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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 2022

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 2022, together with the comparative figures for the year ended 31 December 2021. The annual results for the year ended 31 December 2022 have been reviewed by the Company’s audit committee.

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*Year ended 31 December 2022*

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
REVENUE	4	1,702,936	1,526,506
Cost of sales		<u>(1,457,220)</u>	<u>(1,208,280)</u>
Gross profit		245,716	318,226
Other income and gains	4	118,715	192,562
Selling and distribution expenses		(133,006)	(97,128)
Administrative expenses		(151,971)	(125,529)
Reversal of impairment/(impairment losses)			
on financial assets and contract assets	5	3,500	(28,302)
Other expenses	5	(58,001)	(5,476)
Finance costs	6	(139,629)	(123,532)
Share of profits and losses of associates	5	<u>2,394</u>	<u>(12,945)</u>
(LOSS)/PROFIT BEFORE TAX	5	(112,282)	117,876
Income tax credit/(expense)	7	<u>124,685</u>	<u>(29,576)</u>
PROFIT FOR THE YEAR		<u>12,403</u>	<u>88,300</u>
Attributable to:			
Owners of the parent		5,586	76,897
Non-controlling interests		<u>6,817</u>	<u>11,403</u>
		<u>12,403</u>	<u>88,300</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<u>HK0.225 cents</u>	<u>HK2.999 cents</u>
Diluted		<u>HK0.225 cents</u>	<u>HK2.999 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>12,403</u>	<u>88,300</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>(193,115)</u>	<u>81,376</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(193,115)</u>	<u>81,376</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	10,673	51,550
Income tax effect	<u>(2,668)</u>	<u>(12,887)</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<u>8,005</u>	<u>38,663</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	<u>(185,110)</u>	<u>120,039</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u>(172,707)</u>	<u>208,339</u>
Attributable to:		
Owners of the parent	(167,477)	195,391
Non-controlling interests	<u>(5,230)</u>	<u>12,948</u>
	<u>(172,707)</u>	<u>208,339</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		930,294	950,864
Investment properties		680,897	589,704
Right-of-use assets		307,823	311,700
Goodwill		34,482	34,482
Intangible assets		834	3,445
Investments in associates		1,475,668	1,583,465
Deferred tax assets		31,389	24,947
Prepayments		143,379	21,790
Contract assets		14,561	1,677
Restricted cash		113,821	122,574
		<hr/>	<hr/>
Total non-current assets		3,733,148	3,644,648
CURRENT ASSETS			
Inventories		281,910	254,126
Trade receivables	10	228,745	187,062
Prepayments, deposits and other receivables		376,432	450,705
Contract assets		2,274	114
Financial assets at fair value through profit or loss		5,408	10,481
Amounts due from associates	12	964,546	909,162
Restricted cash		132,202	696,100
Cash and cash equivalents		403,863	146,453
		<hr/>	<hr/>
Total current assets		2,395,380	2,654,203
CURRENT LIABILITIES			
Trade payables	11	142,833	106,199
Other payables and accruals		198,548	153,908
Interest-bearing bank and other borrowings		1,243,638	1,406,875
Loan from an associate	12	169,967	–
Loan from the immediate holding company	12	163,543	–
Loan from non-controlling interests	12	5,999	3,396
Loan from a director	12	–	89,272
Tax payable		144,031	179,733
		<hr/>	<hr/>
Total current liabilities		2,068,559	1,939,383
		<hr/>	<hr/>
NET CURRENT ASSETS		326,821	714,820
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> 4,059,969 <hr/>	<hr/> 4,359,468 <hr/>

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,059,969	4,359,468
NON-CURRENT LIABILITIES			
Medium term bonds		38,768	36,338
Interest-bearing bank and other borrowings		1,303,360	934,223
Loan from non-controlling interests	12	40,947	44,718
Loan from the immediate holding company	12	–	95,000
Lease liabilities		51,043	24,790
Deferred tax liabilities		166,332	449,214
Deferred government grant		38,709	45,368
Total non-current liabilities		1,639,159	1,629,651
Net assets		2,420,810	2,729,817
EQUITY			
Equity attributable to owners of the parent			
Share capital		259,856	259,856
Reserves		2,021,618	2,323,763
Non-controlling interests		2,281,474	2,583,619
		139,336	146,198
Total equity		2,420,810	2,729,817

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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, the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the manufacture and sale of furniture and trading of commodities.

