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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 2021

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 2021, together with the comparative figures for the year ended 31 December 2020. The annual results for the year ended 31 December 2021 have been reviewed by the Company’s audit committee.

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
REVENUE	4	1,526,506	1,443,490
Cost of sales		<u>(1,208,280)</u>	<u>(1,284,488)</u>
Gross profit		318,226	159,002
Other income and gains	4	192,562	1,102,889
Selling and distribution expenses		(97,128)	(83,472)
Administrative expenses		(125,529)	(96,243)
Impairment of trade receivables and financial assets included in prepayments, deposits and other receivables	5	(28,302)	(1,055)
Other expenses	5	(5,476)	(3,346)
Finance costs	6	(123,532)	(31,121)
Share of losses of associates	5	<u>(12,945)</u>	<u>(6,292)</u>
PROFIT BEFORE TAX	5	117,876	1,040,362
Income tax expense	7	<u>(29,576)</u>	<u>(334,224)</u>
PROFIT FOR THE YEAR		<u>88,300</u>	<u>706,138</u>
Attributable to:			
Owners of the parent		76,897	714,780
Non-controlling interests		<u>11,403</u>	<u>(8,642)</u>
		<u>88,300</u>	<u>706,138</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<u>HK2.999 cents</u>	<u>HK27.507 cents</u>
Diluted		<u>HK2.999 cents</u>	<u>HK27.507 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>88,300</u>	<u>706,138</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>81,376</u>	<u>142,035</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>81,376</u>	<u>142,035</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	51,550	41,085
Income tax effect	<u>(12,887)</u>	<u>(10,271)</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<u>38,663</u>	<u>30,814</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>120,039</u>	<u>172,849</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>208,339</u>	<u>878,987</u>
Attributable to:		
Owners of the parent	195,391	883,250
Non-controlling interests	<u>12,948</u>	<u>(4,263)</u>
	<u>208,339</u>	<u>878,987</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		950,864	880,617
Investment properties		589,704	483,063
Right-of-use assets		311,700	344,863
Goodwill		34,482	34,482
Intangible assets		3,445	8,195
Investments in associates		1,583,465	752,093
Deferred tax assets		24,947	–
Prepayments		21,790	–
Contract assets		1,677	–
Restricted cash		122,574	–
		<hr/>	<hr/>
Total non-current assets		3,644,648	2,503,313
CURRENT ASSETS			
Inventories		254,126	265,850
Trade receivables	10	187,062	37,808
Prepayments, deposits and other receivables		450,705	1,769,874
Contract assets		114	–
Financial assets at fair value through profit or loss		10,481	–
Amounts due from associates	12	909,162	–
Restricted cash		696,100	187
Cash and cash equivalents		146,453	236,930
		<hr/>	<hr/>
Total current assets		2,654,203	2,310,649
CURRENT LIABILITIES			
Trade payables	11	106,199	99,445
Other payables and accruals		153,908	202,400
Interest-bearing bank and other borrowings		1,406,875	249,369
Loan from an associate	12	–	106,872
Loan from the ultimate holding company	12	–	178,121
Loan from non-controlling interests	12	3,396	2,740
Loan from a director	12	89,272	145,000
Tax payable		179,733	161,092
		<hr/>	<hr/>
Total current liabilities		1,939,383	1,145,039
NET CURRENT ASSETS			
		<hr/>	<hr/>
		714,820	1,165,610
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		4,359,468	3,668,923

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,359,468	3,668,923
NON-CURRENT LIABILITIES			
Medium term bonds		36,338	34,050
Interest-bearing bank and other borrowings		934,223	91,947
Loan from non-controlling interests	12	44,718	39,062
Loan from the immediate holding company	12	95,000	–
Lease liabilities		24,790	49,405
Deferred tax liabilities		449,214	405,863
Deferred government grant		45,368	45,402
Total non-current liabilities		1,629,651	665,729
Net assets		2,729,817	3,003,194
EQUITY			
Equity attributable to owners of the parent			
Share capital		259,856	259,856
Reserves		2,323,763	2,611,135
Non-controlling interests		2,583,619	2,870,991
		146,198	132,203
Total equity		2,729,817	3,003,194

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, 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, trading of commodities, hotel operations and development properties for sales and property investments.

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, certain financial assets and certain buildings classified as property, plant and equipment which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond 30 June
2021 (early adopted)*

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

No significant modification gain or loss has arisen as a result of applying the amendments to these changes.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months (the “2021 Amendment”). Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK\$80,000 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 2021. There was no impact on the opening balance of equity as at 1 January 2021.

