

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Design Capital Limited

設計都會有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1545)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	For the six months ended		Change %
	30 June 2019	30 June 2018	
	S\$'000	S\$'000	
Revenue	55,224	51,459	7.3%
Gross profit	17,274	16,416	5.2%
Profit for the period	3,374	2,228	51.4%
Earnings per share attributable to Shareholders of the Company (cents)	0.15	0.11	36.4%

The board of directors (the “**Board**” or “**Directors**” and each a “**Director**”) of Design Capital Limited (the “**Company**”, “**we**”, “**us**” or “**our**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018, as follows:

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2019

		Six months ended 30 June	
	<i>Notes</i>	2019	2018
		(unaudited)	(unaudited)
		S\$'000	S\$'000
REVENUE	6	55,224	51,459
Cost of sales		<u>(37,950)</u>	<u>(35,043)</u>
Gross profit		17,274	16,416
Other income and gain, net		394	226
Selling and distribution expenses		(6,832)	(6,480)
Administrative expenses		(6,542)	(6,565)
Finance costs		<u>(131)</u>	<u>(2)</u>
PROFIT BEFORE TAX	7	4,163	3,595
Income tax	8	<u>(789)</u>	<u>(1,367)</u>
PROFIT FOR THE PERIOD		<u>3,374</u>	<u>2,228</u>

	<i>Notes</i>	Six months ended 30 June	
		2019	2018
		(unaudited)	(unaudited)
		S\$'000	S\$'000
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(210)</u>	<u>769</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX		<u>(210)</u>	<u>769</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>3,164</u>	<u>2,997</u>
Profit for the period attributable to:			
Shareholders of the Company		<u>2,584</u>	1,615
Non-controlling interests		<u>790</u>	<u>613</u>
		<u>3,374</u>	<u>2,228</u>
Total comprehensive income for the period attributable to:			
Shareholders of the Company		<u>2,383</u>	2,349
Non-controlling interests		<u>781</u>	<u>648</u>
		<u>3,164</u>	<u>2,997</u>
Earnings per share attributable to Shareholders of the Company			
Basic and diluted (cents)	<i>10</i>	<u>0.15</u>	<u>0.11</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	<i>Notes</i>	30 June 2019 (unaudited) S\$'000	31 December 2018 (audited) S\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	1,440	1,629
Right-of-use assets		3,498	–
Deposits		686	686
		<hr/>	<hr/>
Total non-current assets		5,624	2,315
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories	<i>12</i>	29,156	30,891
Contract assets		81	34
Trade receivables	<i>13</i>	10,287	15,143
Prepayments, deposits and other receivables		960	1,899
Cash and cash equivalents	<i>14</i>	32,675	15,469
		<hr/>	<hr/>
Total current assets		73,159	63,436
		<hr/>	<hr/>
CURRENT LIABILITIES			
Contract liabilities		6,441	6,054
Trade payables	<i>15</i>	6,152	8,305
Other payables and accruals	<i>16</i>	7,735	18,506
Obligations under finance leases		46	54
Lease liabilities		3,026	–
Income tax payables		2,567	4,669
		<hr/>	<hr/>
Total current liabilities		25,967	37,588
		<hr/>	<hr/>
NET CURRENT ASSETS		47,192	25,848
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		52,816	28,163
		<hr/>	<hr/>

	<i>Notes</i>	30 June 2019 (unaudited) S\$'000	31 December 2018 (audited) S\$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases		111	132
Provision for reinstatement costs		271	222
Lease liabilities		527	–
Deferred tax liabilities		25	25
		<hr/>	<hr/>
Total non-current liabilities		934	379
		<hr/>	<hr/>
NET ASSETS		51,882	27,784
		<hr/>	<hr/>
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	<i>17</i>	3,453	–
Reserves		46,021	24,965
		<hr/>	<hr/>
		49,474	24,965
Non-controlling interests		2,408	2,819
		<hr/>	<hr/>
TOTAL EQUITY		51,882	27,784
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 29 March 2018. The registered office of the Company is located at Cricket Square, Hutchins Square, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 25 April 2019 (the “**Listing**”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in (i) interior design, (ii) furniture sales which include both furniture sales and project sales, and (iii) U.S. furniture sales.