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 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018–2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting (the “Conceptual Framework”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
 - *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group’s financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendments to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ⁶
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{2,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 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

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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. Segment results are evaluated based on reportable gross profit margin.

The Group has four reportable segments as follows:

- (a) The furniture products segment, engaging in the manufacture and sale of home furniture.
- (b) The development properties for sale and property investments segment, engaging in the property investments and development.
- (c) The hotel operations segment, engaging in hotel operations.
- (d) The trading segment, engaging in the trading of aluminium ingots and bars.

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 2022	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	961,882	-	42,475	698,579	1,702,936
Revenue from continuing operations					<u>1,702,936</u>
Segment results	236,449	-	4,330	4,937	245,716
Loss before tax from continuing operations	(72,421)	(19,091)	(15,679)	(5,091)	(112,282)
Segment assets	4,149,094	1,845,001	615,912	573,833	7,183,840
Elimination of intersegment receivables					(1,055,312)
Total assets					<u>6,128,528</u>
Segment liabilities	3,246,007	425,348	540,184	551,491	4,763,030
Elimination of intersegment payables					(1,055,312)
Total liabilities					<u>3,707,718</u>

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	837,373	–	40,187	648,946	1,526,506
Revenue from continuing operations					<u>1,526,506</u>
Segment results	317,302	–	(280)	1,204	318,226
Profit/(loss) before tax from continuing operations	153,974	(17,229)	(17,720)	(1,149)	117,876
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>3,569,034</u>

Information about a major customer

Revenue from continuing operations of approximately HK\$413,493,000 (2021: HK\$623,235,000) was derived from sales by the 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers		
Sale of goods	1,559,463	1,486,319
Installation and other ancillary services	100,998	–
Hotel operations income	42,475	40,187
	<u>1,702,936</u>	<u>1,526,506</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2022

	Manufacture and sale of furniture <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Total <i>HK\$'000</i>
Timing of revenue recognition				
Revenue recognized at a point in time	961,882	5,705	698,579	1,666,166
Revenue recognized over time	–	36,770	–	36,770
Total revenue from contracts with customers	<u>961,882</u>	<u>42,475</u>	<u>698,579</u>	<u>1,702,936</u>

For the year ended 31 December 2021

	Manufacture and sale of furniture <i>HK\$'000</i>	Hotel operations <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>

(ii) *Performance obligation*

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

Sale of goods

For sales of furniture, the performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 180 days from delivery, except for some 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

Hotel revenue from room rental is recognised over time during the period of stay for the hotel guests. Revenue from food and beverage sales is generally recognised at the point in time when the services are rendered.

Installation and other ancillary services

Installation and other ancillary services is recognised at a point in time of successful acceptance.

The following table shows the amount of revenue recognised in the current year that was included in the contract liabilities at the beginning of the year:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the year	<u>31,521</u>	<u>53,950</u>
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income and gains		
Rental income	9,053	4,579
Bank interest income	3,616	8,013
Interest income from an associate	37,869	43,898
Fair value gains on investment properties	46,598	89,511
Sales of scraps	5,185	2,584
Government subsidy	4,448	3,023
Fair value gain on financial assets at fair value through profit or loss	5,570	10,481
Licence fee income*	–	28,914
Others	6,263	842
Gain on disposal of right-of-use assets	<u>113</u>	<u>717</u>
	<u>118,715</u>	<u>192,562</u>

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

5. (LOSS)/PROFIT BEFORE TAX

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

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories sold		1,396,969	1,166,440
Depreciation of property, plant and equipment		98,970	66,752
Depreciation of right-of-use assets		34,484	38,446
Amortisation of intangible assets		3,011	5,019
Research and development costs:			
Current year expenditure*		2,604	2,985
Lease payments not included in the measurement of lease liabilities		1,508	1,380
Auditor's remuneration		3,940	3,850
Employee benefit expense (including directors' remuneration):			
Wages and salaries		211,893	152,399
Pension scheme contributions		25,559	18,991
		237,452	171,390
Reversal of write-down of inventories to net realisable value**		(38,719)	(24,912)
(Reversal of impairment)/Impairment of trade receivables		(874)	7,587
Impairment of contracts assets		247	–
(Reversal of impairment)/Impairment of financial assets included in prepayments, deposits and other receivables		(2,873)	20,715
Provision for estimated loss from legal proceedings#		41,274	–
Donation expense##		8,337	–
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties##		940	1,261
Fair value gains on investment properties	4	(46,598)	(89,511)
Bank interest income	4	(3,616)	(8,013)
Interest income from an associate	4	(37,869)	(43,898)
Share of profits and losses of associates		(2,394)	12,945
Gain on disposal of right-of-use assets	4	(113)	(717)

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

** The reversal of 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.

Provision has been included in "Other expenses" based on the best estimate for estimated loss from legal proceedings.

