# 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 2019

### 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 2019, together with the comparative figures for the year ended 31 December 2018. The annual results for the year ended 31 December 2019 have been reviewed by the Company's audit committee.

* *For identification purposes only*

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*Year ended 31 December 2019*

| | Notes | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| REVENUE | 4 | **852,084** | 834,149 |
| Cost of sales | | **(587,368)** | (566,944) |
| Gross profit | | **264,716** | 267,205 |
| Other income and gains | 4 | **35,073** | 47,258 |
| Selling and distribution expenses | | **(84,447)** | (85,189) |
| Administrative expenses | | **(89,825)** | (89,416) |
| Finance costs | 6 | **(16,279)** | (22,011) |
| Reversal/(impairment) of trade receivables and financial assets included in prepayments, deposits and other receivables | | **133** | (276) |
| Share of losses of associates | | **(569)** | (352) |
| Other expenses | | **(5,089)** | (28,341) |
| PROFIT BEFORE TAX | 5 | **103,713** | 88,878 |
| Income tax expense | 7 | **(36,521)** | (22,423) |
| PROFIT FOR THE YEAR | | **67,192** | 66,455 |
| Attributable to: | | | |
| Owners of the parent | | **62,976** | 52,646 |
| Non-controlling interests | | **4,216** | 13,809 |
| | | **67,192** | 66,455 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 9 | | |
| Basic | | **HK2.737 cents** | HK2.632 cents |
| Diluted | | **HK2.737 cents** | HK2.583 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2019*

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PROFIT FOR THE YEAR | **67,192** | 66,455 |
| OTHER COMPREHENSIVE LOSS | | |
| Other comprehensive loss that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(27,810)** | (74,729) |
| Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods | **(27,810)** | (74,729) |
| Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods: | | |
| (Losses)/gains on property revaluation | **(32,966)** | 85,887 |
| Income tax effect | **8,241** | (21,472) |
| Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods | **(24,725)** | 64,415 |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | **(52,535)** | (10,314) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **14,657** | 56,141 |
| Attributable to: | | |
| Owners of the parent | **11,550** | 45,862 |
| Non-controlling interests | **3,107** | 10,279 |
| | **14,657** | 56,141 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2019*

| | Notes | **2019** | 2018 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **1,006,694** | 1,043,664 |
| Investment properties | | **442,502** | 448,961 |
| Right-of-use assets | | **269,391** | – |
| Prepaid land lease payments | | **–** | 139,286 |
| Goodwill | | **34,482** | 34,482 |
| Intangible assets | | **11,975** | 15,695 |
| Investment in associates | | **90,596** | 1,707 |
| Prepayments | | **147,147** | 94,060 |
| Total non-current assets | | **2,002,787** | 1,777,855 |
| CURRENT ASSETS | | | |
| Inventories | | **295,544** | 294,619 |
| Trade receivables | 10 | **22,427** | 69,131 |
| Prepayments, deposits and other receivables | | **88,118** | 170,977 |
| Pledged deposits | | **9,787** | – |
| Cash and cash equivalents | | **440,468** | 78,836 |
| Total current assets | | **856,344** | 613,563 |
| CURRENT LIABILITIES | | | |
| Trade payables | 11 | **55,349** | 99,316 |
| Other payables and accruals | | **130,355** | 132,233 |
| Interest-bearing bank and other borrowings | | **117,728** | 258,632 |
| Tax payable | | **153,154** | 116,148 |
| Total current liabilities | | **456,586** | 606,329 |
| NET CURRENT ASSETS | | **399,758** | 7,234 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,402,545** | 1,785,089 |

| | Note | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,402,545** | 1,785,089 |
| NON-CURRENT LIABILITIES | | | |
| Medium term bonds | | **31,775** | 30,034 |
| Interest-bearing bank and other borrowings | | **95,078** | 31,340 |
| Lease liabilities | | **7,568** | – |
| Loan from non-controlling interests | 12 | **35,273** | 41,102 |
| Loan from a director | | **–** | 12,000 |
| Deferred tax liabilities | | **70,038** | 80,609 |
| Deferred government grant | | **44,253** | 46,536 |
| Total non-current liabilities | | **283,985** | 241,621 |
| Net assets | | **2,118,560** | 1,543,468 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | **259,856** | 201,344 |
| Reserves | | **1,717,432** | 1,234,365 |
| | | **1,977,288** | 1,435,709 |
| **Non-controlling interests** | | **141,272** | 107,759 |
| Total equity | | **2,118,560** | 1,543,468 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2019*

## 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.

On 24 May 2019, Great Diamond Developments Limited ("Vendors") and Science City (Hong Kong) Investment Co. Limited ("SCHK") entered into the Sale and Purchase Agreement ("Share Purchase") for the transfer of 218,387,763 shares of the Company; The Company and SCHK entered into the Subscription Agreement ("Subscription") pursuant to which the Company agreed to issue, and SCHK agreed to subscribe, in cash, for 433,093,554 new shares; SCHK, Tse Kam Pang ("Mr. Tse"), Leading Star Global Limited ("Leading Star"), Crisana International INC. ("Crisana"), Charming Future Holdings Limited ("Charming Future") (the "Concert Parties") entered into the Concert Group Agreement which shall take effect on the Share Purchase completion date and the Subscription completion date. Concert Parties are considered as a group of shareholders of the Company acting-in-concert and they are deemed to be interested in each other's interest in the Shares.