In the opinion of the directors of the Company, Nobel Design International Limited, a company incorporated in the British Virgin Islands (“**BVI**”), is the immediate holding company and the ultimate holding company of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

The unaudited condensed consolidated interim financial information is presented in Singapore Dollars (“**SGD of S\$**”) and all value are rounded to the nearest thousand (“**S\$’000**”), unless otherwise stated.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases* using the modified retrospective method of adoption without the need to restate previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for premises for their points of sale, warehouses and office spaces. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

- Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

- Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of S\$5,071,000 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of S\$5,071,000 were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	S\$'000
Operating lease commitments as at 31 December 2018	5,423
Weighted average incremental borrowing rate as at 1 January 2019	5.25%
Discounted operating lease commitments at 1 January 2019	5,180
Less:	
Commitments relating to short-term leases	(109)
Lease liabilities as at 1 January 2019	<u>5,071</u>

b) *Summary of new accounting policies*

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

- Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

c) *Amounts recognised in the statement of financial position and profit or loss*

Set out below, are the carrying amounts movements during the period:

	Right-of- use assets	Lease liabilities
	S\$'000	S\$'000
As at 1 January 2019	5,071	5,071
Addition	71	71
Depreciation	(1,639)	–
Interest expense	–	115
Payment	–	(1,704)
Exchange realignment	(5)	–
	<hr/>	<hr/>
As at 30 June 2019	3,498	3,553

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each of the period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

In preparing this unaudited condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to credit risk, foreign currency risk, liquidity risk and capital risk.

The unaudited condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statement for the year ended 31 December 2018.

There have been no changes in the financial risk management policies of the Group since the financial year ended 31 December 2018.

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions, allocate resources, and assess performance. For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the “interior design” business, which provides interior design and fitting-out services for homes, offices and commercial projects, supplies and installs custom-made furniture;
- (b) the “furniture sales” business, which includes both furniture sales and project sales, operates furniture retail shops in Singapore and supplies furniture to individuals and corporate customers;
- (c) the “U.S. furniture sales” business, which represent online sales of furniture in the U.S. market; and
- (d) the “corporate” operations comprise the corporate services and investment holding activities of the Group.

The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the interim condensed consolidated statements of profit or loss and other comprehensive income.

Segment performance is evaluated based on reportable segment profit, which is measured consistently with the Group’s profit before tax.

Segment assets and liabilities are measured in a manner consistent with those of the interim condensed consolidated financial statements.

Intersegment sales and transfers are transacted at prices mutually agreed by the relevant parties.

Six months ended 30 June 2019	Interior design S\$’000	Furniture sales S\$’000	U.S. furniture sales S\$’000	Corporate S\$’000	Total S\$’000
Segment revenue:					
Segment revenue	6,875	9,043	40,001	–	55,919
Less: Inter-segment sales	(97)	(113)	(485)	–	(695)
	<u>6,778</u>	<u>8,930</u>	<u>39,516</u>	<u>–</u>	<u>55,224</u>
Segment results	<u>2,036</u>	<u>(392)</u>	<u>4,096</u>	<u>(1,577)</u>	<u>4,163</u>
Segment assets	<u>6,225</u>	<u>13,219</u>	<u>37,187</u>	<u>22,152</u>	<u>78,783</u>
Segment liabilities	<u>4,634</u>	<u>7,996</u>	<u>12,441</u>	<u>1,830</u>	<u>26,901</u>
Other segment information:					
Interest income	(35)	(14)	(83)	(88)	(220)
Finance costs	4	88	33	6	131
Depreciation	47	1,368	471	88	1,974
Capital expenditure*	<u>3</u>	<u>124</u>	<u>23</u>	<u>–</u>	<u>150</u>

Six months ended 30 June 2018	Interior design S\$'000	Furniture sales S\$'000	U.S. furniture sales S\$'000	Corporate S\$'000	Total S\$'000
Segment revenue:					
Segment revenue	5,033	10,339	36,585	–	51,957
Less: Inter-segment sales	(151)	(347)	–	–	(498)
Sales to external customers	<u>4,882</u>	<u>9,992</u>	<u>36,585</u>	<u>–</u>	<u>51,459</u>
Segment results	<u>1,156</u>	<u>(382)</u>	<u>5,039</u>	<u>(2,218)</u>	<u>3,595</u>
Other segment information:					
Interest income	(17)	(26)	(78)	–	(121)
Finance costs	–	2	–	–	2
Depreciation	16	194	72	–	282
Capital expenditure*	<u>50</u>	<u>499</u>	<u>34</u>	<u>–</u>	<u>583</u>

* Capital expenditure consists of additions of property, plant and equipment.

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2018:

	Interior design S\$'000	Furniture sales S\$'000	U.S. furniture sales S\$'000	Corporate S\$'000	Total S\$'000
Segment assets	<u>7,314</u>	<u>12,559</u>	<u>44,372</u>	<u>1,506</u>	<u>65,751</u>
Segment liabilities	<u>3,425</u>	<u>2,890</u>	<u>23,528</u>	<u>8,124</u>	<u>37,967</u>

Geographical information

The Group's operating segments operate in three main geographical areas:

- (i) Singapore – The operations in this area are principally interior design and furniture sales which include both furniture sales and project sales.
- (ii) U.S. – The operations in this area are principally U.S. furniture sales.
- (iii) Malaysia and Brunei – The operations in these areas are principally interior design.

Non-current assets

	30 June 2019 S\$'000	31 December 2018 S\$'000
Singapore	3,576	1,137
U.S.	1,358	487
Malaysia and Brunei	<u>4</u>	<u>5</u>
	<u>4,938</u>	<u>1,629</u>

The non-current assets information above is based on the location of the assets and excludes financial assets.

6. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, net of goods and services tax; and the value of services rendered, net of goods and services tax.

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Segments	Six months ended 30 June 2019			Total S\$'000
	Interior design S\$'000	Furniture sales S\$'000	U.S. furniture sales S\$'000	
Type of goods or service				
Sale of goods	–	8,930	39,516	48,446
Service income – interior design	6,778	–	–	6,778
Total revenue from contracts with customers	<u>6,778</u>	<u>8,930</u>	<u>39,516</u>	<u>55,224</u>
Geographical markets				
Singapore	6,413	8,930	–	15,343
U.S.	–	–	39,516	39,516
Malaysia and Brunei	365	–	–	365
Total revenue from contracts with customers	<u>6,778</u>	<u>8,930</u>	<u>39,516</u>	<u>55,224</u>
Timing of revenue recognition				
Goods transferred at a point in time	–	6,507	39,516	46,023
Goods and services transferred over time	6,778	2,423	–	9,201
Total revenue from contracts with customers	<u>6,778</u>	<u>8,930</u>	<u>39,516</u>	<u>55,224</u>

Segments	Six months ended 30 June 2018			Total S\$'000
	Interior design S\$'000	Furniture sales S\$'000	U.S. furniture sales S\$'000	
Type of goods or service				
Sale of goods	–	9,992	36,585	46,577
Service income – interior design	4,882	–	–	4,882
Total revenue from contracts with customers	4,882	9,992	36,585	51,459
Geographical markets				
Singapore	4,395	9,992	–	14,387
U.S.	–	–	36,585	36,585
Malaysia and Brunei	487	–	–	487
Total revenue from contracts with customers	4,882	9,992	36,585	51,459
Timing of revenue recognition				
Goods transferred at a point in time	–	6,824	36,585	43,409
Goods and services transferred over time	4,882	3,168	–	8,050
Total revenue from contracts with customers	4,882	9,992	36,585	51,459

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019 S\$'000	2018 S\$'000
Cost of goods sold	34,482	32,584
Cost of services provided	3,468	2,459
Depreciation*	1,974	282
Minimum lease payment under operating leases	1,541	2,737
Employee benefit expense (including directors' remuneration)	4,865	4,375
Loss on disposal of items of property, plant and equipment, net (Reversal of provision)/provision for write-down of inventories to net realisable value, net	–	8
Provision/(reversal of provision) for expected credit losses of trade receivables, net	(33)	301
Foreign exchange differences, net	68	(83)
Listing expenses	23	(32)
	984	2,217

* The Depreciation for the six months ended 30 June 2019 comprise of depreciation of property, plant and equipment of S\$335,000 (30 June 2018: S\$282,000) and depreciation of right-of-use assets of S\$1,639,000 (30 June 2018: Nil).

8. INCOME TAX

The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2019	2018
	S\$'000	S\$'000
Current – Singapore:		
Charge for the period	676	848
(Over)/Under – provision in respect of prior years	(24)	10
Current – U.S.:		
Charge for the period	137	440
Underprovision in respect of prior years	–	69
	<u>789</u>	<u>1,367</u>

9. DIVIDEND

The board of directors of the Company resolved not to declare any interim dividend for the period ended 30 June 2019 (30 June 2018: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to Shareholders of the Company of S\$2,584,000 (30 June 2018: S\$1,615,000), and the weighted average number of ordinary shares in issue of 1,685,083,000 (30 June 2018: 1,500,000,000) during the period.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2019 and 2018 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during each of these period.

11. PROPERTY, PLANT AND EQUIPMENT

Additions and disposals

During the six months ended 30 June 2019, the Group acquired assets with a cost of S\$150,000 (30 June 2018: S\$583,000).

Assets with a net book value of S\$20,000 were disposed by the Group during the six months ended 30 June 2018, resulting in a net loss on disposal of S\$8,000.

12. INVENTORIES

Group	30 June 2019 S\$'000	31 December 2018 S\$'000
Merchandised goods	22,125	21,822
Goods in transit	7,031	9,069
	<u>29,156</u>	<u>30,891</u>

13. TRADE RECEIVABLES

Group	30 June 2019 S\$'000	31 December 2018 S\$'000
Trade receivables	10,905	15,695
Provision for expected credit losses (<i>note (c)</i>)	(618)	(552)
	<u>10,287</u>	<u>15,143</u>

Notes:

- (a) For the U.S. furniture sales segment, the credit terms granted to customers generally range from 30 to 60 days.

For the project sales under the furniture sales segment and the interior design segment, invoices are payable on presentation. Upfront deposits will be collected prior to the delivery of furniture or the commencement of work for both furniture sales and interior design segment.

For furniture sales under the furniture sales segment, the sales term is cash on delivery.

The Group seeks to maintain strict control over all its outstanding receivables and has a credit control in place to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances, and these balances are non-interest-bearing.

- (b) An ageing analysis of the trade receivables as at the end of each of the period/year, based on the invoice date and net of provision for expected credit losses, is as follows:

Group	30 June 2019 S\$'000	31 December 2018 S\$'000
Within 1 month	6,847	7,838
1 to 2 months	2,655	6,616
2 to 3 months	449	520
Over 3 months	336	169
	<u>10,287</u>	<u>15,143</u>

As part of the Group's credit risk management, the Group uses debtors' ageing by due date to assess the expected credit losses of its trade receivables because these trade receivables are due from a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms.

- (c) The movements in the Group's provision for expected credit losses of trade receivables during the period/year are as follows:

Group	30 June 2019 S\$'000	31 December 2018 S\$'000
At beginning of year	552	533
Provision for expected credit losses	68	35
Amount written off as uncollectible	–	(22)
Exchange realignment	(2)	6
	<u>618</u>	<u>552</u>
At end of period/year	618	552

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 31 December 2018 and 30 June 2019 are 75.2% and 78.3% respectively for those balances that have been past due for more than 3 months.

14. PLEDGED DEPOSITS, AND CASH AND CASH EQUIVALENTS

Group	<i>Notes</i>	30 June 2019 S\$'000	31 December 2018 S\$'000
Cash and bank balances other than time deposits		29,075	7,809
Time deposits		3,600	7,660
		<u>32,675</u>	<u>15,469</u>
Cash and cash equivalents	(a)	32,675	15,469

- (a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between 3 months and 12 months, depending on the immediate cash requirements of the Group, and earn interests at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

15. TRADE PAYABLES

The Group's trade payables are unsecured, non-interest bearing, and are normally settled on average terms of 30 to 60 days.

An ageing analysis of the trade payables as at the end of each of the period/year, based on the invoice date, is as follows:

Group	30 June 2019 S\$'000	31 December 2018 S\$'000
Within 1 month	5,253	7,046
1 to 2 months	582	893
2 to 3 months	33	201
Over 3 months	284	165
	<u>6,152</u>	<u>8,305</u>
	6,152	8,305

16. OTHER PAYABLES AND ACCRUALS

Group	30 June 2019 S\$'000	31 December 2018 S\$'000
Accruals	6,545	7,924
Other payables	1,190	1,777
Due to related parties	–	8,805
	<u>7,735</u>	<u>18,506</u>

17. SHARE CAPITAL

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Authorised: 10,000,000,000 (31 December 2018: 38,000,000) ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>380</u>
	30 June 2019 S\$'000	31 December 2018 S\$'000
Issued and fully paid: 2,000,000,000 (31 December 2018: 3,800) ordinary shares of HK\$0.01 each	<u>3,453</u>	<u>–</u>[#]

[#] *Less than HK\$500 or S\$500.*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Headquartered in Singapore, our Group is a longstanding furniture seller on third party e-commerce platforms in the United States (the “U.S.”), a mid to high-end furniture retailer in Singapore and an integrated home design solutions provider mainly in Singapore. For the six months ended 30 June 2019, our revenue amounted to approximately S\$55.2 million, representing an increase of approximately S\$3.8 million or 7.3% from approximately S\$51.5 million for the six months ended 30 June 2018. This increase was mainly attributable to the increase in revenue from our U.S. furniture sales and interior design segments.

U.S. Furniture Sales

We have been sourcing quality furniture pieces which are trendy and easy-to-assemble for marketing and selling under our brands “Target Marketing Systems”, “TMS”, “Simple Living” and “Lifestorey” in the U.S. since 2005. These products are sold at affordable prices in the U.S.. Our customers include major e-commerce sales platforms in the U.S. who in turn sell products to end consumers.

Interior Design

We started in 1981 as an interior design solutions provider which is currently marketed under the brand “SuMisura”. We have developed strong interior design and furniture sourcing capabilities. By focusing on design solutions and home furnishing ideas, and leveraging on our designer team’s acute sense of aesthetics, our work has been well received by property developers and homeowners.

Furniture Sales

As at the date of this announcement, we operate seven points of sale in Singapore, of which three are under the brand “Marquis”, two are under the brand “OM” and two are under the brand “Lifestorey”, offering furniture pieces with different styles to cater for the preferences of different customers in the market. Our point of sale at Raffles Hotel Arcade was opened in January 2019 under the brand name “Marquis”. We also sell furniture to corporate customers that include property developers, shopping malls, hotel owners and companies.

PROSPECTS

U.S. Furniture Sales

The ongoing trade tensions and the slowing U.S. economy leads us to be cautious about the growth prospects of our U.S. furniture sales segment in the second half of financial year 2019 (“FY2019”).

The U.S. increased the tariffs for furniture imports from China on 10 May 2019, approximately 2 weeks after our Listing. As such, we are actively reviewing our growth and sourcing strategies, while concurrently resolving operational issues relating to disruption to supply chain, product cost increases and margin management.

While we maintain an asset light strategy and do not own any manufacturing facility in China or elsewhere, it will take time for us to review and implement any new procurement strategy of sourcing from non-tariff countries to maintain our competitiveness in the U.S..

The U.S. economy grew at a significantly slower pace in the second quarter of 2019 in comparison to the first quarter of 2019. While this lower growth trend is expected to continue in the second half of FY2019, the Group will continue to focus on sharpening its marketing and promotion strategies to ride on the seasonal demand in the last quarter.

Furniture Sales

We anticipate a challenging operating environment for our furniture sales segment in the second half of FY2019, the Sino-U.S. trade war continues to weigh on the Singapore economy as the Singapore economy is dependent on global trade. While the sales of consumer durables tend to be affected in periods of economic uncertainty as consumers are able to put off their purchases, the Group will continue to reach out to its customers through active digital marketing campaigns and sharpen its price points to meet customer needs.

Interior Design

Our interior design segment has benefitted from the increase in the number of new property launches in the first half of FY2019, we anticipate that this trend will continue into the second half of FY2019.

In the light of a slowdown and potential recessionary risk in the U.S. and Singapore, we will adopt a cautious and prudent approach in implementing our expansion and growth plans.

FINANCIAL REVIEW

Overall Financial review

The Group's revenue increased by approximately S\$3.8 million or 7.3% from approximately S\$51.5 million for the period ended 30 June 2018 to approximately S\$55.2 million for the period ended 30 June 2019. This increase is mainly attributable to the increase in revenue from U.S. furniture sales and interior design segments. On the other hand, the Group's furniture sales segment recorded lower sales, in line with the slow-down in the Singapore economy and residential property market segment.