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> 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> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{2,5}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{2,4}
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ²
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ²
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ²
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ¹
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ¹

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

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ 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

⁵ 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 chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports.

In view of the increased scale and business activities and to help investors better understand the Group's revenue structure and segment results, new segments named "Hotel operations" and "Development properties for sales and property investments" have been separated from "Manufacture and sale of furniture" segment from 2021 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The Board believes that the above changes in segment information better reflect future business development of the Group. The Group has not restated segment information for 2020 since the cost to develop it would be excessive.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The following is an analysis of the Group's revenue and results by reportable and operating segments:

Year ended 31 December 2021	Manufacture and sale of furniture <i>HK\$'000</i>	Development properties for sales and property investments <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue					
Sale to external customers	<u>837,373</u>	<u>-</u>	<u>40,187</u>	<u>648,946</u>	<u>1,526,506</u>
Revenue from continuing operations					<u><u>1,526,506</u></u>
Segment results	<u>317,302</u>	<u>-</u>	<u>(280)</u>	<u>1,204</u>	<u>318,226</u>
Profit/(loss) before tax from continuing operations	<u>153,974</u>	<u>(17,229)</u>	<u>(17,720)</u>	<u>(1,149)</u>	<u>117,876</u>
Segment assets	4,606,616	1,729,340	659,813	423,990	7,419,759
Elimination of intersegment receivables					<u>(1,120,908)</u>
Total assets					<u>6,298,851</u>
Segment liabilities	3,564,644	177,939	551,292	396,067	4,689,942
Elimination of intersegment payables					<u>(1,120,908)</u>
Total liabilities					<u><u>3,569,034</u></u>

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

Information about a major customer

Revenue from continuing operations of approximately HK\$623,235,000 (2020: HK\$150,876,000) was derived from sales by trading segment from 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 revenue and 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers		
Sale of goods	1,486,319	1,443,490
Hotel operations income	40,187	–
	<u>1,526,506</u>	<u>1,443,490</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2021

	Manufacture and sale of furniture HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Total HK\$'000
Timing of revenue recognition				
Revenue recognized at a point in time	837,373	6,028	648,946	1,492,347
Revenue recognized over time	–	34,159	–	34,159
Total revenue from contracts with customers	<u>837,373</u>	<u>40,187</u>	<u>648,946</u>	<u>1,526,506</u>

For the year ended 31 December 2020

	Manufacture and sale of furniture HK\$'000	Trading HK\$'000	Total HK\$'000
Timing of revenue recognition			
Revenue recognized at a point in time	903,867	539,623	1,443,490
Total revenue from contracts with customers	<u>903,867</u>	<u>539,623</u>	<u>1,443,490</u>

(ii) Performance obligation

Information about the Group's performance obligations is summarised below:

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.

Hotel operations income

For hotel operations income, the performance obligation is satisfied as services are rendered or goods are delivered and payment is generally received in advance.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<u>33,345</u>	<u>68,855</u>
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other income and gains		
Rental income	4,579	23,913
Bank interest income	8,013	1,535
Interest income from an associate	43,898	–
Fair value gains on investment properties	89,511	2,401
Sales of scraps	2,584	7,267
Government subsidy	3,023	2,976
Fair value gain on financial assets at fair value through profit or loss	10,481	–
License fee income*	28,914	–
Others	842	2,254
Gain on disposal of right-of-use assets	717	–
Gain on land resumption	–	1,062,543
	<u>192,562</u>	<u>1,102,889</u>

* The license fee income from an independent third party company Guangzhou Meimengjia Mattress Company (“Meimengjia”) was recognized on a time proportion basis in accordance with the substance of the relevant agreements.

5. PROFIT BEFORE TAX

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

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories sold		1,166,440	1,205,674
Depreciation of property, plant and equipment		66,752	58,991
Depreciation of right-of-use assets		38,446	22,511
Amortisation of intangible assets*		5,019	4,267
Research and development costs:			
Current year expenditure*		2,985	5,585
Lease payments not included in the measurement of lease liabilities		1,380	864
Auditor's remuneration		3,850	4,000
Employee benefit expense (including directors' remuneration):			
Wages and salaries		152,399	121,316
Pension scheme contributions		18,991	3,031
		171,390	124,347
(Reversal of write-down)/write-down of inventories to net realisable value**		(24,912)	19,823
Impairment of trade receivables		7,587	1,819
Impairment/(reversal of impairment) of financial assets included in prepayments, deposits and other receivables		20,715	(764)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties#		1,261	1,917
Fair value gains on investment properties	4	(89,511)	(2,401)
Bank interest income	4	(8,013)	(1,535)
Interest income from an associate	4	(43,898)	–
Share of losses of associates		12,945	6,292
Gain on disposal of right-of-use assets	4	(717)	–
Gain on land resumption	4	–	(1,062,543)

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

** The (reversal of write-down)/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.

This item has been included in "Other expenses" on the face of the consolidated statement of profit or loss.

