

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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS	2020	2019	Change
	S\$'000	S\$'000	%
Revenue	114,284	115,305	-0.9%
Gross profit	32,535	35,187	-7.5%
Profit for the year	8,805	8,044	9.5%
Earnings per share attributable to shareholders of the Company (cents)	0.37	0.33	12.1%

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 audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

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

For the financial year ended 31 December 2020

	<i>Notes</i>	2020 <i>S\$'000</i>	2019 <i>S\$'000</i>
REVENUE	4	114,284	115,305
Cost of sales		<u>(81,749)</u>	<u>(80,118)</u>
Gross profit		32,535	35,187
Other income and gain, net	5	2,382	921
Selling and distribution expenses		(12,390)	(14,795)
Administrative expenses		(11,121)	(11,792)
Finance costs	6	<u>(738)</u>	<u>(227)</u>
PROFIT BEFORE TAX	7	10,668	9,294
Income tax	8	<u>(1,863)</u>	<u>(1,250)</u>
PROFIT FOR THE YEAR		<u>8,805</u>	<u>8,044</u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(477)</u>	<u>(235)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX		<u>(477)</u>	<u>(235)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>8,328</u>	<u>7,809</u>
Profit for the year attributable to:			
Shareholders of the Company		7,414	6,077
Non-controlling interests		<u>1,391</u>	<u>1,967</u>
		<u>8,805</u>	<u>8,044</u>
Total comprehensive income for the year attributable to:			
Shareholders of the Company		6,959	5,853
Non-controlling interests		<u>1,369</u>	<u>1,956</u>
		<u>8,328</u>	<u>7,809</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
	10		
Basic and diluted (cents)		<u>0.37</u>	<u>0.33</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 S\$'000	2019 S\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	2,513	1,090
Right-of-use assets	<i>12</i>	13,725	4,226
Deposits		305	356
Deferred tax assets		362	–
		<hr/>	<hr/>
Total non-current assets		16,905	5,672
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		19,647	26,433
Contract assets		334	470
Trade receivables	<i>13</i>	11,514	14,054
Prepayments, deposits and other receivables		1,756	1,840
Cash and cash equivalents		50,316	36,083
		<hr/>	<hr/>
Total current assets		83,567	78,880
		<hr/>	<hr/>
CURRENT LIABILITIES			
Contract liabilities		8,284	6,683
Trade payables	<i>14</i>	4,017	5,459
Other payables and accruals		11,286	11,384
Borrowings		808	31
Lease liabilities		1,956	2,552
Provision for reinstatement costs		110	160
Income tax payables		1,982	1,545
		<hr/>	<hr/>
Total current liabilities		28,443	27,814
		<hr/>	<hr/>
NET CURRENT ASSETS		55,124	51,066
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		72,029	56,738
		<hr/>	<hr/>

	<i>Notes</i>	2020 <i>S\$'000</i>	2019 <i>S\$'000</i>
NON-CURRENT LIABILITIES			
Borrowings		55	78
Provision for reinstatement costs		222	100
Lease liabilities		13,187	1,741
Deferred tax liabilities		25	25
		<hr/>	<hr/>
Total non-current liabilities		13,489	1,944
		<hr/>	<hr/>
NET ASSETS		58,540	54,794
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	<i>15</i>	3,453	3,453
Share premium		20,352	20,352
Reserves		32,928	29,139
		<hr/>	<hr/>
		56,733	52,944
Non-controlling interests		1,807	1,850
		<hr/>	<hr/>
TOTAL EQUITY		58,540	54,794
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 31 December 2020

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 Company is an investment holding company. During the year, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), which comprise all standards and interpretations approved by the International Accounting Standards Board (“**IASB**”) and the disclosures requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars (“**SGD**” or “**S\$**”) and all values are rounded to the nearest thousand (S\$’000), except when otherwise indicated.

2.2 Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2020. The adoption of these new standards did not have any material effect on the financial performance or position of the Company. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IFRS 16 COVID-19-Related Rent Concessions

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions — amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The Company has applied this practical expedient to all property leases. As a result of applying the practical expedient, rental relief of S\$430,000 (Note 5) was recognised as other income in the profit or loss during the year.

