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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)

DISCLOSEABLE AND CONNECTED TRANSACTION PROPOSED ACQUISITION OF 20% EQUITY INTEREST IN THE TARGET

THE ACQUISITION

On 28 July 2020 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 20% of the equity interest in the Target, for a total cash Consideration of RMB62,500,000. In respect of and among the Target Interest, the capital amount of RMB50,000,000 has been paid up and the capital amount of RMB10,000,000 remains unpaid as at the date of this announcement. Upon Completion, the Purchaser will assume the obligation to pay up the RMB10,000,000 unpaid capital, within 30 days after the date of payment of the Consideration. As a result, the total sum payable by the Purchaser in respect of the Acquisition amounts to RMB72,500,000.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition is more than 5% but all are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, Science City (1) holds 75% of the equity interest in the Target; and (2) is a controlling shareholder of the Company and is (together with parties acting in concert with it) interested in an aggregate of 2,095,991,280 Shares, representing approximately 80.66% of the issued share capital of the Company. Hence, both the Target and Science City are connected persons of the Company under Chapter 14A of the Listing Rules.

Therefore, the Acquisition constitutes a discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder.

SCHK, Mr. Tse, Crisana, Charming Future, Leading Star (being parties acting in concert under the Concert Group Agreement holding a total of 2,095,991,280 Shares, representing approximately 80.66% of the issued share capital of the Company) and their respective associates and those who are interested in the Acquisition will be required to abstain from voting on the resolutions in relation to the Acquisition Agreement and the transactions contemplated thereunder at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Acquisition and is therefore required to abstain from voting at the EGM on the relevant resolutions.

A circular containing, among other things, (i) further information on the Acquisition; (ii) the recommendation of the Independent Board Committee on the Acquisition; (iii) the advice of the Independent Financial Adviser to the Independent Shareholders and Independent Board Committee in respect of the Acquisition; (iv) other information as required under the Listing Rules; and (v) the notice of the EGM, will be despatched to the Shareholders on or before 30 September 2020 as additional time is required to prepare and finalise the relevant information to be included in the circular.

Completion of the Acquisition Agreement is subject to the satisfaction of the conditions precedent under the Acquisition Agreement, and therefore, may or may not proceed to Completion. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE ACQUISITION

Date

28 July 2020 (after trading hours)

Parties

1. China Finance Leasing Limited (中國金融租賃有限公司) as Vendor; and
2. Comfort Sofa Limited (舒適梳化有限公司) as Purchaser.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, the Vendor and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

The Target is a non wholly-owned subsidiary of Science City, a controlling shareholding of the Company. Therefore, both the Target and Science City are connected persons of the Company.

Subject matter

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 20% of the equity interest in the Target at a Consideration of RMB62,500,000. In respect of and among the Target Interest, the capital amount of RMB50,000,000 has been paid up and the capital amount of RMB10,000,000 remains unpaid as at the date of this announcement. Upon Completion, the Purchaser will assume the obligation to pay up the unpaid capital amount of RMB10,000,000, within 30 days after the date of payment of the Consideration. As a result, the total sum payable by the Purchaser in respect of the Acquisition amounts to RMB72,500,000.

The equity interest in the Target is owned as to 25% by the Vendor and 75% by Science City as at the date of this announcement. Upon Completion of the Acquisition, the Purchaser will own 20% of the equity interest in the Target whereas Science City and the Vendor will own 75% and 5% of the equity interest in the Target, respectively.

Consideration

The Consideration for the Acquisition is RMB62,500,000, which will be payable in cash by the Purchaser to the Vendor (or it's nominee) within 10 business days from the date of Completion. The conditions precedent to the payment of the Consideration by the Purchaser are as follows:

- (i) the Purchaser having received the new shareholders' agreement and new articles of association of the Target (the "**Registration Documents**") and such Registration Documents remaining valid and effective;
- (ii) the business registration having been completed and the new business license having been obtained by the Target;
- (iii) the representations, warranties and undertakings made by the Vendor under the Acquisition Agreement remaining true, complete and effective;
- (iv) there being no material adverse change, which shall be determined at the absolute discretion of the Purchaser; and
- (v) the Vendor having performed in full each of the obligations under the Acquisition Agreement; and no provisions under the Acquisition Agreement having been substantively breached.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the value of the Target Interest as of 31 May 2020 by reference to a preliminary draft of a valuation report prepared by an independent valuer of approximately RMB76 million (the basis and assumption in relation to the valuation will be disclosed in the circular to be despatched to the Shareholders), the business nature of the Target, the future business prospects of the Target and the reasons and benefits set out in the section headed "Reasons for and benefits of the Acquisition" in this announcement. It is expected that the Consideration will be funded by internal resources of the Group.