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank and other borrowings (including medium term bonds)	102,342	21,783
Interest on loans from related parties	18,228	6,534
Interest on lease liabilities	2,962	2,804
	<u>123,532</u>	<u>31,121</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current – Mainland China		
Charge for the year	53,387	13,716
Adjustment in respect of current tax of previous periods	(18,115)	(6,788)
Deferred	(5,696)	327,296
	<u>29,576</u>	<u>334,224</u>

8. DIVIDENDS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Proposed final dividend of HK1 cent per ordinary share and a special dividend of HK4 cents per ordinary share after the end of the reporting period (2020: 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)	<u>129,928</u>	<u>259,856</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 the Company in issue less treasury shares held for the performance share award plan during the year of 2,564,262,659 (2020: 2,598,561,326).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

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

	2021 <i>HK\$'000</i>	2020 <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>76,897</u>	<u>714,780</u>
	Number of shares	
	2021	2020
<i>Shares</i>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	<u>2,564,262,659</u>	<u>2,598,561,326</u>

10. TRADE RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	204,030	47,053
Impairment	<u>(16,968)</u>	<u>(9,245)</u>
	<u>187,062</u>	<u>37,808</u>

Trade receivables are mainly from hotel operations and sales of goods including furniture and trading. For sales of furniture, the Group's trading terms with its customers are mainly on credit, except for some 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. For hotel operations and trading, payment is generally received in advance. 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 receivables balance. Trade receivables are non-interest-bearing.

The trade receivables amounting to HK\$54,794,000 (2020: nil) are due from related parties, 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	128,708	29,425
1 to 3 months	8,227	3,983
3 to 6 months	7,530	4,400
Over 6 months	<u>42,597</u>	<u>–</u>
	<u>187,062</u>	<u>37,808</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At beginning of year	9,245	6,996
Impairment losses, net	7,587	1,819
Exchange realignment	136	430
	<hr/>	<hr/>
At end of year	16,968	9,245
	<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., customer type and rating). 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 180 days 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:

	Less than 6 months	6 months to 12 months	Over 1 year
As at 31 December 2021			
Expected credit loss rate	1.84%	15.00%	36.45%
Gross carrying amount (<i>HK\$'000</i>)	147,166	30,113	26,751
Expected credit losses (<i>HK\$'000</i>)	2,701	4,516	9,751
As at 31 December 2020			
Expected credit loss rate	1.60%	100%	100%
Gross carrying amount (<i>HK\$'000</i>)	38,424	1,693	6,936
Expected credit losses (<i>HK\$'000</i>)	616	1,693	6,936

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	73,340	41,806
1 to 3 months	27,755	44,691
3 to 6 months	1,312	7,040
6 to 12 months	1,211	1,305
More than 1 year	2,581	4,603
	<u>106,199</u>	<u>99,445</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. AMOUNTS DUE FROM ASSOCIATES/LOAN FROM AN ASSOCIATE/THE ULTIMATE HOLDING COMPANY/THE IMMEDIATE HOLDING COMPANY/NON-CONTROLLING INTERESTS/A DIRECTOR

As at 31 December 2021, the amounts due from associates is unsecured and repayable on demand or expected to be settled within one year. Except for the aggregate amount of HK\$91,753,000 (2020: nil) which is interest-free, the remaining amounts bear interest at a rate of 8% per annum.

As at 31 December 2020, the loan from an associate amounting to HK\$106,872,000 is unsecured, bears interest rate range from 6% to 8% per annum and will be repayable within one year.

As at 31 December 2021, the loan from the immediate holding company amounting to HK\$95,000,000 is unsecured, bears interest rate at a rate of 5.5% per annum and will be repayable after one year.

As at 31 December 2020, the loan from the ultimate holding company amounting to HK\$178,121,000 is unsecured, bears interest rate range from 8% to 12% per annum and will be repayable within one year.

As at 31 December 2021, the loan from non-controlling interests amounting to HK\$48,114,000 is unsecured, bears interest at a rate of 6.15% per annum, in which HK\$3,396,000 will be repayable within one year. As at 31 December 2020, the loan from non-controlling interests amounting to HK\$41,802,000 is unsecured, bears interest at a rate of 6.15% per annum, in which HK\$2,740,000 will be repayable within one year.