The Group's gross profit margin decreased from approximately 31.9% for the period ended 30 June 2018 to approximately 31.3% for the period ended 30 June 2019 mainly due to increase in proportion of the revenue from U.S. furniture sales segment which has a lower gross profit margin as part of our overall revenue.

The Group's profit increased by approximately 51.4% from approximately S\$2.2 million for the period ended 30 June 2018 to approximately S\$3.4 million for the period ended 30 June 2019, mainly attributable to the decrease in the non-recurring Listing expenses and income tax expenses of approximately S\$1.2 million and S\$0.6 million respectively in 2019 and partially off set by the increase in selling and distribution expenses.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overall financial position

As at 30 June 2019, total debt of the Group amounted to approximately S\$157,000 (31 December 2018: approximately S\$186,000) which were obligations under finance leases.

The Group had total cash and cash equivalents of approximately S\$32.7 million as at 30 June 2019 (31 December 2018: approximately S\$15.5 million), most of which were denominated in Hong Kong dollars, Singapore dollars and U.S. dollars. As at 30 June 2019, the cash and bank balances other than time deposits of the Group amounted to approximately S\$29.1 million (31 December 2018: approximately S\$7.8 million).

The Group recorded total current assets of approximately S\$73.2 million as at 30 June 2019 (31 December 2018: approximately S\$63.4 million) and total current liabilities of approximately S\$26.0 million as at 30 June 2019 (31 December 2018: approximately S\$37.6 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.8 as at 30 June 2019 (31 December 2018: approximately 1.7).

The Group's operations are financed principally by revenue generated from its business operation, available cash and bank balances as well as bank borrowings.

In view of the Group's financial position as at 30 June 2019, the Board considered that the Group had sufficient working capital for its operations and future development plans.

Gearing ratio

As at 30 June 2019, the Group's gearing ratio which was calculated by dividing the total debt (being sum of bank borrowings and obligations under finance lease) by total equity and multiplied by 100% was approximately 0.3% (31 December 2018: 0.7%). The gearing ratio decreased mainly due to the proceeds from the Listing.

Contingent liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities or guarantees (31 December 2018: Nil).

Capital commitment

As at 30 June 2019, the Group did not have any material capital commitment (31 December 2018: Nil).

Capital Structure

As at 30 June 2019 and 31 December 2018, the capital structure of the Company comprised mainly issued share capital and reserves.

Foreign Currency Risk

The Group's reporting currency is Singapore dollars. The Group's sales are mainly in U.S. dollars and Singapore dollars. However, most of the purchases are settled in U.S. dollars. The Group is therefore susceptible to currency exchange rate fluctuation of U.S. dollars against Singapore dollars.

The Group has not entered into any agreements to hedge the exchange rate exposure relating to any foreign currencies and there is no assurance that the Group will be able to enter into such agreements on commercially viable terms in the future.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, we had 144 (30 June 2018: 138) full-time employees, of whom 108 are based in Singapore, 21 are based in the U.S., 10 are based in Malaysia and 5 are based in Brunei. For the period ended 30 June 2019, staff costs (including directors' emoluments) amounted to approximately S\$4.9 million (30 June 2018: approximately S\$4.4 million).

CHARGES ON GROUP'S ASSETS

As at 30 June 2019, the Group had aggregate unutilised banking facilities of approximately S\$6.5 million, of which approximately S\$2.5 million were secured by debenture creating a fixed and floating charge over all present and future property and assets of a fellow subsidiary Buylateral Group Pte. Ltd. and a floating charge over bank accounts and deposits of Buylateral Group Pte. Ltd. (31 December 2018: S\$6.2 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2019, the Group does not have other plans for material investments and capital assets.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSALS

The Group did not have any significant investments, material acquisitions or disposal of assets, subsidiaries, associates or joint ventures during the period ended 30 June 2019.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the period ended 30 June 2019.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 25 April 2019 (the “**Listing Date**”). The Company had allotted and issued 500,000,000 ordinary shares at a price of HK\$0.30 per share and raised HK\$150.0 million (equivalent to approximately S\$25.9 million) in total gross proceeds. The net proceeds from the Listing amounted to HK\$105.2 million (equivalent to approximately S\$18.2 million) after deduction of related Listing expenses (the “**Net Proceeds**”) as at 30 June 2019.

With reference to the prospectus of the Company dated 11 April 2019 and in light of the difference between the actual amount of the Net Proceeds and estimated amount of the Net Proceeds as stated in the Prospectus (which was disclosed based on an offer price of HK\$0.345 per share, being the mid-point of the then indicative offer price range of HK\$0.30 to HK\$0.39 per share, net of the estimated Listing expenses), the Group has adjusted the intended use of the actual amount of the Net Proceeds in the same manner and in the same proportion as disclosed in the Prospectus.

The following table sets out the breakdown of the original allocation of the Net Proceeds as disclosed in the Prospectus, the revised allocation based on the actual Net Proceeds (after the adjustment as mentioned above), the utilised and remaining amount of the Net Proceeds from the Listing as at 30 June 2019:

	Percentage	Original allocation of Net Proceeds as disclosed in the Prospectus	Revised allocation based on the actual Net Proceeds	Amount utilised	Balance
	<i>%</i>	<i>Approximate HK\$'000</i>	<i>Approximate HK\$'000</i>	<i>Approximate HK\$'000</i>	<i>Approximate HK\$'000</i>
U.S. furniture sales segment:					
procurement of inventory	62.10%	79,700	65,351	2,862	62,489
increase our sales and marketing efforts to further enhance brand loyalty, reputation and brand recognition	8.40%	10,800	8,840	416	8,424
storage of new products to be procured	3.50%	4,400	3,683	–	3,683
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” to be opened during the years in 2020 and 2021, respectively	10.30%	13,200	10,839	–	10,839
procurement of inventory for our new points of sale	2.90%	3,800	3,052	–	3,052
enhancing our brand awareness including brand building campaign	2.50%	3,100	2,631	–	2,631
expansion of our warehouse in Singapore	2.00%	2,600	2,105	–	2,105
General working capital of our Group	8.30%	10,700	8,734	46	8,688
	<u>100.00%</u>	<u>128,300</u>	<u>105,235</u>	<u>3,324</u>	<u>101,911</u>

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from the Listing Date to 30 June 2019, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There was no material subsequent event after the end of the reporting period and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

The Board is of the view that the Company had complied with the applicable code provisions set out in the CG Code during the period from the Listing Date to 30 June 2019, save for code provision A.2.1 of the CG Code.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. However, having considered the nature and extent of the Group's operations, Mr. Goon Eu Jin Terence's extensive experience in the industry and familiarity with the operations of the Group, the Board believes that it is in the best interest of the Group to have Mr. Goon Eu Jin Terence taking up both roles and this will not impair the balance of power and authority of the Board, which currently comprises a majority of non-executive Directors and independent non-executive Directors who will bring independent judgment. Besides, all major decisions are made in consultation with members of the Board and relevant Board committees to safeguard sufficient balance of powers and authorities.

The Company will continue to review regularly its corporate governance policies and compliance with the CG Code to ensure operations are in line with the good corporate governance practices as set out in the CG Code and aligned with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

The Company has also established written guidelines no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

As at 30 June 2019, the Company, having made specific enquiry of all the Directors, is not aware of any incident of non-compliance of the Model Code by the Directors.

REVIEW OF INTERIM RESULTS

The Audit Committee consists of five members, namely Mr. Kho Chuan Thye Patrick and Mr. Lim Sooi Kheng Patrick, non-executive Directors, and Mr. Lim Boon Cheng, Mr. Ng Chee Kwong, Colin and Mr. Wee Kang Keng, independent non-executive Directors. Mr. Lim Boon Cheng is the chairman of the Audit Committee.

The unaudited financial information in this announcement has not been audited or reviewed by the auditor of the Company but has been reviewed by the Audit Committee of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.designcapital.sg). The interim report for the six months ended 30 June 2019 will be dispatched to shareholders of the Company and available on the same websites in due course.

By order of the Board
Goon Eu Jin Terence
Chairman and Executive Director

Hong Kong, 29 August 2019

As at the date of this announcement, the board of directors of the Company 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.