Conditions precedent

Completion of the Acquisition will be subject to and conditional upon the fulfilment or waiver (as the case may be) of the following conditions precedent:

- (a) the representations, warranties and undertakings provided by the Vendor under the Acquisition Agreement remaining true, complete and effective;
- (b) based on the reasonable belief of the Vendor, except for those disclosed to the Purchaser, there having been no undetermined or threatening claims, litigations and proceedings which may materially affect the operations of the Target;
- (c) the board of directors of the Target having unanimously approved the Acquisition (including the new shareholders' agreement and the new articles of association of the Target) by way of resolution(s), and such board resolutions remaining valid;
- (d) the Vendor having performed in full each of the obligations under the Acquisition Agreement, and there having been no substantive breach in any of the provisions in the Acquisition Agreement;
- (e) the circular of the Company in respect of the transaction contemplated under the Acquisition Agreement having been approved by the Stock Exchange and despatched to the Shareholders;
- (f) the Board having approved the Acquisition, and the Independent Shareholders having approved the Acquisition in an extraordinary general meeting of the Company to be convened pursuant to the Listing Rules; and all other consents and actions required under the Listing Rules having been obtained and completed, or (as the case may be) the relevant waivers from compliance with such relevant rules and regulations having been obtained from the Stock Exchange;
- (g) if necessary, all necessary approvals, consents and waivers from the relevant government or supervising authorities or other relevant third parties in respect of the Acquisition having been obtained;
- (h) there being no material adverse change, which shall be determined at the absolute discretion of the Purchaser;

- (i) the Purchaser being satisfied with the results of its due diligence review of the Target; and
- (j) the Vendor having provided evidence that the Acquisition (including the new shareholders' agreement and the new articles of association of the Target) having been approved by its supreme internal decision-making authority or such other personnel or entity having the authority to approve the Acquisition; and such approval remaining valid.

The parties to the Acquisition Agreement should use their reasonable efforts to ensure that the conditions precedent to the Completion are being satisfied as soon as possible. In the event that the conditions set out above are not fulfilled or waived at the absolute discretion of the Purchaser (conditions (c), (e), (f), (g) and (j) above are not capable of being waived) on or before 31 October 2020 (or such later date as the parties may agree in writing), any party to the Acquisition Agreement will have the right to terminate the Acquisition Agreement by two (2) business days' prior written notice to the other party. In the event of such termination, the Acquisition Agreement will be of no further effect, save with respect to any antecedent breaches or relevant rights to bring claims and remedies and power related thereto.

Completion

Subject to the fulfilment or wavier of the conditions precedent, the Completion shall take place upon the completion of business registration of and the obtaining of the new business license by the Target. The Vendor shall procure the Target to complete the business registration in respect of the Acquisition as soon as possible and in any event within 10 business days from the date of the Acquisition Agreement and the new shareholders' agreement and new articles of association of the Target.

INFORMATION ON THE TARGET

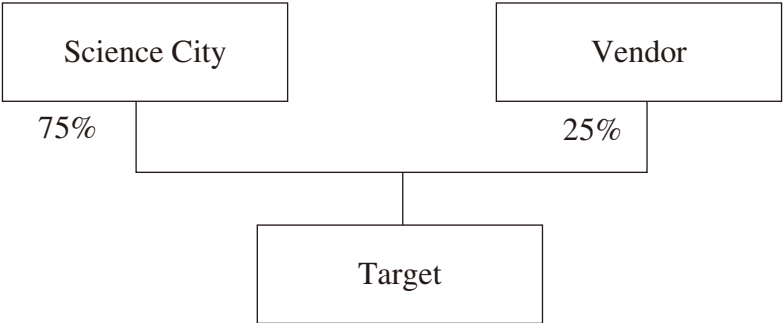
The Target is a company established in the PRC with limited liability, and the equity interest of which is owned as to 25% by the Vendor and 75% by Science City as at the date of this announcement. Upon Completion, the Purchaser will own 20% of the equity interest in the Target and the Vendor and Science City will own 5% and 75% of the equity interest in the Target, respectively. The principal business activity of the Target is finance leasing. Mr. Yang Jun, a Director, is also a director of the Target.

As advised by the Vendor, the original acquisition cost of the 25% equity interest in the Target held by it was RMB75,000,000 (representing the total capital commitment corresponding to the 25% equity interest in the Target). Among the 25% equity interest in the Target held by the Vendor as at the date of this announcement, the capital amount of RMB50,000,000 has been paid up and the capital amount of RMB25,000,000 remains unpaid.

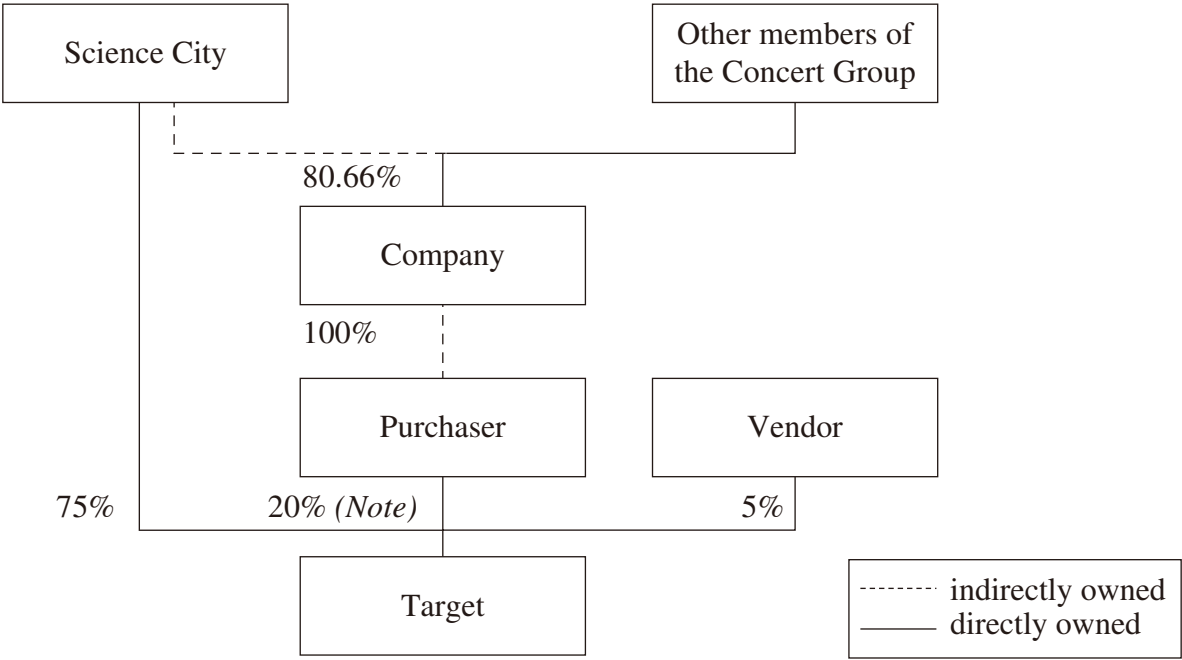
Shareholding structure of the Target

The following diagrams set out the simplified shareholding structures of the Target before and upon Completion:

As at the date of this announcement



Upon Completion



Note: Among the Target Interest (representing 20% of the equity interest in the Target), the capital amount of RMB50,000,000 has been paid up and the capital amount of RMB10,000,000 remains unpaid as at the date of this announcement. Upon Completion, the Purchaser will assume the obligation to pay up the RMB10,000,000 unpaid capital within 30 days from the date of payment of the Consideration.

Financial information of the Target

Set out below is a summary of the audited financial information of the Target for the two financial years ended 31 December 2018 and 31 December 2019 respectively prepared under the PRC GAAP:

	For the year ended	
	31 December	
	2018	2019
	(RMB)	(RMB)
Net profit before taxation	23,115,000	46,694,000
Net profit after taxation	17,134,000	34,854,000

The audited net asset value of the Target for each of the two years ended 31 December 2018 and 31 December 2019 was approximately RMB217,432,000 and RMB236,938,000, respectively.

Upon Completion, the Target will not become a subsidiary of the Company and its financial statements will not be consolidated into the financial statements of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board considers that the Acquisition will enable the Group to diversify the scope of its operations as it will gain access to finance leasing. The Acquisition represents a good investment opportunity and is in line with the Group's vision to invest in target companies or businesses having promising outlooks and prospects. The Acquisition could also offer a stable income stream to the Group, taking into account the state-owned background of the Target and the relationship between the Company and Science City.

The Directors (excluding the independent non-executive Directors who have reserved their views pending the receipt of the opinion of the Independent Financial Adviser and the Directors who are considered to be materially interested in the Acquisition) are of the view that the terms of the Acquisition Agreement are on normal commercial terms and on an arm's length basis, and the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As (1) Mr. Yang Jun, Mr. Wu Zhongming, Mr. Wu Dingliang, Ms. Qin You and Mr. Liu Zhijun hold positions within the Science City group; (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; and (3) Mr. Yang Jun is a director of the Target, each of the abovementioned Directors are deemed to have material interest in and have therefore abstained from voting on the resolutions of the Board approving the Acquisition Agreement and the transactions contemplated thereunder.

INFORMATION ON THE PARTIES

Information on the Vendor

The Vendor is a company incorporated in Hong Kong with limited liability. It is principally engaged in investment holding. The ultimate beneficial owner of the Vendor is Yang Lixuan.

Information on the Purchaser

The Purchaser is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

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 principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing and sales of furniture.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition is more than 5% but all are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, Science City (1) holds 75% of the equity interest in the Target; and (2) is a controlling shareholder of the Company and is (together with parties acting in concert with it) interested in an aggregate of 2,095,991,280 Shares, representing approximately 80.66% of the issued share capital of the Company. Hence, both the Target and Science City are connected persons of the Company under Chapter 14A of the Listing Rules.

Therefore, the Acquisition constitutes a discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors will be formed to consider the terms of the Acquisition Agreement and the transactions contemplated thereunder so far as the interests of the Company and the Independent Shareholders are concerned as a whole.

INDEPENDENT FINANCIAL ADVISER

The Company has appointed Messis Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

EGM

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder.

SCHK, Mr. Tse, Crisana, Charming Future, Leading Star (being parties acting in concert under the Concert Group Agreement holding a total of 2,095,991,280 Shares, representing approximately 80.66% of the issued share capital of the Company) and their respective associates and those who are interested in the Acquisition will be required to abstain from voting on the resolutions in relation to the Acquisition Agreement and the transactions contemplated thereunder at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Acquisition and is therefore required to abstain from voting at the EGM on the relevant resolutions.

A circular containing, among other things, (i) further information on the Acquisition; (ii) the recommendation of the Independent Board Committee on the Acquisition; (iii) the advice of the Independent Financial Adviser to the Independent Shareholders and Independent Board Committee in respect of the Acquisition; (iv) other information as required under the Listing Rules; and (v) the notice of the EGM, will be despatched to the Shareholders on or before 30 September 2020 as additional time is required to prepare and finalise the relevant information to be included in the circular.

Completion of the Acquisition Agreement is subject to the satisfaction of the conditions precedent under the Acquisition Agreement, and therefore, may or may not proceed to Completion. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

“Acquisition”	the acquisition of the Target Interest (together with the obligation to pay up the unpaid capital amount of RMB10,000,000) by the Purchaser from the Vendor in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 28 July 2020 entered into between the Purchaser and the Vendor, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to purchase the Target Interest (together with the obligation to pay up the unpaid capital amount of RMB10,000,000) at the Consideration of RMB62,500,000
“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
“Board”	the board of Directors
“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 2,095,991,280 Shares, representing 80.66% of the issued share capital of the Company pursuant to the Concert Group Agreement
“Company”	Royale Furniture 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
“Completion”	Completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Concert Group”	SCHK, Mr. Tse, Leading Star, Crisana and Charming Future
“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
“Consideration”	the consideration for the Acquisition in the amount of RMB62,500,000
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Crisana”	Crisana International Inc., a beneficial owner of 185,840,120 Shares, representing 7.15% 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 2,095,991,280 Shares, representing 80.66% of the issued share capital of the Company pursuant to the Concert Group Agreement
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Acquisition Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of all the independent non-executive Directors formed for advising the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Independent Shareholders”	the shareholders of the Company other than the SCHK, its associates and parties acting in concert with it who are required to abstain from voting on resolutions to approve the Acquisition contemplated under the Acquisition Agreement at the EGM pursuant to the Listing Rules

“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 2,095,991,280 Shares, representing 80.66% 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 chairman of the Company and an executive Director, and the direct beneficial owner of 348,948,047 Shares, representing 13.43% of the issued share capital of the Company as at the date of this announcement. He is also deemed to be interested in the 2,095,991,280 Shares, representing 80.66% of the issued share capital of the Company pursuant to the Concert Group Agreement
“PRC”	the People’s Republic of China
“PRC GAAP”	the generally accepted accounting principles in the PRC
“Purchaser”	Comfort Sofa Limited (舒適梳化有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SCHK”	Science City (Hong Kong) Investment Co. Limited, a direct wholly-owned subsidiary of Science City and the direct beneficial owner of 1,299,462,964 Shares, representing 50.01% of the issued share capital of the Company as at the date of this announcement. It is deemed to be interested in 2,095,991,280 Shares, representing 80.66% 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. The ultimate beneficial owner of Science City is 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)

“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
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers
“Target”	Science City (Guangzhou) Finance and Leasing Co., Limited* (科學城(廣州)融資租賃有限公司) a company established in the PRC with limited liability, the equity interest of which is owned as to 25% by the Vendor and 75% by Science City as at the date of this announcement
“Target Interest”	the 20% equity interest in the Target to be sold by the Vendor and purchased by the Purchaser in accordance with the terms and conditions of the Acquisition Agreement
“Vendor”	China Finance Leasing Limited (中國金融租賃有限公司), a company incorporated in Hong Kong with limited liability
“%”	per cent

By order of the Board
Royale Furniture Holdings Limited
Tse Kam Pang
Chairman and Executive Director

Hong Kong, 28 July 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.

* for identification purpose only