As at 31 December 2021, the loan from a director amounting to HK\$89,272,000 is unsecured, bears interest rate at a rate of 2% per annum and will be repayable within one year. As at 31 December 2020, the loan from a director amounting to HK\$145,000,000 is unsecured, bears interest rate range from 8% to 12% per annum and will be repayable within one year.

13. COMMITMENTS

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contracted, but not provided for:		
Acquisition of equity investment	–	619,978
Construction in progress	<u>9,833</u>	<u>–</u>
	<u>9,833</u>	<u>619,978</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2021, the Group recorded revenue of HK\$1,526.5 million (2020: HK\$1,443.5 million), representing an increase of 5.8% from last year. The increase in revenue was due to the increased activities for trading commodities and increased income from hotel operations for epidemic prevention. The Group's overall gross profit margin increased from 11.0% for 2020 to 20.8% for 2021 due to recovery of furniture business. For the furniture business, the gross profit margin increased from 17.6% in 2020 to 37.9% in 2021 was due to partial recovery from the serious impact of the Coronavirus disease ("COVID-19") epidemic in 2020 and operations have resumed normal under the effective control of the epidemic by government of the People's Republic of China ("PRC"), as well as increased sales of high gross profit margin bespoke product line and furniture projects.

Profit for the year was HK\$88.3 million (2020: HK\$706.1 million), representing a decrease of 87.5%. Profit attributable to owners of the parent for the year was HK\$76.9 million (2020: HK\$714.8 million), representing a decrease of 89.2%. The significant decrease 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 2021, selling and distribution expenses increased by 16.4% to approximately HK\$97.1 million (2020: HK\$83.5 million), which was mainly due to an increase in commission, payroll expenses and pension scheme contribution for increased headcount to cope with increasing sales in furniture business and bespoke product line.

Administrative expenses increased by 30.4% to HK\$125.5 million (2020: HK\$96.2 million), which was attributable to the increase in wages and salaries and pension scheme contribution for increased headcount in management and property development business and increased investment in research and development activities.

Finance costs during the year increased by 296.9% to HK\$123.5 million (2020: HK\$31.1 million) as the Group has increased debt for financing the property development project and investment in the financial leasing business.

BUSINESS REVIEW

With the noticeable positive results of the prevention and control of COVID-19 in Mainland China under the leadership of the Central Government, various industries saw orderly resumption of work and production in 2021, and the economy of Mainland China experienced a strong recovery during the period. Thanks to the rebound of the household product market in Mainland China, the Group also reported continuous improvement in its business performance. In order to seize the growth opportunities in the market, the Group made a number of adjustments to its operation strategy during the year to further expand and optimize its distribution store network and the influence of its brand and promote the diversification of its comprehensive furniture business.

Looking back in 2021, the Group actively expanded the home furnishings business and developed interior decoration materials business. During the year, the Winter Olympic Games was held in Beijing, the Mainland China, which attracted world-wide attention. The Group sponsored the 2021 Beijing Winter Olympic Games following its sponsorship of the 2008 Beijing Olympic Games and the 26th Summer Universiade 2011 in Shenzhen, providing high-quality household products for certain venues.

In the past two years, the Group pursued in-depth cooperation with its controlling shareholder, Science City Group, in various aspects. Besides furthering the expansion of home furnishings business, the Group undertook a number of investment and acquisition projects during the year, thereby increasing its finance costs.

Management System Reform

With diversified expansion in different business areas, the Group manages its business operations through various independent departments. The Group has a solid and effective internal management system to help senior management and managers of various business departments understand their business performance and their own weaknesses in real time before making appropriate and effective performance management decisions in due course. In order to facilitate the Group's accelerated strategic development in the field of smart new retail, the Group will continue to deepen the reform of its management system, introduce young management and comprehensively strengthen the construction of a technology innovation platform. The Group has implemented targeted incentive policies to support the recruitment and retention of talents, and to stimulate and unleash the enthusiasm, initiative and creativity of its employees, so as to continuously inject growth momentum into the Group.

Brand Management

Adhering to its multi-brand strategy, the Group has a number of best-selling brands in Mainland China, including 皇朝傢俬, 皇朝沙發, 皇朝定制+, 皇朝軟床 and 皇朝整裝. At the same time, the Asian celebrity Ms. Lin Chi Ling will continue be the spokesperson of the Group in line with the Group's "consumer-oriented" strategy. To capitalize on the rebound of the furniture market in Mainland China, we continued to expand its brand influence.

