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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)

CONTINUING CONNECTED TRANSACTION MASTER RAW MATERIALS SALES AGREEMENT

MASTER RAW MATERIALS SALES AGREEMENT

On 9 December 2022, the Company has entered into the Master Raw Materials Sales Agreement with Morris Home, pursuant to which members of the Group will sell the Raw Materials to members of the Morris Home Group for a term commencing on the date of the Master Raw Materials Sales Agreement (i.e. 9 December 2022) and ending on 31 December 2022.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Tse is a controlling shareholder of the Company holding (together with his controlled companies and parties acting in concert with him) 1,945,391,280 Shares (representing 74.86% of the issued share capital of the Company) and an executive Director. As Mr. Tse indirectly holds 1,300,038,000 shares of Morris Home, representing approximately 47.27% of the issued shares of Morris Home, through Century Icon Holdings Limited, Morris Home is an associate of Mr. Tse and hence a connected person of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual cap for the Raw Materials Sales exceed 0.1% but all are below 5%, the Raw Materials Sales constitutes a continuing connected transaction for the Company and is subject to the reporting, announcement and annual review requirements but is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board announces that on 9 December 2022, the Company has entered into the Master Raw Materials Sales Agreement with Morris Home, pursuant to which members of the Group will sell the Raw Materials to members of the Morris Home Group for a term commencing on the date of the Master Raw Materials Sales Agreement (i.e. 9 December 2022) and ending on 31 December 2022.

MASTER RAW MATERIALS SALES AGREEMENT

Date

9 December 2022

Parties

- (i) the Company; and
- (ii) Morris Home.

Principal terms

Pursuant to the Master Raw Materials Sales Agreement, the Group will sell the Raw Materials to members of the Morris Home Group on a non-exclusive basis, subject to the entering into of individual contracts as agreed between members of the Group and the Morris Home Group.

Members of the Group can also sell the Raw Materials to third parties not being a member of the Morris Home Group and not a connected person of the Group as they think fit.

Term

The Master Raw Materials Sales Agreement shall be effective for a term commencing from the date of the Master Raw Materials Sales Agreement (i.e. 9 December 2022) and ending on 31 December 2022 (both days inclusive).

Payment

The purchase price payable under the Master Raw Materials Sales Agreement will be settled in cash or by way of bank transfer.

The time of payment will be negotiated and determined and agreed between the parties in the individual contracts to be entered into by the parties pursuant to the Master Raw Materials Sales Agreement.

PRICING PRINCIPLES

Pursuant to the terms of the Master Raw Materials Sales Agreement, the Raw Materials Sales shall be conducted on normal commercial terms, in particular: (i) the Raw Materials Sales will be on terms no less favourable to the Group than terms available to independent third parties based on its internal control measures; (ii) the Raw Materials Sales will be conducted in the ordinary and usual course of business of the Group and after arm's length negotiations; and (iii) the transaction amount of the Raw Materials Sales will not exceed the annual cap.

The prices of the Raw Materials to be sold by the Group to the Morris Home Group shall be determined with reference to the prevailing market prices of comparable raw materials of similar quality, type and quantity. In order to ascertain the prevailing market prices, the Company will obtain at least two quotations of selling prices of comparable raw materials of similar type, quantity and quality offered by independent third party suppliers.

A senior management personnel in the sales department of the Group will review and compare the prices of the Raw Materials Sales offered by the Group to the Morris Home Group with the quotations of selling prices of comparable raw materials obtained by the Group before entering into individual contracts with the Morris Home Group pursuant to the Master Raw Materials Sales Agreement.

In the event that the price offered by the Group to the Morris Home Group in respect of the Raw Materials Sales are less favourable to the Group than the price quotations offered by independent third party suppliers to the Group for comparable raw materials of similar quality, type and quantity, the Group will not enter into such Raw Materials Sales.

The Group will at its best effort further negotiate with the Morris Home Group for fair terms in order to comply with the pricing principles of the Company as disclosed above.

ANNUAL CAP

Annual cap

The annual cap for the Raw Materials Sales under the Master Raw Materials Sales Agreement for the period commencing from 9 December 2022 and ending on 31 December 2022 is RMB18,000,000.

Shareholders and potential investors of the Company should note that the above annual cap is not intended, and does not purport, to be an indication of the Group's future performance or profitability. Shareholders or potential investors of the Company should not rely on the annual cap in deciding how or whether or not to deal in the Shares.

Basis of the annual cap

There was minimal historical transaction amount for the fully exempt sale of raw materials between the Group and the Morris Home Group, the percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of which are all less than 0.1%.

The annual cap was determined by the Company after taking into account of (i) the estimated demand for the Raw Materials by the Morris Home Group from 9 December 2022 to 31 December 2022; (ii) the estimated costs and profit margin of the Raw Materials Sales; and (iii) an approximately 10% buffer in order to provide flexibility to the Company in case of any unforeseen increase in demand of Raw Materials or fluctuation in prevailing market prices.

INFORMATION OF THE RAW MATERIALS

The Raw Materials to be sold by the supply chain department of the Group to members of the Morris Home Group pursuant to the Master Raw Materials Sales Agreement are raw materials for manufacturing sofas and other furniture products, including wood plank, cloth, iron frame and packaging materials. The Raw Materials Sales are conducted in the ordinary course of business of the Group and the proceeds from the Raw Materials Sales would constitute operating revenue of the Group.

REASONS FOR AND BENEFITS OF THE RAW MATERIALS SALES

The Group is principally engaged in, amongst others, manufacturing and sales of furniture. The Raw Materials Sales would allow the Group to leverage its procurement capabilities and network as well as the economy of scale enjoyed by the Group in respect of furniture and related products and boost the revenue of the Group. The Raw Materials Sales would also provide additional sources of income for the Group and thereby benefiting the operations of the Group. The continuing relationships are expected to bring synergies to the Group and the Morris Home Group, which is expected to benefit both parties as the terms of the Raw Materials Sales would be on normal commercial terms and with reference to the prevailing market terms, and the Raw Materials Sales will be conducted after arm's length negotiations.

The Directors (including the independent non-executive Directors) are of the view that the Master Raw Materials Sales Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group, on normal commercial terms (which were arrived at after arm's length negotiations) and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As Mr. Tse Kam Pang is a controlling shareholder and an executive director of Morris Home, he is deemed to be materially interested in and have therefore abstained from voting on the resolutions of the Board approving the Master Raw Materials Sales Agreement and the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

In accordance with the Listing Rules, the Company will comply at all times with the applicable provisions under Rules 14A.34 to 14A.59 of the Listing Rules in respect of the Raw Materials Sales. In addition, in order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted the following guidelines and principles for monitoring the Raw Materials Sales between the Group and the Morris Home Group, namely:

- the management of the Company will regularly conduct market research and gather relevant information (including obtaining quotations from independent third party suppliers) to ascertain and monitor the prevailing market prices of raw materials so as to ensure that the prices of the Raw Materials Sales will be no less favourable to those available from independent third parties.
- the Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the Master Raw Materials Sales Agreement, including but not limited to: (i) the relevant business units and departments of the Group will monitor and review the prices and terms in respect of the Raw Materials Sales regularly in order to ensure that the Raw Materials Sales are conducted on normal commercial terms, in accordance with the annual cap set by the Company and the terms are no less favourable to the Group than those available to independent third parties; (ii) the Company will designate specific personnel from the internal control department to monitor the transactions under the Master Raw Materials Sales Agreement and will report to the management of the Company regularly in relation to such transactions; and (iii) the Group will also conduct random internal checks on a quarterly or more frequent basis to ensure that the internal control measures in respect of the transactions under the Master Raw Materials Sales Agreement remain intact and effective.
- the Company will review the transactions with the Morris Home Group to identify any continuing connected transaction that may be at risk of exceeding the annual cap, and any measures to be taken in respect of such transaction(s).
- the Company will report the transactions under the Master Raw Materials Sales Agreement to the independent non-executive Directors during each of the audit committee meetings (if necessary) according to the audit committee meeting agenda.
- the transactions contemplated under the Master Raw Materials Sales Agreement will be reviewed by the independent non-executive Directors every year and reported in the annual reports of the Company, which provides a check and balance to ensure that the transactions were conducted in accordance with the terms of the Master Raw Materials Sales Agreement, on normal commercial terms (or terms no less favourable than terms available to independent third parties), and in accordance with the pricing principles of the Company and the annual cap pursuant to the Listing Rules.

- the Company's independent auditor will be engaged to report on the continuing connected transactions under the Master Raw Materials Sales Agreement, which would, for the purpose of Rule 14A.56 of the Listing Rules, assist the Board in ensuring that the transactions under the Master Raw Materials Sales Agreement: (i) have proper Board approval; (ii) have in all material respects, been conducted in accordance with the pricing policies of the Group; (iii) were entered into, in all material respects, in accordance with the Master Raw Materials Sales Agreement; and (iv) have not exceeded the annual cap set by the Company.

INFORMATION ON THE PARTIES

Information on Morris Home and the Morris Home Group

Morris Home is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1575). The Morris Home Group is principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products.

As at the date of this announcement, Century Icon Holdings Limited (a company wholly-owned by Mr. Tse) holds 1,300,038,000 shares of Morris Home, representing approximately 47.27% of the issued shares of Morris Home.

Information on the Company and the Group

The Company is incorporated in the Cayman Islands with limited liability. The Group is principally engaged in the design, sale and manufacture of furniture and trading of commodities.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Tse is a controlling shareholder of the Company holding (together with his controlled companies and parties acting in concert with him) 1,945,391,280 Shares (representing 74.86% of the issued share capital of the Company) and an executive Director. As Mr. Tse indirectly holds 1,300,038,000 shares of Morris Home, representing approximately 47.27% of the issued shares of Morris Home, through Century Icon Holdings Limited, Morris Home is an associate of Mr. Tse and hence a connected person of the Company under Chapter 14A of the Listing Rules.

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DEFINITIONS

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

“acting in concert”	has the same meaning ascribed to it in the Takeovers Code
“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 1,945,391,280 Shares, representing 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 in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in 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 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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Leading Star”	Leading Star Global Limited, a company wholly-owned by Mr. Tse 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 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
“Master Raw Materials Sales Agreement”	the master raw materials sales agreement dated 9 December 2022 entered into between the Company and Morris Home, pursuant to which members of the Group will sell the Raw Materials to members of the Morris Home Group
“Morris Home”	Morris Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1575)
“Morris Home Group”	Morris Home and its subsidiaries
“Mr. Tse”	Mr. Tse Kam Pang, being the chairman of the Board 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 74.86% of the issued share capital of the Company pursuant to the Concert Group Agreement
“PRC”	the People’s Republic of China
“Raw Materials”	raw materials for manufacturing sofas and other furniture products to be sold by the Group to the Morris Home Group under the Master Raw Materials Sales Agreement
“Raw Materials Sales”	the sales of the Raw Materials from the Group to the Morris Home Group pursuant to the Master Raw Materials Sales Agreement
“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 1,234,862,964 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 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. 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 Code on Takeovers and Mergers
“%”	per cent.

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

Hong Kong, 9 December 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.

* For identification purposes only