On 2 August 2019, the Share Purchase and Subscription was completed. Pursuant to Rule 26.1 of the Takeovers Code, the Concert Parties were required to make an unconditional mandatory cash general offer for all the issued shares with it at a price of HK$1.18 per share ("Offer"). Immediately after the close of the Offer on 29 August 2019, Concert Parties were interested in 2,196,991,280 shares, representing approximately 84.55% of the issued shares of the Company and re-elected the board of directors.

In the opinion of the directors, the immediate and ultimate holding companies of the Company changed to SCHK and Science City (Guangzhou) Investment Group Co., Ltd, which are incorporated in Hong Kong and Mainland China, respectively (the formerly immediate and ultimate holding companies of the Company are Crisana and Charming Future, 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 and certain buildings classified as property, plant and equipment 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 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC) – Int 23 | *Uncertainty over Income Tax Treatments* |
| Annual Improvements to HKFRSs 2015–2017 Cycle | *Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23* |

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied as no adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

**New definition of a lease**

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

**As a lessee – Leases previously classified as operating lease**

***Nature of the effect of adoption of HKFRS 16***

The Group has property lease contracts, As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

***Impact on transition***

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and lease liabilities. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

**Financial impact at 1 January 2019**

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

| | **Increase**<br>*HK$'000* |
|---|---|
| Assets: | |
| Increase in right-of-use assets | 150,355 |
| Decrease in prepaid land lease payments | (139,286) |
| Increase in total assets | 11,069 |
| Liabilities: | |
| Increase in lease liabilities | 8,849 |
| Increase in other payable and accruals | 2,220 |
| Increase in total liabilities | 11,069 |

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

| | *HK$'000* |
|---|---|
| Operating lease commitments as at 31 December 2018 | 16,157 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 4.91% |
| Discounted operating lease commitments as at 1 January 2019 | 12,613 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 or of low-value assets | (1,544) |
| Lease liabilities as at 1 January 2019 | 11,069 |

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[1] |

1 Effective for annual periods beginning on or after 1 January 2020
2 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 (2018: Nil).

### Geographical information

Because the majority of the Group's revenue and non-current assets were located in the Mainland China, 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:

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Revenue from contracts with customers** | | |
| Sale of goods | **852,084** | 834,149 |

**Performance obligation**

***Sale of goods***

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Amounts expected to be recognised as revenue: | | |
| Within one year | **40,811** | 40,746 |

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Other income and gains** | | |
| Rental income | **24,535** | 26,774 |
| Interest income | **562** | 99 |
| Fair value gains on investment properties | **1,248** | 12,632 |
| Sale of scraps | **4,631** | 4,446 |
| Government subsidy | **4,094** | 3,307 |
| Gain on disposal of items of property, plant and equipment | **3** | – |
| | **35,073** | 47,258 |

## 5. PROFIT BEFORE TAX

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

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | **497,216** | 509,492 |
| Depreciation property, plant and equipment | **77,772** | 66,473 |
| Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments) | **9,056** | 4,300 |
| Amortisation of intangible assets* | **4,182** | 3,367 |
| Research and development costs* | **4,647** | 2,442 |
| Minimum lease payments under operating leases | **–** | 13,211 |
| Lease payments not included in the measurement of lease liabilities | **2,609** | – |
| Auditor's remuneration | **2,690** | 1,880 |
| Employee benefit expense (including directors' remuneration): | | |
| Wages and salaries | **150,458** | 136,858 |
| Equity-settled share option expense | **4,217** | 13,228 |
| Pension scheme contributions | **7,025** | 5,871 |
| | **161,700** | 155,957 |
| Write-down/(reversal of write-down) of inventories to net realisable value** | **12,380** | (9,021) |
| Reversal of impairment of trade receivables | **(3,281)** | (70) |
| Impairment of financial assets included in prepayments, deposits and other receivables | **3,148** | 346 |
| Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties## | **3,235** | 1,632 |
| Fair value gains on investment properties | **(1,248)** | (12,632) |
| Interest income | **(562)** | (99) |
| Share of losses of associates | **569** | 352 |
| (Gain)/loss on disposal of items of property, plant and equipment## | **(3)** | 140 |
| Loss on disposal of subsidiaries## | **–** | 26,569 |

* 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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans and other loans (including medium term bonds) | **15,696** | 22,011 |
| Interest on lease liabilities | **583** | – |
| | **16,279** | 22,011 |

## 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 (2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current – Mainland China | | |
| Charge for the year | **47,127** | 40,514 |
| Adjustment in respect of current tax of previous periods | **(8,276)** | (18,808) |
| Deferred | **(2,330)** | 717 |
| Total tax charge for the year | **36,521** | 22,423 |

## 8. DIVIDENDS

No interim dividend was declared and paid in 2019 (2018: Nil). The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2019 (2018: 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 2,301,244,517 (2018: 1,999,918,381) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2019 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of the diluted earnings per share amount 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 earnings per share are based on:

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations | **62,976** | 52,646 |

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

| | **Number of shares**<br>**2019** | <br>2018 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **2,301,244,517** | 1,999,918,381 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **–** | 38,489,764 |
| | **2,301,244,517** | 2,038,408,145 |

## 10. TRADE RECEIVABLES

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Trade receivables | **29,423** | 79,585 |
| Impairment | **(6,996)** | (10,454) |
| | **22,427** | 69,131 |

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.

Included in the Group's trade receivables are amounts due from the ultimate holding company of HK$44,000 (2018: nil), which are unsecured, interest-free and repayable on demand.

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:

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Within 1 month | **20,627** | 36,491 |
| 1 to 3 months | **429** | 14,668 |
| 3 to 6 months | **1,371** | 17,972 |
| | **22,427** | 69,131 |

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

| | **2019** | 2018 |
|---|---:|---:|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **10,454** | 13,852 |
| Impairment losses, net | **(3,281)** | (70) |
| Amount written off as uncollectible | **–** | (2,754) |
| Exchange realignment | **(177)** | (574) |
| At end of year | **6,996** | 10,454 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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 2019**

| | **Less than 6 months** | **Over 6 months** |
|---|---:|---:|
| Expected credit loss rate | **0.145%** | **100%** |
| Gross carrying amount *(HK$'000)* | **22,460** | **6,963** |
| Expected credit losses *(HK$'000)* | **33** | **6,963** |

**As at 31 December 2018**

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

## 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:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **32,293** | 62,198 |
| 1 to 3 months | **14,416** | 19,561 |
| 3 to 6 months | **2,344** | 7,922 |
| 6 to 12 months | **1,212** | 2,162 |
| More than 1 year | **5,084** | 7,473 |
| | **55,349** | 99,316 |

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$10,508,000 (2018: HK$11,194,000), which was the accrued interest for the loan.

## 13. COMMITMENTS

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted, but not provided for: | | |
| Plant and machinery | **–** | 7,796 |
| Acquisition of equity investment | **6,711** | 1,138 |
| | **6,711** | 8,934 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year ended 31 December 2019, the Group recorded revenue of HK$852.1 million (2018: HK$834.1 million), representing an increase of 2.2% from last year. The increase in revenue was due to increase demand on customised furniture. The decrease of 0.9% on the Group's overall gross profit margin to 31.1% for the year ended 31 December 2019 (2018: 32.0%) was due to an increase the manufacturing overheads and depreciation on plant and equipment.

Profit for the year was HK$67.2 million (2018: HK$66.5 million), representing an increase of 1.1%. Profit attributable to owners of the parent for the year was HK$63.0 million (2018: HK$52.6 million), representing an increase of 19.6%. The improvement was a result of the decrease of finance cost and there was an one time loss of disposal of subsidiaries in the 2018 financial year.

For the year ended 31 December 2019, selling and distribution expenses decreased by 0.9% to approximately HK$84.4 million (2018: HK$85.2 million), which was mainly due to the decrease in commission and payroll expenses.

Administrative expenses increased by 0.5% to HK$89.8 million (2018: HK$89.4 million), which was attributable to the increase in depreciation property, plant and equipment and the increase in depreciation of right-of-use assets.

Finance costs during the year decreased by 26% to HK$16.3 million (2018: HK$22.0 million) as the Group has repaid a portion of interest-bearing bank borrowings during the year.

## BUSINESS REVIEW

During the year under review, affected by the ongoing Sino-US trade war and the economic slowdown of China, the furniture industry experienced severe challenges. While remaining focused on the franchise business, in view of the trend that customers would prefer personalised furniture and to cater for the demand, the Group has launched certain new product series with higher gross profit margin. Meanwhile, the Group has undertaken a number of furniture projects from commercial customers and worked with large property developers by co-operating with local distributors to sell our products to those prospective property owners, aiming to expand its revenue sources.

### Management System Reform

The Group has carried out further reform at various departments by implementing the division system. The system allows senior management in specific divisions to own shares of their business units, to enhance the management and operational efficiency. At present, the Group's business involves various segments, including finished furniture, customised business, upholstered furniture, hotel operations and real estate business. Each of which requires different expertise, production knowhow and sales techniques for respective markets. Each division formulates its own plans of marketing, production and administration for a more efficient resources allocation and utilisation, creating greater contributions and benefits to the Group as a whole.

**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. In addition to hiring a spokesperson, the Group also promoted its brand through popular new media such as Weibo, WeChat, Baidu, Tencent, Sina, home.163, Douyin and industry featured To8to, driving traffic to physical stores in an efficient manner to support sales. Furthermore, through integrating the product and brand communication strategies, the Group adopted the strategy of "consumer orientation" strategy to continuously expand the influence of our brand. The Group also keeps good relationships with major media to maintain and manage its brand, as well as to respond quickly to market emergencies related to its brand.

**Inventory and Prepayments, Deposits and Other Receivables**

The Group's inventory increased by 0.3% to approximately HK$295.5 million as at 31 December 2019 (2018: HK$294.6 million), which was mainly due to the Group launched more products series. Prepayments, deposits and other receivables decreased by 48.5% to HK$88.1 million (2018: HK$171.0 million), which was mainly due to decrease in the prepayment on outsourcing manufacturers and raw material suppliers.

**Working Capital Challenge**

The Group had net current assets of HK$399.8 million at the end of the year (2018: net current assets of HK$7.2 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$440.5 million as at 31 December 2019 (2018: HK$78.8 million). As at 31 December 2019, the Group's current ratio (current assets to current liabilities) improved to 1.88 (2018: 1.01) and the net current assets amounted to HK$399.8 million (2018: net current assets of HK$7.2 million).

As at 31 December 2019, additional to the interest bearing bank and other borrowings amounted to HK$212.8 million (2018: HK$290.0 million), the Group had loan from non-controlling interests and medium term bonds of HK$67.0 million (2018: loans from a director, non-controlling interests and medium term bonds of HK$83.1 million). Approximately, 18.7% 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 1% as at 31 December 2019 (2018: 27%).

## PROSPECT

With the onset of 2020, China's economy faces downward pressure. Coupled with the novel coronavirus epidemic spreading over China and even across the world, the weak consumption momentum deteriorated further, likely postponing consumer appetite for furniture purchase. It is believed that the furniture industry will embrace unprecedented challenges. Despite these, the Group has been actively confronting the challenges, while seeking various opportunities. Furthermore, we will explore the expansion of various businesses and commercial models to diversify our risk exposure.

In terms of finished furniture business, apart from maintaining its steady growth in the existing third-tier and fourth-tier cities, the Group will launch high-end new products and imported products to further expand the markets in first-tier and second-tier cities, in order to increase its market share and enhance brand influence.

The Group will continuously explore for opportunities to expand into the sector of household supplies besides our existing furniture business, so as to provide a one-stop shopping platform with more high quality products to consumers. The increase in products offerings will also enable the Group to undertake more projects.

The Group has successfully acquired a land located in Qingyuan Yingde of Guangzhou, which will be used for establishing advanced production lines to expand production capacity.

Science City (Guangzhou) Investment Group Limited* (科學城(廣州)投資集團有限公司) has become a strategic shareholder of the Group, the joining of which is believed to promote the business development of the Group in the future.

### Employees and Remuneration Policies

As at 31 December 2019, the Group had approximately 1,702 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.

## CORPORATE GOVERNANCE CODE

The Company has complied with the code of provisions under 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. The Company deviated from this code provision as Mr. Tse Kam Pang was the Chairman and Chief Executive Officer of the Company concurrently until his resignation on 11 October 2019. Having considered that the holding of the positions of the chairman and chief executive officer by Mr. Tse Kam is responsible for 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 will meet 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 for the period between 1 January 2019 and 11 October 2019.

On 11 October 2019, Mr. Yang Jun was re-designated from Non-Executive Director to Executive Director and appointed as Chief Executive Officer of the Company to take charge of the main decision-making role in the management of the Company's overall operations. Following such appointment on 11 October 2019, the Company is in compliance with the requirement under Code provision A.2.1 of the Corporate Governance Code.

## 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 2019 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 2019, 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, Mr. Lau Chi Kit and Mr. Chan Wing Tak Kevin. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2019.

## 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 2019 (2018: Nil).

## CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 26 May 2020 to Monday, 1 June 2020, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 1 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 25 May 2020.

## 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 2019 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, 31 March 2020

*As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Tse Kam Pang (Chairman) and Mr. Yang Jun; four non-executive Directors, namely, Mr. Wu Zhongming, Mr. Wu Dingliang, Ms. Qin You and Mr. Liu Zhijun; and three independent non-executive Directors, namely, Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin.*