Inventory and Prepayments, Deposits and Other Receivables

The Group's inventory decreased by 4.4% to approximately HK\$254.1 million as at 31 December 2021 (2020: HK\$265.9 million), which was mainly due to the Group implements tight control on inventory level of finished goods. Prepayments, deposits and other receivables decreased by 73.3% to HK\$472.5 million (2020: HK\$1,769.9 million), which was mainly due to receipt of a portion of land resumption proceeds from the People's Government of Shitan Town Zengcheng District of Guangzhou City.

Working Capital

The Group had net current assets of HK\$714.8 million at the end of the year (2020: net current assets of HK\$1,165.6 million). The Group will continue to take initiatives to manage its cashflow and capital commitments.

Liquidity and Financial Resources

The Group had cash and cash equivalents amounted to HK\$146.5 million as at 31 December 2021 (2020: HK\$236.9 million). As at 31 December 2021, the Group's current ratio (current assets to current liabilities) decreased to 1.37 (2020: 2.02) and the net current assets amounted to HK\$714.8 million (2020: net current assets of HK\$1,165.6 million). As at 31 December 2021, the interest-bearing bank and other borrowings amounted to HK\$2,341.1 million (2020: HK\$341.3 million), loan from the immediate holding company, loan from non-controlling interests, loan from a director and medium term bonds are total amount of HK\$268.7 million (2020: loan from an associate, loan from the ultimate holding company, loan from non-controlling interests, loan from a director and medium term bonds are total amount of HK\$505.8 million). Approximately, 98.2% of the Group's cash and bank balances and time deposits were denominated in Renminbi with the remaining balance were 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 51% as at 31 December 2021 (2020: 24%).

PROSPECT

In 2022, the Group will continue to deepen its commitments in the market of furniture and household products, while deepening and expanding the presence of its home furnishing business. To capitalise on the growth of the furniture market in Mainland China, the Group will support the store expansion plans of its distributors nationwide by strengthening assistance to them in various aspects and enhancing promotion efforts. The Group has entered into strategic development cooperation with certain well-known home furnishing mall operators in Mainland China to arrange for its distributors to open their stores in premium locations of home furnishing mall to increase the exposure of its brands. Apart from continuing to update its current range of complete furnishing solution, sofas and custom-made furniture, the Group is also actively furthering the expansion of its product lines of home furnishings, and developing more interior decoration materials products and household accessories, to establish a one-stop supply platform with branded home furnishing business through the construction of a full product supply chain.

In addition to the existing projects from commercial customers, the Group is planning to cooperate with renovation and interior design companies on effectively strengthening the solicitation of more potential customers for home furnishings products at the early stage. In the future, the Group also plans to strengthen its internet marketing and continue to attract more younger user groups through online promotion. After the successful launch of home textile e-commerce business in 2021, the Group is pleased that the new business has started to generate revenue within a short period of time, and expects a continual growth.

The development of commercial and residential projects by a joint venture of the Group and a joint venture of Ganglong China Property Group Limited (“Ganglong”, stock code: 6968.HK) in Zengcheng District, Guangzhou, was conducted as scheduled.

In light of increasingly deepened collaboration with the controlling shareholder, Science City Group, the Group will be presented with more exploration and development of home furnishings, which will help further its core business expansion.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had approximately 1,328 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, share awards 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 and share award plan of the Company, respectively. 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 of loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 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 2021, 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 2021.

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.

DIVIDENDS

The Board recommends the payment of final dividend and special dividend of HK1 cent per share and HK4 cents per share respectively in cash for the year ended 31 December 2021 (2020: HK4 cents per share and HK6 cents for final dividend and special dividend respectively). Such final dividend and special dividend will not be subject to any withholding tax in Hong Kong.

DIVIDENDS 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, 29 July 2022 to shareholders of the Company whose names appear on the register of members of the Company on Thursday, 7 July 2022. The register of members of the Company will be closed from Monday, 4 July 2022 to Thursday, 7 July 2022, 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 Thursday, 30 June 2022 with the Company's share registrar in Hong Kong, Tricor Tengis 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 Monday, 30 May 2022 to Thursday, 2 June 2022, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 6 June 2022, 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 Friday, 27 May 2022.

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 ("Leading Star"), Crisana International Inc. ("Crisana") and Charming Future Holdings Limited ("Charming Future") (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. On 15 April 2021, Crisana has disposed of an aggregate of 20,000,000 Shares, after which 650,170,046 Shares were held by the public, representing approximately 25.02% of the total issued share capital of the Company. The minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was satisfied.

Based on information that is publicly available to the Company and within knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules as at the date of this announcement.

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 2021 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 2022

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. Chen Yisheng; and three independent non-executive Directors, namely, Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin.