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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)

UPDATE ON USE OF NET PROCEEDS AND SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 AND THE ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

Reference is made to (i) the annual report of Design Capital Limited (the “**Company**”, and, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 (the “**2019 Annual Report**”), (ii) the announcement of interim results for the six months ended 30 June 2020 dated 21 August 2020 (the “**2020 Interim Results**”) and (iii) the prospectus of the Company dated 11 April 2019 (the “**Prospectus**”).

USE OF NET PROCEEDS FROM LISTING

Regarding the information disclosed under the sections headed “Use of Net Proceeds from Listing” in the 2019 Annual Report and the 2020 Interim Results, the board (the “**Board**”) of directors of the Company (the “**Directors**”) would like to provide additional information in relation to the use of net proceeds from the listing of the Company’s securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 25 April 2019 (“**Net Proceeds**”) as follows:

| | Percentage | Original allocation of Net Proceeds as disclosed in the Prospectus | Revised allocation based on the actual Net Proceeds | Total Amount utilised from Listing to 30 June 2020 | Unutilised balance as at 30 June 2020 | Expected timeline for utilising remaining Net Proceeds as disclosed in Prospectus | Expected timeline for utilising remaining Net Proceeds as at date of this announcement |
|--|---------------|--|---|--|---------------------------------------|---|--|
| | % | Approximate HK\$'000 | Approximate HK\$'000 | Approximate HK\$'000 | Approximate HK\$'000 | | |
| U.S. furniture sales segment: | | | | | | | |
| procurement of inventory | 62.1% | 79,700 | 65,351 | 29,698 | 35,653 | On or before 31 December 2021 | On or before 31 December 2021 |
| increase our sales and marketing efforts to further enhance brand loyalty, reputation and brand recognition | 8.4% | 10,800 | 8,840 | 2,824 | 6,016 | On or before 31 December 2021 | On or before 31 December 2021 |
| storage of new products to be procured | 3.5% | 4,400 | 3,683 | 674 | 3,009 | On or before 31 December 2021 | On or before 31 December 2021 |
| Furniture sales segment: | | | | | | | |
| paying the rental expenses, overhead expenses and capital expenditure for opening two new points of sale in Singapore under the brands "OM" and "Lifestorey" | 10.3% | 13,200 | 10,839 | — | 10,839 | On or before 31 December 2021 | On or before 31 December 2022 (Note 1) |
| procurement of inventory for our new points of sale | 2.9% | 3,800 | 3,052 | — | 3,052 | On or before 31 December 2020 | On or before 31 December 2021 (Note 1) |
| enhancing our brand awareness including brand building campaign | 2.5% | 3,100 | 2,631 | — | 2,631 | On or before 31 December 2021 | On or before 31 December 2023 (Note 1) |
| expansion of our warehouse in Singapore | 2.0% | 2,600 | 2,105 | — | 2,105 | On or before 31 December 2021 | On or before 31 December 2022 (Note 1) |
| General working capital of our Group | 8.3% | 10,700 | 8,734 | 494 | 8,240 | N/A | On or before 31 December 2023 (Note 2) |
| Total | 100.0% | 128,300 | 105,235 | 33,690 | 71,545 | | |

Note 1 As disclosed in the Prospectus, points of sale under the brands "OM" and "Lifestorey" are expected to be opened in the central area of Singapore in the fourth quarter of 2019, and the west of Singapore in the fourth quarter of 2020, respectively and each new point of sale is expected to be approximately 10,000 sq.ft.. However due to challenging operating environment in Singapore in view of the economic slowdown in the second half of 2019 and impact of the Novel Coronavirus ("COVID-19") in 2020 resulting in a global recession in the second quarter of 2020, the Group is closely monitoring the market and economic situation, assessing the long term impact of COVID-19 on our physical showrooms and currently reviewing the opening of the two additional showrooms. As the market is volatile and uncertain and it may take some time before the economy stabilises, the Group has decided to temporarily delay the application of the unutilised Net Proceeds for the furniture sales segment in Singapore, and will make responsible decisions to ensure that the furniture sales segment can contribute to the Group's performance. If there is any decision to open new showrooms, the Group expects that it is likely that the Net Proceeds in relation to the furniture sales segment will only be utilised by the end of 2023 on the assumption that two new points of sale would be opened in 2021 and 2022 respectively.

As part of its strategic review, the Group is also exploring other options in terms of using its Net Proceeds to pursue other growth opportunities in the furniture retail segment including investing in enhancing its IT infrastructure and e-commerce capability and optimising the use of its current showrooms by enhancing the showroom design and layouts and its product lines and bringing in new brands. The Company shall make announcement if there is a concrete plan on change of the intention of use of proceeds for this part accordingly.

Note 2 In view of the global recession that has rocked the global economies as a result of COVID-19, the Group is prudent in conserving cash flow and will be using its general working capital cautiously towards building its human resources, back-end, office and IT infrastructure to support the growth of its post COVID-19 business in line with what has been disclosed in the Prospectus.

Barring any unforeseen circumstances, the Group intends to utilise the general working capital of our Group on or before 31 December 2023.

In conclusion, the Group will closely monitor the volatile and dynamic market conditions, perform strategic reviews on its furniture retail segment, evaluate all strategic options to address post COVID-19 environment and shall utilise the remaining Net Proceeds cautiously as and when appropriate. The expected timeline as stated in this announcement is based on the Board's best estimation with reference to the present and future market conditions barring unforeseen circumstances, and may be subject to revision based on future development of market conditions.

Save as disclosed above, during the year ended 31 December 2019 and the six months ended 30 June 2020, the actual application for the Net Proceeds were used and intended to be used by the Company in line with plans as set out in the Prospectus. Should there be any material change in the intended use of Net Proceeds, the Company will make appropriate announcement in due course.

DEED OF NON-COMPETITION

As disclosed in the Prospectus, Nobel Design International Limited, Mr. Goon Eu Jin Terence and Ms. Wee Ai Quey (the "**Controlling Shareholders**") have entered into a deed of non-competition in favour of the Group on 29 March 2019 (the "**Deed of Non-Competition**").

Further to the information disclosed in the 2019 Annual Report, the Board wishes to provide the following supplemental information regarding the compliance of the Deed of Non-Competition by the Controlling Shareholders.

In order to further avoid potential conflicts of interests and ensure compliance of the Deed of Non-Competition, the following measures have been implemented by the Company:

- (a) the independent non-executive Directors have reviewed the compliance with the Deed of Non-Competition by each of the Controlling Shareholder during the year ended 31 December 2019, and confirmed that to the best of their knowledge, the Deed of Non-Competition has been duly complied with by each of the Controlling Shareholder for the year ended 31 December 2019;
- (b) no competing business was reported by the Controlling Shareholders for the year ended 31 December 2019, as such there was no matter that required review by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition; and
- (c) each of the Controlling Shareholder has confirmed to the Company that they have complied with their undertaking under the Deed of Non-Competition for the year ended 31 December 2019.

Save as disclosed in this announcement, the contents of the 2019 Annual Report and the 2020 Interim Results remain unchanged.

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

Hong Kong, 11 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.