		**52,646**	46,877
Non-controlling interests		**13,809**	8,864
		66,455	55,741
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**HK2.632 cents**	HK2.580 cents
Diluted		**HK2.583 cents**	HK2.542 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**66,455**	55,741
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(74,729)**	101,329
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(74,729)**	101,329
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	**85,887**	–
Income tax effect	**(21,472)**	–
	64,415	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**64,415**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(10,314)**	101,329
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**56,141**	157,070
Attributable to:		
Owners of the parent	**45,862**	143,851
Non-controlling interests	**10,279**	13,219
	56,141	157,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,043,664**	1,056,316
Investment properties		**448,961**	459,849
Prepaid land lease payments		**139,286**	77,091
Goodwill		**34,482**	67,730
Intangible assets		**15,695**	4,739
Investment in an associate		**1,707**	–
Prepayments		**94,060**	81,963
Total non-current assets		**1,777,855**	1,747,688
CURRENT ASSETS			
Inventories		**294,619**	259,167
Trade receivables	10	**69,131**	53,776
Prepayments, deposits and other receivables		**170,977**	170,508
Cash and cash equivalents		**78,836**	82,182
Total current assets		**613,563**	565,633
CURRENT LIABILITIES			
Trade payables	11	**99,316**	116,545
Other payables and accruals		**132,233**	145,923
Interest-bearing bank and other borrowings		**258,632**	208,088
Tax payable		**116,148**	103,252
Total current liabilities		**606,329**	573,808
NET CURRENT ASSETS/(LIABILITIES)		**7,234**	(8,175)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,785,089**	1,739,513

	Notes	**2018** HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,785,089**	1,739,513
NON-CURRENT LIABILITIES			
Medium term bonds		**30,034**	28,208
Interest-bearing bank and other borrowings		**31,340**	87,298
Loan from non-controlling interests	12	**41,102**	42,438
Loan from a director		**12,000**	12,000
Deferred tax liabilities		**80,609**	54,926
Deferred government grant		**46,536**	50,738
Total non-current liabilities		**241,621**	275,608
Net assets		**1,543,468**	1,463,905
EQUITY			
Equity attributable to owners of the parent			
Share capital		**201,344**	199,143
Reserves		**1,234,365**	1,171,035
		1,435,709	1,370,178
Non-controlling interests		**107,759**	93,727
Total equity		**1,543,468**	1,463,905

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE INFORMATION

Royale Furniture Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Century Yard, Cricket Square, Hutchins Drive, Grand Cayman, the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of furniture.

In the opinion of the directors, the immediate and ultimate holding companies of the Company are Crisana International Inc. and Charming Future Holding Limited, which are incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment, and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the Current Year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

The nature and the impact of the amendments are described below:

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement				**HKFRS 9 measurement**	
		Category	**Amount**	**Re-classification**	**ECL**	**Amount**	**Category**
	Notes		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
Financial assets							
Trade receivables	(i)	L&R[1]	53,776	–	(78)	53,698	AC[2]
Financial assets included in prepayments, deposits and other receivables		L&R	42,103	–	(2,460)	39,643	AC
Cash and cash equivalents		L&R	82,182	–	–	82,182	AC
			178,061	–	(2,538)	175,523	
Financial liabilities							
Trade payables		AC	116,545	–	–	116,545	AC
Financial liabilities included in other payables and accruals		AC	85,488	–	–	85,488	AC
Medium term bonds		AC	28,208	–	–	28,208	AC
Interest-bearing bank and other borrowings		AC	295,386	–	–	295,386	AC
Loan from non-controlling interests		AC	42,438	–	–	42,438	AC
Loan from a director		AC	12,000	–	–	12,000	AC
			580,065	–	–	580,065	

1 L&R: Loans and receivables
2 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The gross carrying amounts of the trade receivables under the column "HKAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowances under HKFRS 9 at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	13,774	78	13,852
Financial assets included in prepayments, deposits and other receivables	–	2,460	2,460

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Accumulated losses
	HK$'000
Balance as at 31 December 2017 under HKAS 39	(91,527)
Recognition of expected credit losses for trade receivables under HKFRS 9	(78)
Recognition of expected credit losses for financial assets included in prepayments, deposits other receivables under HKFRS 9	(2,460)
Balance as at 1 January 2018 under HKFRS 9	(94,065)

(b) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

(i) Sale of goods

The Group mainly engages in the business of the manufacture and sale of furniture. The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from the sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on the delivery of the goods. Therefore, the adoption of HKFRS 15 has not have an impact on the timing of revenue recognition.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$41,968,000 from advance from customers to contract liabilities as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$47,141,000 was reclassified from advance from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of products.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date determined but available for adoption

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sale of home furniture.

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2017: Nil).

Geographical information

Because majority of the Group's revenue and non-current assets were located in the People's Republic of China (the "PRC"), no related geographical information of non-current assets is presented.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax (the "VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's revenue, other income and gains is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**834,149**	848,925
Other income and gains		
Interest income	**99**	116
Fair value gains on investment properties	**12,632**	1,569
Gain on disposal of available-for-sale investments	**–**	82
Gain on disposal of a subsidiary	**–**	9,363
Sales of scraps	**4,446**	1,028
Government subsidy	**3,307**	1,984
Rental income	**26,774**	21,170
	47,258	35,312

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold	**509,492**	592,493
Depreciation	**66,473**	51,427
Amortisation of prepaid land lease payments	**4,300**	2,328
Amortisation of intangible assets*	**3,367**	869
Research and development costs*	**2,442**	9,700
Minimum lease payments under operating leases	**13,211**	16,911
Auditor's remuneration	**1,880**	2,068
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**136,858**	143,296
Equity-settled share option expense	**13,228**	5,949
Pension scheme contributions	**5,871**	8,274
	155,957	157,519
(Reversal of write-down)/write-down of inventories to net realisable value**	**(9,021)**	6,809
Impairment of trade receivables and financial assets included in prepayments, deposits and other receivables	**276**	2,514
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties##	**1,632**	2,604
Fair value gains on investment properties	**(12,632)**	(1,569)
Interest income	**(99)**	(116)
Share of loss of an associate	**352**	–
Loss on disposal of items of property, plant and equipment##	**140**	698
Loss/(gain) on disposal of subsidiaries##	**26,569**	(9,363)

* The amortisation of intangible assets and research and development costs for the year have been included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value has been included in "Cost of sales" on the face of the consolidated statement of profit or loss.

These items have been included in "Other expenses" and "other income and gains" on the face of the consolidated statement of profit or loss.

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans and other loans (including medium term bonds)	**22,011**	22,308

7. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Current – Mainland China		
Charge for the year	**40,514**	30,474
Adjustment in respect of current tax of previous period	**(18,808)**	(22,961)
Deferred	**717**	(1,445)
Total tax charge for the year	**22,423**	6,068

8. DIVIDENDS

No interim dividend was declared and paid in 2018 (2017: Nil). The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2018 (2017: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,999,918,381 (2017: 1,816,629,351) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**52,646**	46,877

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,999,918,381**	1,816,629,351
Effect of dilution – weighted average number of ordinary shares:		
Share options	**38,489,764**	27,525,259
	2,038,408,145	1,844,154,610

10. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**79,585**	67,550
Impairment	**(10,454)**	(13,774)
	69,131	53,776

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balance. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**36,491**	49,842
1 to 3 months	**14,668**	3,274
3 to 6 months	**17,972**	636
over 6 months	**–**	24
	69,131	53,776

The movements in the provision for impairment of trade receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At beginning of year	**13,774**	10,819
Effect of adoption of HKFRS9	**78**	–
Impairment losses, net	**(70)**	2,514
Amount written off as uncollectible	**(2,754)**	–
Exchange realignment	**(574)**	441
At end of year	**10,454**	13,774

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Less than 6 month	**Over 6 month**
Expected credit loss rate	0.1%	100%
Gross carrying amount *(HK$'000)*	69,200	10,385
Expected credit losses *(HK$'000)*	69	10,385

Impairment under HKAS 39 for the year ended 31 December 2017

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017
	HK$'000
Neither past due nor impaired	53,116
Past but not impaired	660
	53,776

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**62,198**	71,097
1 to 3 months	**19,561**	27,747
3 to 6 months	**7,922**	13,871
6 to 12 months	**2,162**	1,404
More than 1 year	**7,473**	2,426
	99,316	116,545

The trade payables are non-interest-bearing and are normally settled for a period of 3 months and extendable up to 2 years.

12. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum and will not be repayable in one year. As at the end of the reporting period, included in the outstanding balance with the non-controlling interests was an amount of HK$11,194,000 (2017: HK$9,426,000), which was the accrued interest for the loan.

13. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2018	2017
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Plant and machinery	**7,796**	–
Acquisition of equity investment	**1,138**	–
	8,934	–

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group recorded revenue of HK$834.1 million (2017: HK$848.9 million), representing a decrease of 1.7% from last year. The decrease in revenue was due to a relatively weaken economy in China.

Profit for the year was HK$66.5 million (2017: HK$55.7 million), representing an increase of 19.2%. Profit attributable to owners of the parent for the year was HK$52.6 million (2017: HK$46.9 million), representing an increase of 12.1%. The improvement was a result of the increase in other income and gains, effective cost control on selling and distribution expenses and improved gross profit contribution.

For the year ended 31 December 2018, selling and distribution expenses decreased by 19.2% to approximately HK$85.2 million (2017: HK$105.5 million), which was mainly due to the decrease in promotion and exhibition expenses.

Administrative expenses also decreased by 0.1% to HK$89.4 million (2017: HK$89.5 million), which was mainly due to the Group had carried out tight cost control on management and operating expenses.

Finance costs during the year decreased by 1.3% to HK$22.0 million (2017: HK$22.3 million) as the Group has replaced matured loans which attached with higher interest rate.

The Group has incurred loss on disposal of subsidiaries amounted to HK$26.6 million and is included as other expenses in the consolidated statement of profit or loss. The loss was mainly due to reorganisation of 2 subsidiaries.

BUSINESS REVIEW

Looking back on 2018, due to the Sino-US trade war, the Group has experienced several challenges in the furniture industry. It was a new social trend that customers would prefer tailor made design for furniture. The Group has also worked with large property developer in China on projects by leverage on the concept of fine-decorated house and turnkey furnishing.

During the year under review, the Group has launched certain new product series which yield higher gross profit margin on the mid-to-high-end ranged market segments. In addition, the Group has raised the prices for certain product series. This resulted an increase of 2.6% on the Group's overall gross profit margin to 32.0% for the year ended 31 December 2018 (2017: 29.4%)

Sales and Network Management

The Group's sales department has gone through a restructuring process by downsizing the number of sales representatives, adjusting sales approaches, the remuneration package and KPI performance management, increasing training efforts, optimising terms of reference, and implementing stringent control on expenses, such as travelling expenses, promotion and exhibition expenses. With the view to exploring new sales channels, the Group started to work with large property developers by co-operating with local distributors to provide design services to display flat unit aiming to generate sales of furniture from those prospective property owners. In addition, the Group has managed a number of furniture procurement projects during the year, including professional services such as design, manufacture and fitting of furniture.

Brand Management

Ms. Lin Chi Ling, a famous celebrity in Asia, continued to be the Group's spokesperson and will feature in the Group's advertisements as well as other marketing activities to promote the Group's brand name. In 2018, the Group was provided her new image so as to promote the new products for 2019.

The reputed image of Ms. Lin Chi Ling has effectively enhanced the brand name of the Group alongside with the provision of product information of the Group to consumers. Furthermore, the Group worked closely with both traditional and new online media, aiming to maintain our exposure to the public , and to enhance the Group's image as a household brand.

Inventory and Prepayments, Deposits and Other Receivables

The Group's inventory increased by 13.7% to approximately HK$294.6 million as at 31 December 2018 (2017: HK$259.2 million), which was mainly due to the Group launched more products series and the increased of inventories piled up for furniture procurement projects. Prepayments, deposits and other receivables slightly increased by 0.3% to HK$171.0 million (2017: HK$170.5 million).

Working Capital Challenge

The Group had net current assets of HK$7.2 million at the end of the year (2017: net current liabilities of HK$8.2 million). It represents a substantial improvement on the Group's working capital.

