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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 REIMBURSEMENT AGREEMENT AND SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE LEASE AGREEMENT

REIMBURSEMENT AGREEMENT

The Board wishes to announce that on 7 July 2020 (after trading hours in U.S. time), the Tenant entered into the Reimbursement Agreement with the Realty Fund in respect to, inter alia, certain renovation works to be performed and sums expended in relation to the Property.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Reimbursement Agreement, when aggregated with the Lease Agreement, is more than 5% but less than 25%, the transaction contemplated under the Reimbursement Agreement constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

CLARIFICATION

The Board would like to clarify that the date of the Commencement Date Confirmation as disclosed in the Announcement shall be 6 January 2020 instead of 1 January 2020. The Commencement Date remains as 1 January 2020.

Reference is made to the announcement of Design Capital Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 6 May 2020 (the “**Announcement**”) in respect to the Lease Agreement. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

REIMBURSEMENT AGREEMENT

The Board wishes to announce that on 7 July 2020 (after trading hours in U.S. time), the Tenant, Target Marketing Systems, Inc., entered into a reimbursement agreement with the Realty Associates Fund XII Portfolio, L.P. (the “**Realty Fund**”), a fund which is established by the Landlord, TA Realty, LLC (and its successors and assigns) (each a “**Party**” and collectively the “**Parties**”), in respect to, inter alia, certain works to be performed and sums expended in relation to the Property, i.e. the building located in 270 Madsen Drive, Bloomington, Illinois 60108 (the “**Reimbursement Agreement**”). Set out below is a summary of the principal terms of the Reimbursement Agreement:

1. The Parties are in the process of negotiating to extend the term of the Lease Agreement for two years by entering into a proposed supplemental agreement to the Lease Agreement (the “**First Amendment Agreement**”) and in such contemplation, the Realty Fund agrees to commence and complete certain renovation works (the “**Works**”) in relation to the Property.
2. If any Party, within 90 days after the date of the Reimbursement Agreement, (i) elects not to sign and return the First Amendment Agreement to the other Party; or (ii) elects to otherwise not proceed with the First Amendment Agreement, the Tenant shall pay the Realty Fund all Realty Fund’s third party out-of-pocket costs, expenses, fees and charges, which is estimated to be approximately USD100,000, and the construction management fee due to the Realty Fund’s property manager (the “**Property Manager’s Fee**”) incurred and/or invoiced in connection with the planning, permitting and completion of the Works (collectively the “**Costs**”). The Property Manager’s Fee shall not exceed 3% of the total costs, expenses, fees and charges associated with the Works. The above amount that may be paid to the Realty Fund was determined on an arms length basis with reference to the local market costs of renovation fees and expenses for renovation works of similar nature.
3. The Reimbursement Agreement shall not obligate the Parties to enter into the First Amendment Agreement and the First Amendment Agreement shall not be legally binding on either the Realty Fund or the Tenant until such time as it is fully executed and delivered by each of them.

If any of the Parties elects not to proceed to sign the First Amendment Agreement, the additional renovation cost to warehouse will be capitalised and depreciated accordingly and the Group does not expect any material adverse impact on its financial position. If both Parties agreed to proceed to sign the First Amendment Agreement, the Company will work closely with professional parties to ensure the appropriate disclosure and/or shareholder’s approval procedures will be adhered to accordingly.

Assuming (i) the Costs is USD103,000, and (ii) the Parties do not sign nor proceed with the First Amendment Agreement, the entering into the Reimbursement Agreement will require the Group to recognise the leasehold improvement as property, plant and equipment in its financial statements, the amount of which is approximately USD103,000 (equivalent to approximately HK\$798,147).

As the First Amendment Agreement is still in the process of negotiating and not yet finalised and concluded, further announcements will be made by the Company as and when appropriate.

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 the Landlord, 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, the Landlord and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR AND BENEFITS OF ENTERING INTO THE REIMBURSEMENT AGREEMENT

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 are of the view that after the completion of the Works, the overall safety, in particular, fire safety, of the Property will be improved and is necessary to fulfil the local requirements. The Works will also optimize the use of the Property, which is being used as a warehouse. Further, in view of the Realty Fund's familiarity of the local requirements and local contacts with the relevant subcontractors, the Realty Fund is in a better position to conduct the Works.

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 Reimbursement Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

The transaction contemplated under the Reimbursement 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 Reimbursement Agreement, when aggregated with the Lease Agreement, is more than 5% but less than 25%, the transaction contemplated under the Reimbursement Agreement constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

CLARIFICATION

The Board would like to clarify that the date of the Commencement Date Confirmation as disclosed in the Announcement shall be 6 January 2020 instead of 1 January 2020. The Commencement Date remains as 1 January 2020.

The above clarification does not affect other information contained in the Announcement. Save as disclosed above, other information in the Announcement, including the term of the Lease, shall remain unchanged.

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

Hong Kong, 8 July 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.