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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)

CONNECTED TRANSACTION CONSTRUCTION AGREEMENTS

CONSTRUCTION AGREEMENTS

On 10 February 2023 (after trading hours), Guangdong Hengcheng (an indirect wholly-owned subsidiary of the Company) entered into the Construction Agreements with SC (GZ) Construction and Guangzhou Construction, pursuant to which Guangdong Hengcheng agreed to engage SC (GZ) Construction (as lead contractor) and Guangzhou Construction (as joint-contractor) for the provision of construction services for the Construction for a total consideration of RMB181,784,028.60 (inclusive of tax).

SUPPLEMENTAL CONSTRUCTION AGREEMENT

In view of the adjustment of the Project due to re-alignment of production lines, on 24 January 2024 (after trading hours), Guangdong Hengcheng (an indirect wholly-owned subsidiary of the Company) entered into the Supplemental Construction Agreement with SC (GZ) Construction and Guangzhou Construction, pursuant to which it was agreed that the total consideration for the provision of construction services for the Construction shall be reduced to RMB51,676,662.62 (inclusive of tax).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Science City is, through SCHK and parties acting in concert with it, interested in an aggregate of 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company. Hence, it is a controlling shareholder of the Company. As SC (GZ) Construction is a wholly-owned subsidiary of Science City, it is an associate of Science City and a connected person of the Company. Therefore, the Construction Agreements, the Supplemental Construction Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Construction Agreements are more than 0.1% but all are less than 5%, the transactions contemplated under the Construction Agreements are subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company should have complied with the relevant reporting and announcement requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Construction Agreements, which constituted a connected transaction, as and when such obligations arose. The Company did not comply with the announcement requirement under Chapter 14A of the Listing Rules due to a misunderstanding that the Construction was in the ordinary and usual course of business of the Group and part of the day to day business activities of the Group. The Company was only aware of the announcement requirement in respect of the Constructions until an assessment was conducted following the initiation of the negotiation of the Supplemental Construction Agreement. The non-compliance was inadvertent and not intentional.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Supplemental Construction Agreement are more than 0.1% but all are less than 5%, the transactions contemplated under the Supplemental Construction Agreement are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REMEDIAL ACTIONS AND MEASURES

To prevent similar non-compliance from occurring in the future, the Company has taken the remedial actions and measures as set out in the section headed "Remedial Actions and Measures" in this announcement.

INTRODUCTION

The Board announces that on 10 February 2023 (after trading hours), Guangdong Hengcheng (an indirect wholly-owned subsidiary of the Company) entered into the Construction Agreements with SC (GZ) Construction and Guangzhou Construction, pursuant to which Guangdong Hengcheng agreed to engage SC (GZ) Construction (as lead contractor) and Guangzhou Construction (as joint-contractor) for the provision of construction services for the Construction for a total consideration of RMB181,784,028.60 (inclusive of tax).

In view of the adjustment of the Project due to re-alignment of production lines, on 24 January 2024 (after trading hours), Guangdong Hengcheng (an indirect wholly-owned subsidiary of the Company) entered into the Supplemental Construction Agreement with SC (GZ) Construction and Guangzhou Construction, pursuant to which it was agreed that the total consideration for the provision of construction services for the Construction shall be reduced to RMB51,676,662.62 (inclusive of tax).

CONSTRUCTION AGREEMENTS

The principal terms of the Construction Agreements are set out as follows:

Date

10 February 2023 (after trading hours)

Parties

- (i) Guangdong Hengcheng Furniture Ltd.* (廣東恒誠傢俬有限公司)
- (ii) Science City (Guangzhou) Architecture and Construction Co., Ltd.* (科學城(廣州)建築工程有限公司), as lead contractor
- (iii) Guangzhou Construction Industry Development Co., Ltd.* (廣州建築產業開發有限公司), as joint-contractor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Guangzhou Construction and its ultimate beneficial owner(s) were third parties independent of and not connected with the Company and its connected persons.

Subject matter

Guangdong Hengcheng has engaged SC (GZ) Construction (as lead contractor) and Guangzhou Construction (as joint-contractor) to provide design and construction services for the Construction, including civil foundation constructions, renovation, electricity and gas constructions, drainage constructions, road constructions and lighting constructions etc., for the household products production and development project (phase 2) (the “**Project**”) on the site located in Guangde (Yingde) Industrial Park under the Construction Agreements. SC (GZ) Construction shall also provide other ancillary services including budgeting and audit, sub-contracting management and coordination, inspection and documentation, filing, registration and application services in relation to the Construction.

The design and construction work under the Construction shall satisfy the relevant national or regional regulations and requirements of the PRC government and industry quality and technical standards.

SC (GZ) Construction and Guangzhou Construction shall be jointly and severally liable for any breaches of the Construction Agreements.

Construction period

The construction period under the Construction Agreements was expected to be 540 calendar days from the issuance of construction permit by the relevant government authorities.

Consideration and payment terms

The total consideration for the Construction shall be RMB181,784,028.60 (inclusive of tax), comprising (i) the contract sum for design services in the amount of RMB3,055,086.00 (the “**Design Sum**”) and (ii) contract sum for construction services in the amount of RMB178,728,942.60 (the “**Construction Sum**”).

(i) Design Sum

The Design Sum of RMB3,055,086.00 (inclusive of tax) shall be payable by way of bank transfer in the following manner:

- (a) 20% of the Design Sum shall be paid within 10 business days after the receipt of a payment application made to Guangdong Hengcheng as prepayment;
- (b) 20% of the Design Sum shall be paid within 10 business days after the completion of vetting by Guangdong Hengcheng in respect of the preliminary design information, estimates and the payment application made to Guangdong Hengcheng;
- (c) 25% of the Design Sum shall be paid within 10 business days after the approval of the design and construction plan and receipt of payment application made to Guangdong Hengcheng;
- (d) 20% of the Design Sum shall be paid within 10 business days after completion of inspection of the design work under the Construction Agreements to the satisfaction of Guangdong Hengcheng and receipt of payment application made to Guangdong Hengcheng;

- (e) up to 97% of the Design Sum shall be paid within 10 business days after the inspection of the Construction of the entire Project to the satisfaction of Guangdong Hengcheng and receipt of payment application made to Guangdong Hengcheng; and
- (f) the remaining balance of the Design Sum shall be paid within 15 business days after the end of the quality defect warranty period of two (2) years and receipt of payment application made to Guangdong Hengcheng.

(ii) Construction Sum

The Construction Sum of RMB178,728,942.60 (inclusive of tax) shall be payable by way of bank transfer in the following manner:

- (a) 20% of the Construction Sum shall be paid within 10 business days after the date of the Construction Agreements and project management personnel and machinery and equipment being in place as construction prepayment;
- (b) up to 85% (taking into the amounts already paid under (a)) of the Construction Sum (accumulated) to be paid on a monthly basis in proportion to the progress of the Construction, which shall be to the satisfaction of and agreed by Guangdong Hengcheng and confirmed by the chief supervising engineer;
- (c) up to 90% (taking into account the amounts already paid under (a) and (b) above) of the Construction Sum (accumulated) to be paid upon the completion of inspection of the Construction;
- (d) up to 97% (taking into account the amounts already paid under (a) to (c) above) of the Construction Sum (accumulated) shall be paid within 10 days after the completion of the audit of the Construction; and
- (e) 3% as quality warranty deposit, payable upon the end of the quality defect warranty period of two (2) years.

The total consideration for the Construction under the Construction Agreements was determined on an arm's length basis through a public tendering process and with reference to construction and design fee standard promulgated by government authorities in the PRC and the specifications and requirements for the construction work in respect of the Project.

The consideration for the Construction under the Construction Agreements shall be financed by the internal resources of the Group.

SUPPLEMENTAL CONSTRUCTION AGREEMENT

The principal terms of the Supplemental Construction Agreement are set out as follows:

Date

24 January 2024 (after trading hours)

Parties

- (i) Guangdong Hengcheng Furniture Ltd.* (廣東恒誠傢俬有限公司)
- (ii) Science City (Guangzhou) Architecture and Construction Co., Ltd.* (科學城(廣州)建築工程有限公司), as lead contractor
- (iii) Guangzhou Construction Industry Development Co., Ltd.* (廣州建築產業開發有限公司), as joint-contractor

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Guangzhou Construction and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

Subject matter

In view of the adjustment of the Project due to re-alignment of production lines, the parties have agreed that the total consideration (the “**Revised Consideration**”) for the provision of construction services for the Construction shall be reduced to RMB51,676,662.62 (inclusive of tax). The Design Sum shall remain to be RMB3,055,086.00 and the Construction Sum shall be reduced to RMB48,621,576.62 (the “**Revised Construction Sum**”).

As at the date of this announcement, pursuant to the Construction Agreements, (i) 20% of the Design Sum (i.e. RMB611,017.20) has been paid as prepayment; and (ii) a total of RMB17,000,000 has been paid as part payment of the Construction Sum (the “**Paid Construction Sum**”). Pursuant to the Supplemental Construction Agreement, the Paid Construction Sum shall first be used to offset the construction prepayment (i.e. 20% of the Revised Construction Sum) in the amount RMB8,751,883.79, which amount shall be deemed to have been paid; and then the remaining balance of the Paid Construction Sum in the amount of RMB8,248,116.21 shall be used to offset the Revised Construction Sum to be paid in instalments on a monthly basis in proportion to the progress of the Construction after the date of the Supplemental Construction Agreement.

Save as disclosed above, all other terms and conditions of the Construction Agreements remain unchanged and shall continue to be in full force and effect.

The Revised Consideration for the Construction was determined after arm's length negotiation between the parties with reference to construction and design fee standards promulgated by government authorities in the PRC and the specifications and requirements for the construction work in respect of the Project based on a revised construction plan. Under the revised construction plan, the total construction area of the Project has been reduced from 83,862.88 square metres to 34,869.97 square metres due to the adjustment of warehousing space from five (5) storeys to two (2) storeys, adjustment of the structure of the factory building from a double layer framework structure to a single layer steel structure and adjustment of staff quarters from six (6) storeys to five (5) storeys.

The Revised Consideration is to be financed by the internal resources of the Group.

INFORMATION ON THE PARTIES

Information on the Company and the Group

The Company is a company incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the design, sale and manufacture of furniture and trading of commodities.

Information on SC (GZ) Construction

SC (GZ) Construction is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of Science City. It is principally engaged in the business of property architecture and construction, railway construction and architecture and traffic, tunnel and bridge construction and architecture. Science City is ultimately subject to the supervision of the State-owned Assets Supervision and Administration Commission of the State Council.

Information on Guangdong Hengcheng

Guangdong Hengcheng is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the business of manufacturing of home furniture and accessories.

Information on Guangzhou Construction

Guangzhou Construction is a company established under the laws of the PRC with limited liability. It is principally engaged in the business of property, municipal, bridge construction and surveying. It is ultimately subject to the supervision of the State-owned Assets Supervision and Administration Commission, the People's Government of Guangdong Province (廣東省人民政府國有資產監督管理委員會).

REASONS FOR AND BENEFITS OF THE CONSTRUCTION

The Directors consider that the entering into of the Construction Agreements and the Supplemental Construction Agreement, and the development and construction of the Project are beneficial to the Group as the Construction would enable the Group to manufacture its furniture and accessories and further develop its principal business of design, sale and manufacture of furniture.

As the Revised Consideration for the Construction was determined with reference to construction and design fee standard promulgated by government authorities in the PRC and a revised construction plan in respect of the Project, the Board considers that the terms of the Construction (as revised) are commensurate with prevailing market terms, fair and reasonable and no less favourable than those provided by independent third parties to the Company.

The Directors (including the independent non-executive Directors) consider that the terms of the Construction Agreements and the Supplemental Construction Agreement are on normal commercial terms and the Construction is in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As (1) Mr. Lin Ruhai, Mr. Wu Zhongming, Mr. Tao Ying, Mr. Yao Jingming and Ms. Yang Ying hold positions within the Science City Group; and (2) Mr. Tse is a person acting in concert with SCHK (a direct wholly-owned subsidiary of Science City) pursuant to the Concert Group Agreement, each of the abovementioned Directors is deemed to have material interest in and has therefore abstained from voting on the resolutions of the Board in relation to the Construction Agreements, the Supplemental Construction Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Science City is, through SCHK and parties acting in concert with it, interested in an aggregate of 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company. Hence, it is a controlling shareholder of the Company. As SC (GZ) Construction is a wholly-owned subsidiary of Science City, it is an associate of Science City and a connected person of the Company. Therefore, the Construction Agreements, the Supplemental Construction Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Construction Agreements are more than 0.1% but all are less than 5%, the transactions contemplated under the Construction Agreements are subject to the reporting and announcement requirements but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company should have complied with the relevant reporting and announcement requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Construction Agreements, which constituted a connected transaction, as and when such obligations arose. The Company did not comply with the announcement requirement under Chapter 14A of the Listing Rules due to a misunderstanding that the Construction was in the ordinary and usual course of business of the Group and part of the day-to-day business activities of the Group. The Company was only aware of the announcement requirement in respect of the Constructions until an assessment was conducted following the negotiation of the Supplemental Construction Agreement. The non-compliance was inadvertent and not intentional.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Supplemental Construction Agreement are more than 0.1% but all are less than 5%, the transactions contemplated under the Supplemental Construction Agreement are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REMEDIAL ACTIONS AND MEASURES

To prevent similar non-compliance from occurring in the future, the Company has taken the following remedial measures and actions:

- (i) the Company has arranged its legal advisers to advise the management team on the application and requirements of the Listing Rules and compliance requirements for connected transactions;
- (ii) the Company has re-circulated and enhanced the internal communication policy to the management team and responsible staff of the Company regarding the reporting procedure for connected transactions and/or other transactions subject to Listing Rules requirements;
- (iii) the compliance department of the Group shall work closely and check with the subsidiaries/business units of the Group as to potential transactions that are expected to be finalized (including obtaining sufficient particulars). Based on the information provided, the compliance department of the Group shall advise the applicable compliance requirements under the Listing Rules (after consultation with professional advisers, if necessary). If required, the compliance department of the Group shall report the details of the transaction to senior management or the Board (as appropriate) as soon as possible and shall arrange notification, publication and/or shareholders' approval in accordance with the Listing Rules;

- (iv) the Company will arrange to provide additional training on regulatory compliance matters to the management team on a regular basis to ensure they have the practical knowledge to identify connected transactions and comply with relevant requirements under the Listing Rules; and
- (v) the Company will work more closely with and seek advice from its professional advisers in a timely fashion on compliance issues, if needed. The Company will allocate resources such that the independent non-executive Directors will have sufficient access to independent professional advice as they see fit in assessing future transactions of the Group.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Charming Future”	Charming Future Holdings Limited, a beneficial owner of 209,768,922 Shares, representing 8.07% of the issued share capital of the Company as at the date of this announcement and is wholly-owned by Mr. Tse. It is deemed to be interested in 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company pursuant to the Concert Group Agreement
“Company”	Royale Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Concert Group Agreement”	the concert group agreement dated 24 May 2019 entered into amongst SCHK, Mr. Tse, Leading Star, Crisana and Charming Future
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

“Construction”	the design and construction work in relation to civil foundation constructions, renovation, electricity and gas constructions, drainage constructions, road constructions and lighting constructions etc. for the household products production and development project (phase 2) on the site located in Guangde (Yingde) Industrial Park under the Construction Agreements and, where appropriate, the Supplemental Construction Agreement
“Construction Agreements”	the design, construction and sub-contracting agreements entered into between Guangdong Hengcheng, SC (GZ) Construction (as lead contractor) and Guangzhou Construction (as joint-contractor) on 10 February 2023 in relation to the Construction
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Crisana”	Crisana International Inc., a beneficial owner of 165,840,120 Shares, representing 6.38% of the issued share capital of the Company as at the date of this announcement, and is wholly-owned by Mr. Tse. It is deemed to be interested in 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company pursuant to the Concert Group Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Guangdong Hengcheng”	Guangdong Hengcheng Furniture Ltd.* (廣東恒誠傢俬有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Guangzhou Construction”	Guangzhou Construction Industry Development Co., Ltd.* (廣州建築產業開發有限公司), a company established in the PRC with limited liability and a joint-contractor under the Construction Agreements and Supplemental Construction Agreement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Leading Star”	Leading Star Global Limited, a company wholly-owned by Mr. Tse as at the date of this announcement and the direct beneficial owner of 51,971,227 Shares, representing 2.00% of the issued share capital of the Company as at the date of this announcement. It is deemed to be interested in 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company pursuant to the Concert Group Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Tse”	Mr. Tse Kam Pang, being the Co-Chairman of the Company and an executive Director, and the direct beneficial owner of 282,948,047 Shares, representing 10.89% of the issued share capital of the Company as at the date of this announcement. He is also deemed to be interested in 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company pursuant to the Concert Group Agreement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SC (GZ) Construction”	Science City (Guangzhou) Architecture and Construction Co., Ltd.* (科學城(廣州) 建築工程有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of Science City. It is the lead contractor under the Construction Agreements and Supplemental Construction Agreement
“SCHK”	Science City (Hong Kong) Investment Co. Limited, a direct wholly-owned subsidiary of Science City and the direct beneficial owner of 1,234,862,964 Shares, representing 47.52% of the issued share capital of the Company as at the date of this announcement. It is deemed to be interested in 1,945,391,280 Shares, representing approximately 74.86% of the issued share capital of the Company pursuant to the Concert Group Agreement

“Science City”	Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司), a company established in the PRC with limited liability on 21 August 1984 and a controlling shareholder of the Company. Science City is ultimately subject to the supervision of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Science City Group”	Science City together with its subsidiaries but excluding the Group
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Construction Agreement”	the supplemental agreement to the Construction Agreements entered into between Guangdong Hengcheng, SC (GZ) Construction (as lead contractor) and Guangzhou Construction (as joint-contractor) on 24 January 2024 in relation to the Construction
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers
“%”	per cent.

By order of the Board
Royale Home Holdings Limited
Lin Ruhai

Chairman, Executive Director and Chief Executive Officer

Hong Kong, 24 January 2024

As at the date of this announcement, the Board comprises two executive directors, namely, Mr. Lin Ruhai (Chairman) and Mr. Tse Kam Pang (Co-Chairman); four non-executive directors, namely, Mr. Wu Zhongming, Mr. Tao Ying, Mr. Yao Jingming and Ms. Yang Ying; and three independent non-executive directors, namely, Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin.

* For identification purposes only