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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)

DISCLOSEABLE TRANSACTION IN RELATION TO THE LEASE AGREEMENT

THE LEASE AGREEMENT

The Board hereby announces that on 26 August 2019, the Tenant (an indirect subsidiary of the Company) and the Landlord entered into a Lease Agreement in respect of the Property located in the U.S., which is subject to the entering into the Commencement Date Confirmation to confirm the enforceability of the Lease Agreement and the effective date of the Lease. Pursuant to the Commencement Date Confirmation, the possession of the Property was accepted by the Tenant on 16 December 2019 and the Lease has then become in full force and effect and the term of the Lease is established as 1 January 2020 to 30 June 2030.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to IFRS 16, the entering into the Lease Agreement as lessee will require the Group to recognise the Property as the right-of-use asset in its financial statements, in which the amount was approximately US\$6,963,420 (equivalent to approximately HK\$53,966,505) calculated with reference to the aggregated present value of the fixed lease payments less incentives given by the Landlord, discounted using a discount rate which is equivalent to the Company's incremental borrowing rate during the entire terms of the Lease Agreement, thus the entering into the Lease Agreement and the transaction contemplated thereunder will be regarded as an acquisition of asset by the Group under 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 5% but are below 25%, the transaction contemplated thereunder constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements but exempt from circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

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A summary of the principal terms of the Lease Agreement and the Commencement Date Confirmation (appended to the Lease Agreement) and the relevant information is set out below:

Date of the Lease Agreement:	26 August 2019
Date of the Commencement Date Confirmation:	1 January 2020
Parties:	Tenant: Target Marketing Systems, Inc., an indirect subsidiary of the Company Landlord: a third-party company To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Landlord 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:	126 full calendar months from the date of the commencement date confirmation (i.e. 1 January 2020 to 30 June 2030) and inclusive of the free rental period of six months
Rental:	The total base rental payable under the Lease Agreement is approximately US\$10,213,769 (equivalent to approximately HK\$79,156,709) which shall be paid on a monthly basis but subject to abated rent and free rental period of six months
Deposit:	US\$122,174.28 (equivalent to approximately HK\$946,850.67)

Effective date of the lease: 1 January 2020

The rent under the Lease Agreement was determined after arm's length negotiations between the Landlord and the Tenant, after taking into consideration the prevailing market price for comparable premises in the vicinity of the Premises.

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.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Landlord is a limited liability company incorporated in the U.S. and is principally engaged in investment holding. The Landlord and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR AND BENEFITS OF ENTERING THE LEASE AGREEMENT

The entering into the Lease Agreement which consists of a total gross area of 154,000 sq.ft. is part of the expansion plan of the Group in the U.S. following the expiry of the lease of the existing 95,074 sq. ft. warehouse in Carol Stream, Illinois which will expire in the end of June 2020 (the "**Carol Stream Lease**").

Although in the short term, initial moving costs, finance costs and depreciation expense incurred concurrently on the Lease and Carol Stream Lease, coupled with disruption to our business operations are likely to have an impact on the Group's financial performance in the first half of 2020, the Board is of the view that in the long term, the Lease Agreement will enable the Group to reduce its reliance on third party logistic services and have better control on logistics cost.

The terms of the Lease Agreement, were determined after arm's length negotiations between the Landlord and the Tenant upon normal commercial terms taking into consideration the prevailing market price for comparable premises in the vicinity of the Premises. The Lease Agreement is necessary for continuing the operation of business of the Group for use as office premises and warehousing purposes and is in the ordinary and usual course of business of the Group.

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 Lease Agreement are on normal commercial terms, fair and reasonable and the transaction contemplated thereunder is in the interests of the Company and its shareholders as a whole.

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Pursuant to IFRS 16, the entering into the Lease Agreement as lessee will require the Group to recognise the Property as the right-of-use asset in its financial statements, in which the amount was approximately US\$6,963,420 (equivalent to approximately HK\$53,966,505) (the “**Value of the Right-of-Use Asset**”) calculated with reference to the aggregated present value of the fixed lease payments less incentives given by the Landlord, discounted using a discount rate which is equivalent to the Company’s incremental borrowing rate during the entire terms of the Lease Agreement, thus the entering into the Lease Agreement and the transaction contemplated thereunder will be regarded as an acquisition of asset by the Group under 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 5% but are below 25%, the transaction contemplated thereunder constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements but exempt from circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

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
“Commencement Date Confirmation”	the commencement date confirmation dated 1 January 2020 entered into by the Landlord and the Tenant in relation to the commencement date of the Lease
“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 Stock Exchange (stock code: 1545)
“Director(s)”	the directors of the Company
“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 and cents, respectively, the lawful currency of Hong Kong
“IFRS 16”	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

“Landlord”	a third-party limited liability company incorporated in the U.S. which is the landlord of the Property and an Independent Third Party
“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
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Property”	The building located in 270 Madsen Drive, Bloomingdale, Illinois 60108
“Shareholders”	holders of the Shares
“Shares”	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
“%”	per cent

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

Hong Kong, 6 May 2020

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.

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