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## **Design Capital Limited**

**設計都會有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1545)**

### **(1) MAJOR TRANSACTION — THE FIRST AMENDMENT AGREEMENT TO THE LEASE AGREEMENT AND (2) AMENDMENT TO THE REIMBURSEMENT AGREEMENT**

#### **THE FIRST AMENDMENT AGREEMENT**

The Board hereby announces that on 8 September 2020, the Tenant (an indirect subsidiary of the Company) and the Realty Fund executed the First Amendment Agreement to the Lease Agreement to, *inter alia*, extend the term of the Lease in respect of the Property.

#### **IMPLICATIONS UNDER THE LISTING RULES**

Pursuant to IFRS 16, entering into of a leasing agreement with a term of more than 12 months as a lessee will require the Group to recognise its right to use the Property as the right-of-use assets in its financial statements. As disclosed in the announcement of the Company dated 6 May 2020, the entering into of the Lease Agreement as lessee required the Group to recognise its right to use the Property as the right-of-use asset in its financial statements of approximately US\$6,963,420 (equivalent to approximately HK\$53,966,505), and the transaction contemplated thereunder was regarded as an acquisition of asset by the Group under the Listing Rules.

Upon the extension of the term of the Lease pursuant to the First Amendment Agreement, the value of the right-of-use required to be recognised by the Group as the right-of-use assets will be increased to approximately US\$7,638,793 (equivalent to approximately HK\$59,200,646) (the “**Value of the Right-of-Use Asset**”), and the transaction contemplated thereunder will also be regarded as an acquisition of asset by the Group under the Listing Rules.

The transaction contemplated under the First Amendment Agreement is aggregated with the transaction under the Lease Agreement pursuant to Rule 14.23 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 Value of the Right-of-Use Asset exceed 25% but are below 100%, the transaction contemplated thereunder constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

A circular of the Company containing, among other things, details of the First Amendment Agreement, the financial information of the Group and other information as required to be disclosed under the Listing Rules and the notice of the EGM is expected to be despatched to the Shareholders on or before 21 September 2020.

#### **AMENDMENT TO THE REIMBURSEMENT AGREEMENT**

Consequential to the First Amendment Agreement, the Amended Reimbursement Agreement was entered into by the Tenant and the Realty Fund on 8 September 2020 to reflect that the First Amendment Agreement will be subject to approval by the Shareholders at the EGM, and that the Tenant shall pay the Realty Fund the Costs in connection with the Works only upon rescission of the First Amendment Agreement.

Reference is made to the announcements of the Company dated 6 May 2020 and 8 July 2020 in respect of the Lease Agreement and the Reimbursement Agreement.

#### **THE FIRST AMENDMENT AGREEMENT**

The Board hereby announces that on 8 September 2020, the Tenant (an indirect subsidiary of the Company) and the Realty Fund executed the First Amendment Agreement to the Lease Agreement to, *inter alia*, extend the term of the Lease in respect of the Property.

A summary of the principal terms of the First Amendment Agreement and the relevant information is set out below:

1. The term of the Lease Agreement shall be extended by an additional twenty-four full calendar months (i.e. the new expiration date of the Lease will be 30 June 2032) (the “**Extended Term**”).
2. The total base rental payable for the Extended Term is approximately US\$2,207,890 (equivalent to approximately HK\$17,111,148) which shall be paid on a monthly basis.
3. The Tenant is entitled to abated rent for an additional two months.
4. The First Amendment Agreement is conditional upon the approval by the Shareholders at an EGM. If such approval is obtained, the Tenant is required to notify the Realty Fund in writing on or before 9 October 2020, otherwise the First Amendment Agreement shall be rescinded automatically.
5. The Realty Fund shall perform the Works at the Realty Fund’s own costs and expenses.

For completeness, a summary of the principal terms of the Lease Agreement (as supplemented and amended by the First Amendment Agreement) is set out below:

- Parties:** Tenant: Target Marketing Systems, Inc., an indirect subsidiary of the Company
- Landlord: The Realty Associates Fund XII Portfolio, L.P.
- To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Realty Fund and its ultimate beneficial owners are Independent Third Parties.
- Property:** The building located in 270 Madsen Drive, Bloomingdale, Illinois 60108
- Total gross area:** Approximately 154,000 leasable sq. ft.
- Permitted Use:** General warehousing, distribution, office and other ancillary uses and no other purposes
- Term:** 150 full calendar months (i.e. 1 January 2020 to 30 June 2032) and inclusive of the free rental period of eight months
- Rental:** The total base rental payable under the Lease Agreement is approximately US\$11,659,077 (equivalent to approximately HK\$90,357,847) which shall be paid on a monthly basis but subject to abated rent and free rental period of eight months
- Deposit:** US\$122,174.28 (equivalent to approximately HK\$946,850.67)
- Effective date of the Lease:** 1 January 2020

#### **INFORMATION ON THE PARTIES**

The Group is a longstanding furniture seller on third party e-commerce platforms in the U.S., a mid to high-end furniture retailer in Singapore and an integrated home design solutions provider mainly in Singapore. The Tenant is an indirect subsidiary of the Company and is principally engaged in the business of the furniture sales in the U.S. of the Group.

The Realty Fund is a fund which is established by TA Realty, LLC (and its successors and assigns) which is a sizeable real estate investment firm and a limited liability company incorporated in the U.S. that provides investment management services to U.S. and non-U.S. institutional investors. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Realty Fund, TA Realty, LLC and its ultimate beneficial owners are Independent Third Parties.

## **REASONS FOR AND BENEFITS OF THE LEASE AND THE LEASE EXTENSION**

The Directors consider that it is desirable for the Tenant to enter into the First Amendment Agreement, as it will allow the Tenant to remain in the Property for an additional two years which is favourable to the continuity of the Group's business. The Tenant will be able to benefit from additional rent abatement. The Directors are also of the view that the First Amendment Agreement is beneficial to the Group in terms of maintaining operational and business stability as the monthly rental payable until the end of the Extended Term is agreed under the First Amendment Agreement, which were determined after arm's length negotiations between the Realty Fund and the Tenant on normal commercial terms taking into consideration the prevailing market rent for comparable premises in the vicinity of the Property. In addition, the Works are required to be carried out at the Property by the Village of Bloomingdale, the municipality where the Property is located. The Directors consider that it is beneficial to enter into the First Amendment Agreement as the Realty Fund will then be responsible for the costs of the Works. The Board is of the view that in the long term, the Lease and the Lease Extension will enable the Group to reduce its reliance on third party logistic services and have better control on logistics cost.

Having taken into account the above reasons and benefits, the Directors (including all the independent non-executive Directors) therefore consider that the terms of the First Amendment Agreement are on normal commercial terms, fair and reasonable and the transaction contemplated thereunder is in the interests of the Company and the Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

Pursuant to IFRS 16, entering into of a leasing agreement with a term of more than 12 months as a lessee will require the Group to recognise its right to use the Property as the right-of-use assets in its financial statements. As disclosed in the announcement of the Company dated 6 May 2020, the entering into of the Lease Agreement as lessee required the Group to recognise its right to use the Property as the right-of-use asset in its financial statements of approximately US\$6,963,420 (equivalent to approximately HK\$53,966,505), and the transaction contemplated thereunder was regarded as an acquisition of asset by the Group under the Listing Rules.

Upon the extension of the term of the Lease pursuant to the First Amendment Agreement, the value of the right-of-use required to be recognised by the Group as the right-of-use assets will be increased to approximately US\$7,638,793 (equivalent to approximately HK\$59,200,646) (the "**Value of the Right-of-Use Asset**"), calculated with reference to the aggregated present value of the fixed lease payments for the Extended Term, less incentives given by the landlord, as discounted using a discount rate which is equivalent to the Company's incremental borrowing rate during the Extended Term of the Lease, thus the transaction contemplated thereunder will also be regarded as an acquisition of asset by the Group under the Listing Rules.

The transaction contemplated under the First Amendment Agreement is aggregated with the transaction under the Lease Agreement pursuant to Rule 14.23 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 Value of the Right-of-Use Asset exceed 25% but are below 100%, the transaction contemplated thereunder constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular of the Company containing, among other things, details of the First Amendment Agreement, the financial information of the Group and other information as required to be disclosed under the Listing Rules and the notice of the EGM is expected to be despatched to the Shareholders on or before 21 September 2020.

## **AMENDMENT TO THE REIMBURSEMENT AGREEMENT**

Consequential to the First Amendment Agreement, a supplemental agreement to amend and restate the Reimbursement Agreement was entered into by the Tenant and the Realty Fund on 8 September 2020 to reflect that the First Amendment Agreement will be subject to approval by the Shareholders at the EGM, and that the Tenant shall pay the Realty Fund the Costs in connection with the Works only upon rescission of the First Amendment Agreement.

Save as disclosed above, all other terms and provisions of the Reimbursement Agreement remain the same as disclosed in the Company's announcement dated 8 July 2020.

## **DEFINITIONS**

The following terms shall have the following meanings ascribed to them respectively in this announcement unless the context otherwise requires:

“Board”	the board of the Directors of the Company
“Company”	Design Capital Limited (設計都會有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 29 March 2018 whose Shares are listed on the Main Board of the Stock Exchange (stock code:1545)
“Costs”	all Realty Fund's third party out-of-pocket costs, expenses, fees and charges, which is estimated to be approximately US\$100,000, and the construction management fee due to the Realty Fund's property manager incurred and/or invoiced in connection with the planning, permitting and completion of the Works
“Director(s)”	the directors of the Company
“EGM”	an Extraordinary General Meeting of the Company to be convened and held to approve the First Amendment Agreement and the transaction contemplated thereunder

“First Amendment Agreement”	the first amendment agreement dated 8 September 2020 in respect of the Lease Agreement entered into between the Realty Fund and the Tenant
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFRS”	the International Financial Reporting Standards issued by the International Accounting Standards Board, sets out the principles for the recognition, measurement, presentation and disclosure of leases
“Independent Third Party(ies)”	person(s) or company(ies) who is(are) independent of and not connected (within the meaning of the Listing Rules) with the Company and its connected persons
“Lease”	the lease of the Property under the Lease Agreement
“Lease Agreement”	the lease agreement dated 26 August 2019 in respect of the Property entered into between the landlord and the Tenant
“Lease Extension”	the extension of the lease of the Property under the First Amendment Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Property”	the building located in 270 Madsen Drive, Bloomingdale, Illinois 60108
“Realty Fund”	The Realty Associates Fund XII Portfolio, L.P., a fund which is established by TA Realty, LLC (and its successors and assigns)
“Reimbursement Agreement”	the reimbursement agreement dated 7 July 2020 in respect of the Works entered into between the Realty Fund and the Tenant
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of the Company
“Singapore”	the Republic of Singapore
“sq. ft.”	square feet

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenant”	Target Marketing Systems, Inc., a corporation incorporated in the States of Illinois, U.S. and an indirect subsidiary of the Company
“United States” or “U.S.”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States
“Works”	certain renovation works in relation to the Property
“%”	per cent.

By Order of the Board  
**Design Capital Limited**  
**Goon Eu Jin Terence**  
*Chairman and Executive Director*

Hong Kong, 8 September 2020

*As at the date of this announcement, the Board comprises Goon Eu Jin Terence, Wee Ai Quey and Ong Ciu Hwa as executive Directors, Kho Chuan Thye Patrick and Lim Sooi Kheng Patrick as non-executive Directors, and Lim Boon Cheng, Ng Chee Kwong, Colin and Wee Kang Keng as independent non-executive Directors.*

*Translation of US\$ into HK\$ is based on the exchange rate of US\$1.00 = HK\$7.75.*