3. SEGMENT INFORMATION

Management has determined 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 four 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 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 financial statements.

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

Year ended 31 December 2020	Interior design S\$'000	Furniture sales S\$'000	U.S. furniture sales S\$'000	Corporate S\$'000	Total S\$'000
Segment revenue:					
Segment revenue	11,393	17,594	85,745	–	114,732
Less: Inter-segment sales	(157)	(291)	–	–	(448)
	<u>11,236</u>	<u>17,303</u>	<u>85,745</u>	<u>–</u>	<u>114,284</u>
Sales to external customers					
	<u>11,236</u>	<u>17,303</u>	<u>85,745</u>	<u>–</u>	<u>114,284</u>
Segment results	<u>3,278</u>	<u>1,338</u>	<u>8,851</u>	<u>(2,799)</u>	<u>10,668</u>
Segment assets	<u>8,456</u>	<u>17,661</u>	<u>52,177</u>	<u>22,178</u>	<u>100,472</u>
Segment liabilities	<u>5,433</u>	<u>11,583</u>	<u>22,688</u>	<u>2,228</u>	<u>41,932</u>
Other segment information:					
Interest income	(71)	(37)	(91)	(256)	(455)
Finance costs**	1	116	608	13	738
Depreciation	33	445	196	17	691
Amortisation for right-of-use assets	33	1,423	1,483	961	3,900
Provision/(reversal of provision) for write-down of inventories to net realisable value, net	3	(269)	(335)	–	(601)
(Reversal of provision)/provision for expected credit losses of trade receivables, net	(45)	140	343	–	438
Capital expenditure*	<u>121</u>	<u>531</u>	<u>1,335</u>	<u>186</u>	<u>2,173</u>

Year ended 31 December 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	15,791	20,146	80,830	–	116,767
Less: Inter-segment sales	<u>(451)</u>	<u>(492)</u>	<u>(519)</u>	<u>–</u>	<u>(1,462)</u>
Sales to external customers	<u>15,340</u>	<u>19,654</u>	<u>80,311</u>	<u>–</u>	<u>115,305</u>
Segment results	<u>5,273</u>	<u>943</u>	<u>6,227</u>	<u>(3,149)</u>	<u>9,294</u>
Segment assets	<u>9,350</u>	<u>16,742</u>	<u>39,276</u>	<u>19,184</u>	<u>84,552</u>
Segment liabilities	<u>5,708</u>	<u>10,688</u>	<u>11,430</u>	<u>1,932</u>	<u>29,758</u>
Other segment information:					
Interest income	(79)	(44)	(121)	(263)	(507)
Finance costs**	2	101	49	75	227
Depreciation	23	479	208	–	710
Amortisation for right-of-use assets	26	1,198	859	1,479	3,562
Provision/(reversal of provision) for write-down of inventories to net realisable value, net	30	(90)	696	–	636
(Reversal of provision)/provision for expected credit losses of trade receivables, net	(6)	(3)	124	–	115
Capital expenditure*	<u>4</u>	<u>144</u>	<u>26</u>	<u>–</u>	<u>174</u>

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

** Finance costs include the interest for the lease liability.

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

	2020 S\$'000	2019 S\$'000
Singapore	3,464	4,166
U.S.	12,767	1,147
Malaysia and Brunei	7	3
	<u>16,238</u>	<u>5,316</u>

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

4. 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	Year ended 31 December 2020			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	–	17,303	85,745	103,048
Service income – interior design	<u>11,236</u>	–	–	<u>11,236</u>
Total revenue from contracts with customers	<u>11,236</u>	<u>17,303</u>	<u>85,745</u>	<u>114,284</u>
Geographical markets				
Singapore	10,095	17,303	–	27,398
U.S.	–	–	85,745	85,745
Malaysia and Brunei	<u>1,141</u>	–	–	<u>1,141</u>
Total revenue from contracts with customers	<u>11,236</u>	<u>17,303</u>	<u>85,745</u>	<u>114,284</u>
Timing of revenue recognition				
Goods transferred at a point in time	–	12,939	85,745	98,684
Goods and services transferred over time	<u>11,236</u>	<u>4,364</u>	–	<u>15,600</u>
Total revenue from contracts with customers	<u>11,236</u>	<u>17,303</u>	<u>85,745</u>	<u>114,284</u>

Segments	Year ended 31 December 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	–	19,654	80,311	99,965
Service income – interior design	15,340	–	–	15,340
Total revenue from contracts with customers	<u>15,340</u>	<u>19,654</u>	<u>80,311</u>	<u>115,305</u>
Geographical markets				
Singapore	14,716	19,654	–	34,370
U.S.	–	–	80,311	80,311
Malaysia and Brunei	624	–	–	624
Total revenue from contracts with customers	<u>15,340</u>	<u>19,654</u>	<u>80,311</u>	<u>115,305</u>
Timing of revenue recognition				
Goods transferred at a point in time	–	13,921	80,311	94,232
Goods and services transferred over time	15,340	5,733	–	21,073
Total revenue from contracts with customers	<u>15,340</u>	<u>19,654</u>	<u>80,311</u>	<u>115,305</u>

5. OTHER INCOME AND GAIN, NET

An analysis of the Group's other income and gain, net for each of the reporting period is as follows:

	2020 <i>S\$'000</i>	2019 <i>S\$'000</i>
Other income		
Commission income	11	115
Interest income	455	507
Miscellaneous income	320	299
Rental relief	430	–
COVID-19 Government Relief		
— Jobs support scheme	1,043	–
— Foreign worker levy	42	–
— Property tax rebate	81	–
	<hr/>	<hr/>
Other income and gain, net	2,382	921
	<hr/> <hr/>	<hr/> <hr/>

Notes:

Rental relief

As part of the Fortitude Budget, the Singapore Government introduced a Rental Relief Framework for landlords and tenants with prescribed criteria for eligibility of the rental relief as a measure to help companies during the period of economic uncertainty.

Jobs Support Scheme

The Jobs Support Scheme (“JSS”) was introduced in Singapore’s Budget 2020 and enhanced subsequently in the four supplementary budgets to provide wage support to employers to help them retain their local employees during the period of economic uncertainty. Under the JSS, the Singapore Government co-funds the first S\$4,600 of gross monthly wages (include employee CPF contributions but exclude employer CPF contributions) paid to each local employee.

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2020 <i>S\$'000</i>	2019 <i>S\$'000</i>
Interest on trust receipts loans	6	–
Interest on borrowings	5	8
Interest on right of use assets	727	219
	<hr/>	<hr/>
	738	227
	<hr/> <hr/>	<hr/> <hr/>

7. PROFIT BEFORE TAX

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

	<i>Notes</i>	2020 <i>S\$'000</i>	2019 <i>S\$'000</i>
Audit fees:			
— Auditors of the Company		200	200
— Other auditors		6	6
Non-audit fees:			
— Auditors of the Company		12	12
— Other auditors		2	2
Cost of goods sold		75,895	72,760
Cost of services provided		5,854	7,358
Depreciation		691	710
Amortisation for right-of-use assets		3,900	3,562
Expense relating to short-term leases		223	79
Variable lease payments		1,437	2,597
		<hr/>	<hr/>
Employee benefit expense (excluding directors' remuneration):			
Salaries, allowances, benefits in kind and other costs		7,704	7,822
Pension scheme contributions		788	895
		<hr/>	<hr/>
		8,492	8,717
		<hr/>	<hr/>
Gain on disposal of items of property, plant and equipment, net (Reversal of provision)/provision for write-down of inventories to net realisable value, net		20 (601)	— 636
Provision for expected credit losses of trade receivables, net	<i>13</i>	438	115
Foreign exchange differences, net		(364)	(77)
Listing expenses		—	984
		<hr/> <hr/>	<hr/> <hr/>

8. INCOME TAX

Income Tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income:

	2020 <i>S\$'000</i>	2019 <i>S\$'000</i>
Current — Singapore:		
Charge for the year	1,876	1,342
Under/(over)-provision in respect of prior years	17	(260)
Current — U.S.:		
Charge for the year	318	415
Under/(over)-provision in respect of prior years	28	(247)
Deferred tax:		
Charge for the year	(67)	—
Over-provision in respect of prior years	(309)	—
	<hr/>	<hr/>
	1,863	1,250
	<hr/> <hr/>	<hr/> <hr/>

9. DIVIDENDS

The Board proposed a special dividend of HK1.60 cents per ordinary share and a final dividend of HK1.28 cents per ordinary share for the year ended 31 December 2020 (31 December 2019: final dividend of HK0.88 cents per ordinary share).

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 year attributable to shareholders of the Company of S\$7,414,000 (2019: S\$6,077,000), and the weighted average number of ordinary shares in issue of 2,000,000,000 (2019: 1,843,835,616) during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during each of these years.

11. PROPERTY, PLANT AND EQUIPMENT

Additions and Disposals

During the year ended 31 December 2020, the Group acquired assets with a cost of S\$2,173,000 (31 December 2019: S\$174,000).

Assets with a net book value of S\$8,645 (2019: Nil) were disposed by the Group during the year ended 31 December 2020, resulting in a net gain on disposal of S\$20,000 (2019: Nil).

12. RIGHT-OF-USE ASSETS

Additions

During the year ended 31 December 2020, the Group entered into new leases and recognises right-of-use assets and lease liabilities of S\$13.8 million and S\$14.1 million respectively. The difference between the additions to right-of-use assets and to lease liabilities pertains to tenant incentive allowance. The weighted average incremental borrowing rate used was 5.25%.

13. TRADE RECEIVABLES

	Group	
	2020	2019
	S\$'000	S\$'000
Trade receivables	12,597	14,717
Provision for expected credit losses (<i>Note (c)</i>)	(1,083)	(663)
	11,514	14,054

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 segments.

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 reporting period, based on the invoice date and net of provision for expected credit losses, is as follows:

	Group	
	2020	2019
	S\$'000	S\$'000
Within 1 month	7,727	9,293
1 to 2 months	3,407	4,529
2 to 3 months	255	162
Over 3 months	125	70
	<u>11,514</u>	<u>14,054</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 reporting period are as follows:

	Group	
	2020	2019
	S\$'000	S\$'000
As at 1 January	663	552
Provision for expected credit losses (<i>Note 7</i>)	438	115
Exchange realignment	(18)	(4)
As at 31 December	<u>1,083</u>	<u>663</u>

14. 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 reporting period, based on the invoice date, is as follows:

	Group	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
Within 1 month	3,292	4,831
1 to 2 months	462	257
2 to 3 months	39	99
Over 3 months	224	272
	<u>4,017</u>	<u>5,459</u>

15. SHARE CAPITAL

Company

	31 December	31 December
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
10,000,000,000 (31 December 2019: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
	31 December	31 December
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
Issued and fully paid:		
2,000,000,000 (31 December 2019: 2,000,000,000) ordinary shares of HK\$0.01 each	<u>3,453</u>	<u>3,453</u>

A summary of movements in the Company's issued capital and share premium account from 1 January 2019 to 31 December 2020 is as follows:

	Number of shares in issue	Issued capital S\$'000	Share premium account S\$'000	Total S\$'000
As at 1 January 2019	3,800	— [#]	1,679	1,679
Issue of new shares pursuant to the Capitalisation Issue (<i>Note (a)</i>)	1,499,996,200	2,590	(2,590)	—
Issue of new shares in connection with the Listing (<i>Note (b)</i>)	500,000,000	863	25,035	25,898
Expenses incurred in connection with the Listing (<i>Note (b)</i>)	—	—	(3,772)	(3,772)
As at 31 December 2019 and 31 December 2020	<u>2,000,000,000</u>	<u>3,453</u>	<u>20,352</u>	<u>23,805</u>

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

Notes:

- (a) Pursuant to the written resolutions passed by the shareholders of the Company on 28 March 2019, the Directors were authorised to capitalise an aggregate amount of HK\$14,999,962 standing to the credit of the share premium of the Company as a result of the Share Offer and to appropriate such amount as capital to pay up in full at par 1,499,996,200 shares of HK\$0.01 each for allotment and issue to the persons whose names appear on the register of members of the Company immediately prior to the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"), each ranking *pari passu* in all respects with the then existing issued shares (the "**Capitalisation Issue**"). The Capitalisation Issue had been completed on 25 April 2019.
- (b) On 24 April 2019, 500,000,000 ordinary shares of par value HK\$0.01 each were issued at a price of HK\$0.30 per share in connection with the Listing for a total proceeds of approximately S\$22,126,000, net of listing expenses of S\$3,772,000, of which HK\$5,000,000 (equivalent to approximately S\$863,000) representing the par value were credited to the Company's share capital and the remaining proceeds of HK\$123,042,000 (equivalent to approximately S\$21,263,000) were credited to the share premium account. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 25 April 2019.

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 financial year ended 31 December 2020 (the “**Reporting Year**” or “**FY2020**”), our revenue amounted to approximately S\$114.3 million, representing a decrease of approximately S\$1.0 million or 0.9% from approximately S\$115.3 million for the year ended 31 December 2019. This decrease was mainly attributable to the decrease in revenue from our furniture sales and interior design segments and is partially offset by the increase in revenue from U.S. furniture segment.

U.S. Furniture Sales

For the year ended 31 December 2020, we mainly sold our products under the brands “Target Marketing Systems”, “TMS”, “Simple Living” and “Lifestorey” to furniture e-commerce platform customers in the U.S.. Our customers include major e-commerce sales platforms in the U.S. who in turn sell products to end-consumers. Our five largest customers during the year for our U.S. furniture sales segment comprise companies based in the U.S. and listed on the New York Stock Exchange or NASDAQ. The revenue generated from the U.S. furniture sales segment amounted to approximately S\$85.7 million (2019: approximately S\$80.3 million), which represented an increase of approximately 6.8% over 2019 and accounted for approximately 75.0% of the Group’s revenue. The increase was caused by favourable performance of furniture products in the home category segment of our U.S. e-commerce platforms as customers spend more time at home during the COVID-19 pandemic.

Furniture Sales

To cater to the spending powers and preferences of our customers at different market segments, we offer a wide range of products with different styles and price levels and showcase them in our points of sales branded under “Marquis”, “Lifestorey” and “OM” in Singapore. As at the date of this announcement, we operate five points of sale in Singapore, of which two are under the brand “Marquis”, one is under the brand “OM” and two are under the brand “Lifestorey”. We also provide project-based furnishing services (the “**Special Projects**”) for individual and corporate customers in relation to sourcing and installation of furniture items for residential and commercial properties.

The revenue generated from furniture sales segment for the year ended 31 December 2020 amounted to approximately S\$17.3 million (2019: approximately S\$19.7 million). The revenue derived from points of sales in Singapore decreased to approximately S\$12.9 million for the year ended 31 December 2020 when compared with the preceding year (2019: approximately S\$13.9 million) as a result of slow down in business caused by closure of showrooms due to COVID-19 Circuit Breaker (lockdown) measure imposed by the Singapore government, which also led to a slower delivery of products to customers.

The revenue from Special Projects under our furniture sales segment decreased by approximately S\$1.4 million from approximately S\$5.7 million for the financial year ended 31 December 2019 to approximately S\$4.4 million for the financial year ended 31 December 2020. The decrease was mainly due to requests by customers to delay the deliveries for certain projects as a result of slow progress of site work caused by the COVID-19 Circuit Breaker shut downs.

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 international design trends, and leveraging on our team’s design capability, our work has been well received by property developers and homeowners. The revenue generated from interior design and fitting-out services decreased by approximately S\$4.1 million from approximately S\$15.3 million for the year ended 31 December 2019 to approximately S\$11.2 million for the year ended 31 December 2020 as a result of slow progress of site works caused by the COVID-19 Circuit Breaker shut downs in Singapore.

PROSPECTS

U.S. Furniture Sales

While the U.S. economy is expected to recover in 2021 because of low-base effects of 2020, employment and consumer spending remain weak. Supply chain disruptions caused by unproductive, idle containers and carriers sitting at ports and operational delays at ports for loading and unloading containers has resulted in shortage of available containers and significant price increases in freight forwarding rates. This will negatively impact the performance of this segment. In addition, the continuing effects of the ongoing trade war between the U.S. and China and the global COVID-19 crisis lead us to be cautious about the growth prospects and financial performance of our U.S. furniture sales segment in the financial year 2021 (“**FY2021**”).

Furniture Sales

We anticipate a challenging operating environment for our furniture sales segment for FY2021. 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 continues to be profitable in FY2020 and with the projects currently on hand and our loyal customer base, together with our strengths in design, reputation and positive track record, we anticipate that this business segment will contribute positively to the Group in FY2021.

In conclusion, in light of a slowdown and uncertainty in the Singapore and global economy, we will adopt a cautious and prudent approach in implementing our expansion and growth plans for all our segments.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately S\$1.0 million or 0.9% from approximately S\$115.3 million for the financial year ended 31 December 2019 to approximately S\$114.3 million for the financial year ended 31 December 2020. This decrease was mainly attributable to the decrease in revenue from furniture sales and interior design segments. The Group's furniture sales segment recorded lower sales, in line with the slow-down in the Singapore economy and residential property market segment and lower number of housing completions. This is partially offset by the increase in revenue from U.S. furniture segment.

The Group's gross profit margin decreased from approximately 30.5% for the year ended 31 December 2019 to approximately 28.5% for the year ended 31 December 2020 mainly due to increase in proportion of the revenue from U.S. furniture sales segment which has a lower gross profit margin.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by approximately S\$2.4 million or 16.3% from approximately S\$14.8 million for the year ended 31 December 2019 to approximately S\$12.4 million for the year ended 31 December 2020. The decrease in selling and distribution expenses was primarily due to the decrease in advertising expenses, staff remuneration, sales commission and third party rental expenses incurred by U.S. furniture sales segment, which are partially offset by the increase in amortisation of right-of-use assets.

Administrative Expenses

The Group's administrative expenses decreased by approximately S\$0.7 million or 5.7% from approximately S\$11.8 million for the year ended 31 December 2019 to approximately S\$11.1 million for the year ended 31 December 2020. This is mainly due to the decrease of non-recurring Listing expenses of approximately S\$1.0 million in FY2019 which was offset by the increase in staff cost and reversal of provision for write-down of inventories to net realisable value.

Finance Costs

The Group's finance costs increased by approximately S\$0.5 million from approximately S\$0.2 million for the year ended 31 December 2019 to S\$0.7 million for the year ended 31 December 2020. The increase is mainly due to the higher interest on right-of-use assets by S\$0.5 million arising from the new long-term lease entered during the year.

Other Income and Gain

The Group's net other income and gain increased by approximately S\$1.5 million or 158.6% from approximately S\$0.9 million for the year ended 31 December 2019 to approximately S\$2.4 million for the year ended 31 December 2020. The increase in the net other income and gain was primarily due to the increase in COVID-19 Government Relief of approximately S\$1.2 million and rental relief of approximately S\$0.4 million.

Income Tax Expense

The Group's income tax expense increased by approximately S\$0.6 million to approximately S\$1.9 million for the year ended 31 December 2020. The increase in income tax expense was primarily due to an increase in current income tax charged in Singapore and is partially offset by the increase in deferred tax assets in U.S..

Profit

The Group's profit for the year increased by approximately 9.5% from approximately S\$8.0 million for the year ended 31 December 2019 to approximately S\$8.8 million for the year ended 31 December 2020 mainly attributable to the decrease in selling and distribution expenses and the increase in other income and gain.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overall Financial Position

The Group had total cash and cash equivalents of approximately S\$50.3 million as at 31 December 2020 (2019: approximately S\$36.1 million), most of which were denominated in Hong Kong dollars, Singapore dollars and U.S. dollars. As at 31 December 2020, the cash and bank balances other than time deposits of the Group amounted to approximately S\$18.3 million (2019: approximately S\$29.5 million).

The Group recorded total current assets of approximately S\$83.6 million as at 31 December 2020 (2019: approximately S\$78.9 million) and total current liabilities of approximately S\$28.4 million as at 31 December 2020 (2019: approximately S\$27.8 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.9 as at 31 December 2020 (2019: approximately 2.8).

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 31 December 2020, the Board considered that the Group had sufficient working capital for its operations and future development plans.

Gearing Ratio

As at 31 December 2020, the Group's gearing ratio which was calculated by dividing the total debt (borrowings) by total equity and multiplied by 100% was approximately 1.5% (2019: 0.2%). The gearing ratio increased mainly due to the new trust receipt and loans drawn during the year.

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees (2019: Nil).

Capital Commitment

As at 31 December 2020, the Group did not have any material capital commitment (2019: Nil).

Capital Structure

As at 31 December 2020 and 2019, the capital structure of the Company comprised mainly issued share capital and reserves.

Foreign Currency Risk

The Group's reporting currency is Singapore dollars. For the year ended 31 December 2020, the Group's cash and cash equivalents were mostly denominated in Hong Kong dollars, Singapore dollars and U.S. 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 and Hong Kong 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 31 December 2020, we had 136 (2019: 144) full-time employees, of whom 96 are based in Singapore, 23 are based in the U.S., 12 are based in Malaysia and 5 are based in Brunei.

For the year ended 31 December 2020, staff costs (including directors emoluments) amounted to approximately S\$10.8 million (2019: approximately S\$10.6 million).

The Group remunerates its employees with competitive salaries, allowances and performance-based bonus based on their individual performance, contribution to the Group performance and relevant work experience. Apart from those, the Group participates in the national pension scheme in Singapore under which the Group makes contributions to the Central Provident Fund scheme. At the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

The Group also provides internal training programme to our employees from time to time. The training programme includes industry trend in furnishing and interior design, product knowledge, sale technique, retail management, customer service and product display so as to increase our employees' sense of belonging to the Group and enhance effectiveness in operation.

CHARGES ON GROUP'S ASSETS

As at 31 December 2020, the Group had aggregate unutilised banking facilities of approximately S\$5.8 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. (2019: S\$6.6 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2020, 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 financial year ended 31 December 2020.

FINAL DIVIDEND

The Board recommended the declaration and payment of a final dividend of HK1.28 cents per ordinary share for the year ended 31 December 2020 (31 December 2019: HK0.88 cents) (the “**Final Dividend**”). The Final Dividend is subject to approval by the Company’s shareholders at the forthcoming annual general meeting to be held on 28 June 2021 (the “**AGM**”).

Subject to the approval of the shareholders, the Final Dividend is expected to be paid to the Company’s shareholders on or about 23 July 2021 to the qualifying shareholders whose names appear on the register of members of the Company on 7 July 2021, being the record date for determination of entitlements to the Final Dividend.

SPECIAL DIVIDEND

In recognition of the shareholders’ support since the Listing and throughout the COVID-19 pandemic, the Board recommended the declaration and payment of a special dividend of HK1.60 cents per ordinary share out of the share premium account under the reserves of the Company (the “**Special Dividend**”).

The declaration and payment of the Special Dividend out of the share premium account of the Company is conditional upon the satisfaction of the following conditions:

- (a) the passing of an ordinary resolution by the shareholders at the AGM approving the declaration and payment of the Special Dividend out of the share premium account; and

- (b) the Directors being satisfied that there are no reasonable grounds for believing that the Company is, immediately following the payment of the Special Dividend, unable to pay its liabilities as they fall due in the ordinary course of business.

The conditions set out above cannot be waived. If such conditions are not satisfied, the Special Dividend will not be paid.