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

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank and other borrowings (including medium term bonds)	122,361	102,342
Interest on loans from related parties	14,085	18,228
Interest on lease liabilities	3,183	2,962
	<u>139,629</u>	<u>123,532</u>

7. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2021: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current – Mainland China		
Charge for the year	180,504	53,387
Adjustment in respect of current tax of previous periods	(46,613)	(18,115)
Deferred	(258,576)	(5,696)
	<u>(124,685)</u>	<u>29,576</u>
Total tax (credit)/expense for the year	<u>(124,685)</u>	<u>29,576</u>

8. DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Proposed final dividend of HK1 cent per ordinary share after the end of the reporting period (2021: Final dividend of HK1 cent per ordinary share and a special dividend of HK4 cents per ordinary share)	<u>25,986</u>	<u>129,928</u>

The proposed final 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 in issue less shares held under share award scheme during the year of 2,487,280,044 (2021: 2,564,262,659).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>5,586</u>	<u>76,897</u>
	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue less shares held under share award scheme during the year used in the basic and diluted earnings per share calculation	<u>2,487,280,044</u>	<u>2,564,262,659</u>

10. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	236,202	204,030
Impairment	<u>(7,457)</u>	<u>(16,968)</u>
	<u>228,745</u>	<u>187,062</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 of HK\$55,702,000 (2021: HK\$54,794,000) which are due from related parties 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	137,090	128,708
1 to 3 months	58,224	8,227
3 to 6 months	27,729	7,530
Over 6 months	<u>5,702</u>	<u>42,597</u>
	<u>228,745</u>	<u>187,062</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At beginning of year	16,968	9,245
Impairment loss, net	(874)	7,587
Amount written off as uncollectible	(7,582)	–
Exchange realignment	(1,055)	136
	<hr/>	<hr/>
At end of year	7,457	16,968
	<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:

		Past due	
	Current	Less than 1 year	Over 1 year
As at 31 December 2022			
Expected credit loss rate	1.59%	9.59%	58.75%
Gross carrying amount (<i>HK\$'000</i>)	226,653	3,586	5,963
Expected credit losses (<i>HK\$'000</i>)	3,610	344	3,503
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

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	68,491	73,340
1 to 3 months	51,665	27,755
3 to 6 months	11,800	1,312
6 to 12 months	8,658	1,211
More than 1 year	2,219	2,581
	<u>142,833</u>	<u>106,199</u>

The trade payables are non-interest-bearing and are normally settled for a period of 3 months extendable up to 1 year.

12. AMOUNTS DUE FROM ASSOCIATES/LOAN FROM AN ASSOCIATE/THE IMMEDIATE HOLDING COMPANY/NON-CONTROLLING INTERESTS/A DIRECTOR

As at 31 December 2022, the loan from an associate amounting to HK\$169,967,000 is unsecured, except for the aggregate amount of HK\$196,000 which is interest-free, the remaining amounts bear interest at a rate of 8.3% per annum, and repayable on demand or expected to be settled within one year.

As at 31 December 2022, 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\$208,950,000 which is interest-free, the remaining amounts bear interest at a rate of 8% per annum.

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 which is interest-free, the remaining amounts bear interest at a rate of 8% per annum.

As at 31 December 2022, the loan from the immediate holding company amounting to HK\$163,543,000 is unsecured, except for the aggregate amount of HK\$1,800,000 which is interest-free, the remaining amounts bear interest at a rate of 5.5% 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 at a rate of 5.5% per annum and will be repayable after one year.

