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ROYALE HOME HOLDINGS LIMITED

皇朝家居控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1198)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS

The board of directors (the “Board”) of Royale Home 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 2020, together with the comparative figures for the year ended 31 December 2019. The annual results for the year ended 31 December 2020 have been reviewed by the Company’s audit committee.

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	1,443,490	852,084
Cost of sales		(1,284,488)	(587,368)
Gross profit		159,002	264,716
Other income and gains	4	1,102,889	35,073
Selling and distribution expenses		(83,472)	(84,447)
Administrative expenses		(96,243)	(89,825)
Finance costs	6	(31,121)	(16,279)
(Impairment)/reversal of impairment of trade receivables and financial assets included in prepayments, deposits and other receivables		(1,055)	133
Share of losses of associates		(6,292)	(569)
Other expenses		(3,346)	(5,089)
PROFIT BEFORE TAX	5	1,040,362	103,713
Income tax expense	7	(334,224)	(36,521)
PROFIT FOR THE YEAR		706,138	67,192
Attributable to:			
Owners of the parent		714,780	62,976
Non-controlling interests		(8,642)	4,216
		706,138	67,192
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		HK27.507 cents	HK2.737 cents
Diluted		HK27.507 cents	HK2.737 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2020*

	2020 HK\$'000	2019 <i>HK\$'000</i>
PROFIT FOR THE YEAR	706,138	67,192
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	142,035	(27,810)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	142,035	(27,810)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Gains/(losses) on property revaluation	41,085	(32,966)
Income tax effect	(10,271)	8,241
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	30,814	(24,725)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	172,849	(52,535)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	878,987	14,657
Attributable to:		
Owners of the parent	883,250	11,550
Non-controlling interests	(4,263)	3,107
	878,987	14,657

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		880,617	1,006,694
Investment properties		483,063	442,502
Right-of-use assets		344,863	269,391
Goodwill		34,482	34,482
Intangible assets		8,195	11,975
Investments in associates		752,093	90,596
Prepayments		–	147,147
Total non-current assets		2,503,313	2,002,787
CURRENT ASSETS			
Inventories		265,850	295,544
Trade receivables	10	37,808	22,427
Prepayments, deposits and other receivables		1,769,874	88,118
Pledged deposits		–	9,787
Restricted cash		187	–
Cash and cash equivalents		236,930	440,468
Total current assets		2,310,649	856,344
CURRENT LIABILITIES			
Trade payables	11	99,445	55,349
Other payables and accruals		202,400	130,355
Interest-bearing bank borrowings		249,369	117,728
Loan from an associate	12	106,872	–
Loan from ultimate holding company	12	178,121	–
Loan from non-controlling interests	12	2,740	–
Loan from a director	12	145,000	–
Tax payable		161,092	153,154
Total current liabilities		1,145,039	456,586
NET CURRENT ASSETS		1,165,610	399,758
TOTAL ASSETS LESS CURRENT LIABILITIES		3,668,923	2,402,545

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,668,923	2,402,545
NON-CURRENT LIABILITIES			
Medium term bonds		34,050	31,775
Interest-bearing bank and other borrowings		91,947	95,078
Loan from non-controlling interests	12	39,062	35,273
Lease liabilities		49,405	7,568
Deferred tax liabilities		405,863	70,038
Deferred government grant		45,402	44,253
Total non-current liabilities		665,729	283,985
Net assets		3,003,194	2,118,560
EQUITY			
Equity attributable to owners of the parent			
Share capital		259,856	259,856
Reserves		2,611,135	1,717,432
		2,870,991	1,977,288
Non-controlling interests		132,203	141,272
Total equity		3,003,194	2,118,560

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE INFORMATION

Royale Home 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 and trading of commodities.

The name of the Company was changed from Royale Furniture Holdings Limited to Royale Home Holdings Limited has become effective from 10 June 2020 with the certificate of incorporation on change of name issued by the Register of Companies in the Cayman Islands.

In the opinion of the directors, the immediate and ultimate holding companies of the Company are Science City (Hong Kong) Investment Co., Ltd. and Science City (Guangzhou) Investment Group Co., Ltd, which are incorporated in Hong Kong and Mainland China, respectively.

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 Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the Current Year’s financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

- (a) Conceptual Framework for Financial Reporting 2018 (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s buildings have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$57,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

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	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{3,6}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3,5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture, and has developed a new business activity of sale and purchase of commodities such as aluminium ingots and bars in 2020. For management purposes, the Group operates in business units based on its products, and has two reportable segment as follows:

- (a) The furniture products segment, engaging in the manufacture and sale of home furniture.
- (b) The trading segment, which consists of the trading aluminium ingots and bars in this year.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Year ended 31 December 2020	Manufacture and sale of furniture HK\$'000	Trading HK\$'000	Total HK\$'000
Segment revenue (<i>note 4</i>)			
Sale to external customers	903,867	539,623	1,443,490
<i>Reconciliation:</i>			
Revenue from continuing operations			1,443,490
Segment results	158,620	382	159,002
<i>Reconciliation:</i>			
Profit/(loss) before tax from continuing operations	1,043,903	(3,541)	1,040,362
Segment assets	4,882,912	212,292	5,095,204
Elimination of intersegment receivables			(281,242)
Total assets			4,813,962
Segment liabilities	1,907,901	184,109	2,092,010
Elimination of intersegment payables			(281,242)
Total liabilities			1,810,768

In 2019, The Group was principally engaged in the manufacture and sale of home furniture. For management purposes, the Group operated 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

Revenue from continuing operations of approximately HK\$150,876,000 (2019: nil) was derived from trading segment to a single customer, which amounted to 10% or more of the Group's revenue during the year.

Geographical information

Because the majority of the Group's revenue and non-current assets were located in 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 revenue, other income and gains is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers		
Sale of goods	<u>1,443,490</u>	<u>852,084</u>

Performance obligation

Sale of goods

For sales of furnitures, 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.

For trading, the performance obligation is satisfied upon delivery of the goods and payment in advance is normally required.

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

	2020 HK\$'000	2019 HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	<u>68,855</u>	<u>40,811</u>

	2020 HK\$'000	2019 HK\$'000
Other income and gains		
Rental income	23,913	24,535
Interest income	1,535	562
Fair value gains on investment properties	2,401	1,248
Sale of scraps	7,267	4,631
Government subsidy	2,976	4,094
Gain on disposal of items of property, plant and equipment	–	3
Gain on land resumption*	1,062,543	–
Others	<u>2,254</u>	<u>–</u>
	<u>1,102,889</u>	<u>35,073</u>

* On 18 June 2020, Guangzhou Yufa Furniture Company Limited and Guangzhou Fuli Furniture Company Limited, two subsidiaries of the Group, entered into land resumption agreements with the local government authority. The consideration for resumption of the land use rights thereof amounted to HK\$1,599,693,000 and the transaction resulted in a gain of HK\$1,062,543,000 during the year ended 31 December 2020. For further details, please refer to the announcement of Company of the dated 11 November 2020.

5. PROFIT BEFORE TAX

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

	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold	1,205,674	497,216
Depreciation of property, plant and equipment	58,991	77,772
Depreciation of right-of-use assets	22,511	9,056
Amortisation of intangible assets*	4,267	4,182
Research and development costs*	5,585	4,647
Lease payments not included in the measurement of lease liabilities	864	2,609
Auditor's remuneration	4,000	2,690
Employee benefit expense (including directors' remuneration):		
Wages and salaries	121,316	150,458
Equity-settled share option expense	–	4,217
Pension scheme contributions	3,031	7,025
	124,347	161,700
Write-down of inventories to net realisable value**	19,823	12,380
Impairment/(reversal of impairment) of trade receivable	1,819	(3,281)
(Reversal of impairment)/impairment of financial assets included in prepayments, deposits and other receivables	(764)	3,148
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties#	1,917	3,235
Fair value gains on investment properties##	(2,401)	(1,248)
Interest income##	(1,535)	(562)
Share of losses of associates	6,292	569
Gain on disposal of items of property, plant and equipment##	–	(3)
Gain on land resumption##	(1,062,543)	–

* 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” on the face of the consolidated statement of profit or loss.