Subject to the fulfillment of the above conditions, it is expected that the Special Dividend will be paid, pursuant to the articles of association of the Company and in accordance with the Companies Act of the Cayman Islands, on or about 23 July 2021 to the qualifying shareholders whose names appear on the register of members of the Company on 7 July 2021, being the record date for determination of entitlements to the Special Dividend.

Financial Effect of the Payment of the Special Dividend out of the Share Premium Account

The implementation of the payment of the Special Dividend out of the share premium account does not involve any reduction in the authorised or issued share capital of the Company nor does it involve any reduction in the nominal value of the shares or the trading arrangements concerning the shares. Save for the immaterial expenses incurred as a result of the payment of the Special Dividend, the Directors consider that the payment of the Special Dividend out of the share premium account will not have any material adverse effect on the financial position of the Group.

USE OF NET PROCEEDS FROM LISTING

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 Date**”). The Company had allotted and issued 500,000,000 ordinary shares with aggregate nominal value of HK\$5.0 million 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 31 December 2020.

With reference to the prospectus of the Company dated 11 April 2019 (the “**Prospectus**”) 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 31 December 2020:

	Percentage	Original allocation of Net Proceeds as disclosed in the Prospectus <i>Approximate HK\$'000</i>	Revised allocation based on the actual Net Proceeds <i>Approximate HK\$'000</i>	Total Amount utilised from Listing to 31 December 2020 <i>Approximate HK\$'000</i>	Unutilised balance as at 31 December 2020 <i>Approximate HK\$'000</i>	Expected timeline for utilising remaining Net Proceeds as disclosed in Prospectus	Revised expected timeline for utilising remaining Net Proceeds <i>(Note 1)</i>
U.S. furniture sales segment:							
procurement of inventory	62.1%	79,700	65,351	41,659	23,692	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	3,900	4,940	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	946	2,737	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 <i>(Note 2)</i>
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 <i>(Note 2)</i>
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 <i>(Note 2)</i>
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 <i>(Note 2)</i>
General working capital of our Group	8.3%	10,700	8,734	711	8,023	N/A	On or before 31 December 2023 <i>(Note 3)</i>
	<u>100.0%</u>	<u>128,300</u>	<u>105,235</u>	<u>47,216</u>	<u>58,019</u>		

Notes:

1. Reference is made to the announcement of the Company dated 11 September 2020.
2. As mentioned in our previous announcement dated 11 September 2020, the Group will review its strategic options cautiously in light of the current economic slowdown and COVID-19 pandemic challenges. While business conditions remain weak, asking rentals from certain shopping malls and possible point of sale locations have also fallen in tandem with the general drop in footfall to shopping spaces. As such, the Group is exploring locations where rentals have become more affordable and more cost effective for its point of sales operations in order to maximise returns and lower business risk.

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 Net Proceeds for this part accordingly.

3. 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.

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

During the year ended 31 December 2020, 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 YEAR

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

CORPORATE GOVERNANCE

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to 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 31 December 2020, 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 judgement. 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.

Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the period from the Listing Date to 31 December 2020.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 28 June 2021. A circular containing the information required by the Listing Rules, the Final Dividend and the Special Dividend, together with the notice convening the AGM, will be published on the Company's website and The Stock Exchange of Hong Kong Limited's website and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 23 June 2021 to Monday, 28 June 2021, both dates inclusive, during which period no transfer of its shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 22 June 2021.

For determining the entitlement to the proposed Special Dividend and Final Dividend (subject to approval by the shareholders at the AGM), the Register of Members of the Company will be closed from Monday, 5 July 2021 to Wednesday, 7 July 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed Special Dividend and Final Dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 2 July 2021.

AUDIT COMMITTEE

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 Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2020.

SCOPE OF WORK OF THE COMPANY’S AUDITOR ON THE FINANCIAL RESULTS ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company’s auditor, Ernst & Young LLP (“EY”), to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by EY on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.designcapital.sg). The annual report of the Company for the year ended 31 December 2020 will be dispatched to shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 29 March 2021

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.