As at 31 December 2022, the loan from non-controlling interests amounting to HK\$46,946,000 is unsecured, bears interest at a rate of 6.15% per annum, in which HK\$5,999,000 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 2021, the loan from a director amounting to HK\$89,272,000 is unsecured, bears interest at a rate of 2% 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:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Acquisition of equity investments	54,892	–
Property, plant and equipment	11,318	–
Construction in progress	3,851	9,833
	70,061	9,833

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2022, the Group recorded revenue of HK\$1,702.9 million (2021: HK\$1,526.5 million), representing an increase of 11.6% from last year. The increase in revenue was due to the increased activities for sales of furniture and trading commodities. The Group's overall gross profit margin decreased from 20.8% for 2021 to 14.4% for 2022 due to decreased gross profit margin of furniture business. For the furniture business, the gross profit margin decreased from 37.9% in 2021 to 24.6% in 2022 due to (i) discount promotion of the Company to boost sales in order to capture market share and maintain competitiveness under the recovery from the COVID-19 recession, (ii) direct labor cost increased due to increased headcount and pension scheme contribution and (iii) increased direct material cost.

Profit for the year was HK\$12.4 million (2021: HK\$88.3 million), representing a decrease of 86.0%. Profit attributable to owners of the parent for the year was HK\$5.6 million (2021: HK\$76.9 million), representing a decrease of 92.7%. The significant decrease was a result of the Group's decreased gross profit, increased operating expenses, decreased gains in fair value of investment properties and provision for estimated loss from legal litigations, partially set off by the adjustments in respect of previously recognized deferred tax liabilities arising from tax filling of land resumption.

For the year ended 31 December 2022, selling and distribution expenses increased by 36.9% to approximately HK\$133.0 million (2021: HK\$97.1 million), which was mainly due to significant increase in sales promotional activities in order to increase market share and increased in commission and payroll expenses for strengthening manpower to boost sales in furniture business.

Administrative expenses increased by 21.1% to HK\$152.0 million (2021: HK\$125.5 million), which was attributable to (i) increased headcount in the department of furniture projects, (ii) increase in business trip expenses following the gradual recovery from COVID-19 and relaxation of social distancing measures and (iii) increased consultant fee on bank or loan financing.

Finance costs during the year increased by 13.0% to HK\$139.6 million (2021: HK\$123.5 million) as the Group has increased debt for strengthening working capital.

An income tax credit of HK\$124.7 million has been recorded for the year ended 31 December 2022 as compared to an income tax expense of HK\$29.6 million recorded for the year ended 31 December 2021, as the Group has adjusted previously recognized deferred tax liabilities arising from tax filling of land resumption.

BUSINESS REVIEW

Looking back to 2022, the business operations of the Group were affected to certain extent due to the recurring COVID-19 pandemic. The Chinese government optimised epidemic prevention and control measures in response to different circumstances, gradually restoring economic and social vitality. The Group seized the opportunities brought about by economic and social changes, promoted diversified business development, and achieved counter-cyclical growth in its main business.

Despite the decline in offline sales of furniture due to the recurring COVID-19 pandemic in the People's Republic of China (the "PRC"), the Group continued to focus on providing full support to distributors throughout the country to optimise and improve their operational efficiency. During the year, the Group's retail network of distributors increased by 10.2% on a year-on-year basis to 1,909 retail outlets.

By the end of 2022, the Group had a total of 4 self-operated stores located in Guangdong Foshan, Guangzhou Xintang, Dongguan and Quanzhou in the PRC, focusing on brand promotion and displaying a full range of home furnishing products in key cities to continuously enhance the brand influence of the Group. Meanwhile, as the impact of internet continued to expand, the Group adopted influencer marketing to continue penetration into younger user groups.

Also, the Group continued to deepen its business cooperation with its strategic controlling shareholder, Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司) ("Science City", together with its subsidiaries, "Science City Group"), and explored and continuously developed new income streams for mutual benefit and win-win results. With the extensive political and business network of Science City Group, project sales of the Group increased during the year, bringing considerable profits and partially offset by the decline in business of distributors caused by the pandemic.

Inventory and prepayments, deposits and other receivables

The Group's inventory increased by 10.9% to approximately HK\$281.9 million as at 31 December 2022 (2021: HK\$254.1 million), which was mainly due to the Group increases inventory level to satisfy the future demand from signed contracts. Prepayments, deposits and other receivables increased by 10.0% to HK\$519.8 million (2021: HK\$472.5 million), which was mainly due to deposits for acquisition of subsidiaries and non-controlling interests, increase in prepayments for raw materials and increased deposits for financial leasing, partially set off by collection of land resumption compensation due from the government.

Working capital

The Group had net current assets of HK\$326.8 million at the end of the year (2021: net current assets of HK\$714.8 million). The Group will continue to take initiatives to manage its cashflow and capital commitments.

* For identification purposes only

Liquidity and financial resources

The Group had cash and cash equivalents amounted to HK\$403.9 million as at 31 December 2022 (2021: HK\$146.5 million). As at 31 December 2022, the Group's current ratio (current assets to current liabilities) decreased to 1.16 (2021: 1.37) and the net current assets amounted to HK\$326.8 million (2021: net current assets of HK\$714.8 million). As at 31 December 2022, the interest-bearing bank and other borrowings amounted to HK\$2,547.0 million (2021: HK\$2,341.1 million), all denominated in Renminbi, loan from the immediate holding company, loan from an associate, loan from non-controlling interests and medium term bonds are total amount of HK\$419.2 million (2021: 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). Approximately 83% of the Group's cash and bank balances and time deposits were denominated in Renminbi with the remaining balance 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, amounted to 56% as at 31 December 2022 (2021: 51%).

PROSPECT

Starting in January 2023, epidemic prevention and control in Mainland China entered a new stage. The central government firmly and better coordinated epidemic prevention and control and economic and social development, while also launching various policies to coordinate efforts to expand domestic demand and promote economic recovery and stabilization. As production and living order gradually recover and offline consumption scenes expand, it will also accumulate momentum for economic development in 2023.

In terms of distributor network layout, the Group will further build a complete product supply chain, enhance brand influence in response to market changes, and seize industry development opportunities. Additionally, the Group will also further enrich the sales network of customized furniture, sofas, and complete furnishing solution series to accelerate distributor opening stores. Furthermore, with the stabilization of the real estate market and the continued recovery of the consumer market, including the upstream and downstream industries of the home furnishing industry, the Group is expected to see significant improvement in 2023.

In 2023, the Group will continue to promote project cooperation with commercial customers and strive to expand the development of furniture projects. The Group has successfully entered the list of designated furniture suppliers for Huawei Group and is competing for multiple furniture projects with contract value more than hundreds of millions. The Group will provide high-quality customized furniture, sofas, movable furniture and ancillary services.

The commercial and residential project developed by a joint venture established by the Group and Ganglong China Property Group Limited (“Ganglong”, stock code: 6968.HK) in Zengcheng District, Guangzhou has begun pre-sale, and the Group also provides interior design and full-house furniture solutions for buyers. With the relaxation of real estate policies, residential units have been widely favored by the market, which is conducive to future price increase.

In 2023, the Group will focus its resources on developing its core businesses. However, as the synergies brought by commodity trading business to the Group are limited, the Group will downsize or even discontinue its bulk commodity trading business.

In addition, with the lifting of pandemic restrictions and the re-opening of borders, the increase in the number of inbound and outbound tourists has driven the recovery of the hotel industry. A hotel operated by the Group in Xiancun, Guangdong has signed a hotel management cooperation agreement with the Narada Hotel brand and has carried out property upgrade. The hotel is expected to be relaunched into the market in 2023.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Saved as disclosed in this announcement, there are no significant events affecting the Group after the year ended 31 December 2022 and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had approximately 1490 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 awards and discretionary bonuses are granted to eligible employees based on the employees’ performance, the Group’s results, and in accordance with the performance share award plan of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions under Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to 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”) to 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 2022 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 2022, 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 2022.

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 a final dividend of HK1 cent per share in cash for the year ended 31 December 2022 (2021: HK1 cent per share for final dividend and HK4 cents per share for special dividend). Such final dividend will not be subject to any withholding tax in Hong Kong.

DIVIDENDS POLICY

Despite the complex and ever-changing external economic environment, the Group is committed to maintaining financial stability and ample cash flow, and strives to maintain consistent dividend payouts to shareholders as a token of appreciation for their unwavering support.

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 will be distributed on or about Friday, 18 August 2023 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 28 July 2023. The register of members of the Company will be closed from Tuesday, 25 July 2023 to Friday, 28 July 2023, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on Monday, 24 July 2023 with the Company's share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 6 June 2023 to Friday, 9 June 2023, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Friday, 9 June 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 5 June 2023.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float as required under the Listing Rules during the year and as at the date of this annual results 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 2022 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made 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 2023

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