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

6. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank loans and other loans (including medium term bonds)	28,317	15,696
Interest on lease liabilities	2,804	583
	<u>31,121</u>	<u>16,279</u>

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 (2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2020 HK\$'000	2019 HK\$'000
Current – Mainland China		
Charge for the year	13,716	47,127
Adjustment in respect of current tax of previous periods	(6,788)	(8,276)
Deferred	<u>327,296</u>	<u>(2,330)</u>
Total tax charge for the year	<u>334,224</u>	<u>36,521</u>

8. DIVIDENDS

	2020 HK\$'000	2019 HK\$'000
Proposed final dividend of HK4 cents per ordinary share and a special dividend of HK6 cents per ordinary share after the end of the reporting period (2019: nil)	<u>259,856</u>	<u>–</u>

The proposed final dividend and special dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amount 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 2,598,561,326 (2019: 2,301,244,517) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>714,780</u>	<u>62,976</u>
	Number of shares	
	2020	2019
<i>Shares</i>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>2,598,561,326</u>	<u>2,301,244,517</u>

10. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	47,053	29,423
Impairment	<u>(9,245)</u>	<u>(6,996)</u>
	<u>37,808</u>	<u>22,427</u>

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.

There are no trade receivables (2019: HK\$44,000) which are due from the ultimate holding company, 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	29,425	20,627
1 to 3 months	3,983	429
3 to 6 months	<u>4,400</u>	<u>1,371</u>
	<u>37,808</u>	<u>22,427</u>

The movements in loss allowance for impairment of trade receivables are as follows:

	2020 HK\$'000	2019 HK\$'000
At beginning of year	6,996	10,454
Impairment losses, net	1,819	(3,281)
Exchange realignment	430	(177)
	<hr/>	<hr/>
At end of year	9,245	6,996
	<hr/> <hr/>	<hr/> <hr/>

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 2020

	Less than 6 months	Over 6 months
Expected credit loss rate	1.6%	100%
Gross carrying amount (HK\$'000)	38,424	8,629
Expected credit losses (HK\$'000)	616	8,629

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

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:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	41,806	32,293
1 to 3 months	44,691	14,416
3 to 6 months	7,040	2,344
6 to 12 months	1,305	1,212
More than 1 year	4,603	5,084
	<u>99,445</u>	<u>55,349</u>

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 AN ASSOCIATE/ULTIMATE HOLDING COMPANY/NON-CONTROLLING INTERESTS/A DIRECTOR

The loan from an associate is unsecured, bears interest rate range from 6% to 8% per annum and will be repayable within one year. As at the end of the reporting period, the amount of the loan was HK\$106,872,000 (2019: nil).

The loan from ultimate holding company is unsecured, bears interest rate range from 8% to 12% per annum and will be repayable within one year. As at the end of the reporting period, the amount of the loan was HK\$178,121,000 (2019: nil).

The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum. As at the end of the reporting period, the amount of the loan was HK\$41,802,000 (2019: HK\$35,273,000), and HK\$2,740,000 (2019: nil) will be repayable within one year.

The loan from a director is unsecured, bears interest rate range from 8% to 12% per annum and will be repayable within one year. As at the end of the reporting period, the amount of the loan was HK\$145,000,000 (2019: nil).

13. COMMITMENTS

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

	2020 HK\$'000	2019 HK\$'000
Contracted, but not provided for:		
Acquisition of equity investment	<u>619,978</u>	<u>6,711</u>
	<u>619,978</u>	<u>6,711</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group recorded revenue of HK\$1,443.5 million (2019: HK\$852.1 million), representing an increase of 69.4% from last year. The increase in revenue was due to the new business activities for trading commodities launched by the Group and increase sales on the furniture projects. The Group's overall gross profit margin decreased from 31.1% for 2019 to 11.0% for 2020. For the furniture business, the gross profit margin decreased from 31.1% in 2019 to 17.6 % in 2020 was due to the serious impact of the COVID-19 epidemic in the first half of the year and sales promotional activities carried out by the Group in the second half of the year; however, comparing the second half of 2020 with the first half, the gross profit margin of furniture business was significantly improved from gross loss rate of 5% to gross profit margin of 24.9% as operations gradually resumed normal under the effective control of the epidemic by the government of the People's Republic of China ("PRC").

Profit for the year was HK\$706.1 million (2019: HK\$67.2 million), representing an increase of 950.9%. Profit attributable to owners of the parent for the year was HK\$714.8 million (2019: HK\$63.0 million), representing an increase of 1,035.0%. The significant increase was a result of the Group recognised the land resumption net income before tax of HK\$1,063 million during the financial year 2020.

For the year ended 31 December 2020, selling and distribution expenses decreased by 1.2% to approximately HK\$83.5 million (2019: HK\$84.4 million), which was mainly due to a decrease in commission and payroll expenses.

Administrative expenses increased by 7.1% to HK\$96.2 million (2019: HK\$89.8 million), which was attributable to the increase in professional fee for acquisition projects and listing related matters.

Finance costs during the year increased by 91.2% to HK\$31.1 million (2019: HK\$16.3 million) as the Group has increase debt for financing the joint venture projects.

BUSINESS REVIEW

During the year under review, the Group officially changed its name from Royale Furniture Holdings Limited to Royale Home Holdings Limited with a new design of logo. This has marked the first step in the Group's determination in demonstrating a brand new corporate image as well as signifying the strategy to expand its business from supplying pure furniture to a broad range of household goods.

Due to the raging COVID-19 and the economic slowdown, customers have postponed their consumption of durable goods. However, due to the success of combat against the epidemic by the government of the PRC, the consumer market in the second half of 2020 has recovered.

While the Group has maintained its market share of the franchise business. The Group continues to cooperate with large real estate developers and local distributors to provide real estate design services and display hardcover units, aiming to sell our products to prospective real estate owners. The Group has also been actively exploring large-scale projects by monitoring market information and reacting promptly. This has further boosted the project sales of furniture.

As the Group observed the demand for aluminum as a raw material to be used in the business process of real estate developers and local distributors, the Group launched new business activities for buying and selling commodities, which mainly included physical trading of commodities such as aluminium ingots and bars.

In addition, the Group has entered into a continuing connected sales agreement with the Science City Group to sell furniture products to Science City Group member companies to increase turnover and expand sales channels for furniture projects in China.

The Group has successfully diversified its business by tapping into the finance leasing. The Group acquired 20% of the equity interest in Science City (Guangzhou) Finance and Leasing Co., Limited (“SC Finance and Lease”) for RMB72.5 million, and agreed to make a capital injection of RMB75 million into the SC Finance and Lease. Upon completion, the Group holds 22.5% of equity interest in SC Finance and Lease. The Group also considers the investment as a pilot project to tap into the finance leasing market and explore its underlying synergy with current business in order to increase the Group’s asset value and expand its business scope.

Management System Reform

The Group manages its department by the division and incentives programs. The system proved its efficiency and flexibility in the crisis management in response to the sudden COVID-19 outbreak. With the division system, the Group was able to motivate its senior executives to make effective and prompt decision to the fast-changing economic environment with their expertise and experience. As a result, the Group was able to allocate and utilise its resources more efficiently.

Brand Management

Ms. Lin Chi Ling, a famous celebrity in Asia, continued to be the Group’s spokesperson. She will feature in the Group’s advertisements and other marketing activities to promote the Group’s brand. In view of the increasing online demands driven by the COVID-19 pandemic, the Group has undergone a series of omnichannel promotion such as Wechat, Home.163.etc. and established e-commerce platforms for product launch, brand and product promotion by livestreaming.

Inventory and Prepayments, Deposits and Other Receivables

The Group's inventory decreased by 10.0% to approximately HK\$265.9 million as at 31 December 2020 (2019: HK\$295.5 million), which was mainly due to the Group implement tight control on inventory level. Prepayments, deposits and other receivables increased by 1,908.5% to HK\$1,769.9 million (2019: HK\$88.1 million), which was mainly due to an increase in other receivables on the proceeds from land resumption.

Working Capital

The Group had net current assets of HK\$1,165.6 million at the end of the year (2019: net current assets of HK\$399.8 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\$236.9 million as at 31 December 2020 (2019: HK\$440.5 million). As at 31 December 2020, the Group's current ratio (current assets to current liabilities) improved to 2.02 (2019: 1.88) and the net current assets amounted to HK\$1,165.6 million (2019: net current assets of HK\$399.8 million). As at 31 December 2020, the interest-bearing bank and other borrowings amounted to HK\$341.3 million (2019: HK\$212.8 million), loan from an associate, loan from ultimate holding company, loan from non-controlling interests, loan from a director and medium term bonds are total amount of HK\$505.8 million (2019: loan from non-controlling interests and medium term bonds are total amount of HK\$67.0 million). Approximately, 67.7% 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 24% as at 31 December 2020 (2019: 1%).

PROSPECT

In 2021, as the market has been gradually recovering from the COVID-19 pandemic, the Company will continue its franchise business, the Group will keep on to undertake more furniture projects from commercial customers and work with large property developers by co-operating with local distributors to sell its products to those prospective property owners, aiming to expand its revenue sources.

The Group will make timely adjustment to cope with the changes of business environment, such as leveraging new marketing channels as well as expanding the types and designs of its household product portfolios. Leveraging on the digital software to develop the products that are in favor of younger generation and launch the e-commerce platforms, the Group aims to broaden its target customer bases and optimising their shopping experience.

In order to support the growing business, the Group will build a new production facility based in Yingde City, Guangdong Province, which will be fully equipped with automated production lines aiming to reduce labor cost and enhance production efficiency.

In 2020, the Group formed a joint venture (“JV”) with an indirect wholly-owned subsidiary of Ganglong China Property Group Limited (“Ganglong”, stock code: 6968.HK), the JV has begun the construction of the commercial and residential projects in center of Zengcheng District, Guangzhou, which the first phase of resident building project is expected to be completed in the first quarter of 2022. Pre-sale of the properties are expected to begin in the third quarter of 2021.

As noted from above, since Science City Group became our shareholder in 2019, the Group has a more solid base for diversity. The synergy effect from such is manifested progressively. The Group will continue to identify and develop businesses which are coherent with the concept of the new corporate image and provide reasonable and stable return to our shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had approximately 1,313 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 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.

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 or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 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 2020, 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 2020.

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 recommends the payment of final dividend and special dividend of HK4 cents per share and HK6 cents per share respectively in cash for the year ended 31 December 2020 (2019: HK\$nil per share for final dividend and special dividend). Such final dividend and special dividend will not be subject to any withholding tax in Hong Kong.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend and special dividend will be distributed on or about Friday, 16 July 2021 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 18 June 2021. The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend and special dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on Friday, 11 June 2021 with the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 26 May 2021 to Monday, 31 May 2021, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 31 May 2021, 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 Tuesday, 25 May 2021.

PUBLIC FLOAT

Following the close of the unconditional mandatory cash general offer being made by ABCI Capital Limited on behalf of Science City (Hong Kong) Investment Co. Limited ("SCHK"), Mr. Tse Kam Pang ("Mr. Tse"), Leading Star Global Limited, Crisana International Inc. and Charming Future Holdings Limited (collectively, the "Joint Offerors") to acquire all the Shares in issue, other than those shares already owned or agreed to be acquired by the Joint Offerors and parties acting in concert with them pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers on 29 August 2019, 398,570,046 Shares were held by the public (within the meanings of the Listing Rules, representing approximately 15.34% of the total number of issued Shares. Accordingly, less than 25% of the issued Shares (being the minimum prescribed percentage applicable to the Company) were held by the public and the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1) (a) of the Listing Rules. On 29 August 2019, an application was made by the Company to the Stock Exchange for a temporary waiver from the strict compliance with Rules 8.08(1)(a) of the Listing Rules. On 5 September 2019, the Stock Exchange had granted the waiver to the Company for a period from 29 August 2019 (i.e. closing date of the Offers) to 28 November 2019 (the "Waiver"). On 28 November 2019, an application was made by the Company to the Stock Exchange for an extension of the Waiver. The Stock Exchange had granted the Company an extension of the Waiver until 15 April 2020.

On 2 February 2020, the public float of the Company has risen to 19.22% of the issued share capital of the Company after completion of the sale of 101,000,000 Shares to an independent third parties. On 8 April 2020, an application was made by the Company to the Stock Exchange for a further extension of the Waiver. The Stock Exchange had granted the Company a further extension of the Waiver until 15 July 2020.

On 15 July 2020, a further application was made by the Company to the Stock Exchange for an extension of the Waiver. The Stock Exchange had granted the Company a further extension of the Waiver until 31 December 2020.

In January 2021, a further 66,000,000 Shares was disposed by Mr. Tse and 64,600,000 Shares was disposed by SCHK. Based on information that is publicly available to the Company and within the knowledge of the Directors as at 31 March 2021, being the latest practicable date prior to the issue of this announcement, 630,170,046, representing 24.25% of the issued share capital of the Company, are in public hands. The minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was unsatisfied.

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 2020 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 Home Holdings Limited
Tse Kam Pang
Chairman and Executive Director

Hong Kong, 31 March 2021

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.