Liquidity and Financial Resources

The Group had cash and cash equivalents amounted to HK$78.8 million as at 31 December 2018 (2017: HK$82.2 million). As at 31 December 2018, the Group's current ratio (current assets to current liabilities) improved to 1.01 (2017: 0.99) and the net current assets amounted to HK$7.2 million (2017: net current liabilities of HK$8.2 million).

As at 31 December 2018, additional to the interest bearing bank and other borrowings amounted to HK$290 million (2017: HK$295.4 million), the Group had loans from a director, non-controlling interests and medium term bonds of HK$83.1 million (2017: loans from a director, non-controlling interests and medium term bonds of HK$82.6 million). Approximately, 96.0% of the Group's cash was denominated in Renminbi with the remaining balance was denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our operating cash inflow and outflow are predominantly in Renminbi. Currently, the Group does not maintain any hedging policy with respect to these foreign currency exposures.

GEARING RATIO

The gearing ratio is defined as net debt divided by capital plus net debt was 27.0% as at 31 December 2018 (2017: 29.0%).

PROSPECT

Looking forward to 2019, it is expecting that the traditional consumer industry will be exposed to more challenges. In the continuous integration of the furniture industry, the Group will launch mid-range to high-end new products to further expand the market in the first-tier and second-tier cities, maintain its market share with cost-effective product lines, optimize the overall franchisee network and improve the service quality to franchisees. Furthermore, amid a comparatively weak market and the overall economy in China, the Group will put more resources to expand the B2B business model, furniture procurement projects and enhance the income sources of the Group.

The Group will continue to carry out reforms in addition to those which were already taken place in 2018. We will optimize the supply chain management to further reduce our production costs. Aiming to expand production capacity, the Group will build a new production base in Yingde City, Guangdong Province, which will maximise the production capacity of the fully automated production line aiming to reduce labour cost and improve overall production efficiency.

On 16 November 2018, the Group and Science City (Guangzhou) Investment Group Limited* (科學城(廣州)投資集團有限公司) ("Science City") entered into the memorandum of understanding of strategic cooperation and the negotiation is in process.

Employees and Remuneration Policies

As at 31 December 2018, the Group had approximately 2,169 staff. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the former and revised Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year under review.

Saved as disclosed below, the Board considers that the Company has complied with the code provisions as set out in the CG Code.

Code Provision A.2.1

Under code provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Kam Pang, who acts as the chairman and chief executive officer of the Company, is responsible in pioneering the Company's business model and undertaking the main decision-making role in the management of the Company's overall operations and overseeing the strategic development of the Group. The Board met regularly to consider and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that the sufficient measures have been taken and it will not impair the balance of power and authority between the Board and the management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted for compliance by the directors and relevant employees the code of conduct for dealings in securities of the Company as set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), of the Listing Rules. The Company, having made specific enquiry, confirms that members of the Board complied throughout the year with the Model Code.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditors on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written term of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, accounting principles, risk management and internal control systems of the Group and to review and monitor the appointment of the auditors and their independence. The Audit Committee has also held meeting with the Group's external auditors without the presence of executive directors and management of the Group, to discuss matters arising from the auditing, internal controls and financial reporting, including the review of the annual results for the year ended 31 December 2018, and report to the Board of material issues, if any, and make recommendations to the Board. The Audit Committee consists of three independent non-executive Directors namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Dr. Donald H. Straszheim and Mr. Lau Chi Kit. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year under review.

DIVIDEND

The Board has resolved not to declare a final dividend for the year ended 31 December 2018 (2017: Nil).

Closure of the Register of Members

The Register of Members of the Company will be closed from Monday, 27 May 2019 to Friday, 31 May 2019, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Friday, 31 May 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the website of the Company (www.royale.todayir.com) and the Stock Exchange (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and make available on the abovementioned websites in due course.

By Order of the Board
Royale Furniture Holdings Limited
Tse Kam Pang
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises three Executive Directors, namely, Mr. Tse Kam Pang, Mr. Tse Hok Kan and Mr. Chan Wing Kit; and three Independent Non-Executive Directors, namely, Dr. Donald H. Straszheim, Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew.