

DESIGN STUDIO GROUP LTD.

(Incorporated in the Republic of Singapore)

(Co. Reg. No.: 199401553D)

DISPOSAL OF DS CHINA GROUP

1. INTRODUCTION

- 1.1 The board of directors (the “**Board**” or the “**Directors**”) of Design Studio Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that, in connection with the Group’s ongoing restructuring exercise (the “**Restructuring Exercise**”)¹, the Company has entered into a sale and purchase agreement (the “**SPA**”) with DSGCN Holdings Limited (the “**Buyer SPV**”) in relation to the disposal of the Company’s subsidiaries comprising its China business unit, being Design Studio (China) Pte Ltd (“**DS China**”), and Design Studio (Huizhou) Home Furnishing Co., Ltd (“**DSH**”) and Design Studio Furniture (Shanghai) Co. Ltd (“**DS Shanghai**”) (together, the “**DS China Group**”) (the “**Disposal**”).
- 1.2 As the relative figures computed based on Listing Rule 1006(a) and (b) of the Listing Manual are negative figures, and the loss on disposal of the DS China Group exceeds 10% of the net loss of the Group, Listing Rule 1014 would apply to the Disposal pursuant to paragraph 4.6 of Practice Note 10.1 of the Listing Manual.
- 1.3 Accordingly, unless waived or exempted by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), the Disposal would be subject to the prior approval of the Company’s shareholders (“**Shareholders**”). The Company is pleased to announce that the SGX-ST has granted a waiver of the requirement for the Company to obtain the prior approval of Shareholders under Listing Rule 1014(2) for the Disposal (the “**Waiver**”). Please refer to paragraph 9 of this announcement for further information on the Waiver.

2. INFORMATION ON THE DS CHINA GROUP

- 2.1 DS China is a wholly owned direct subsidiary of the Company. DS China is an investment holding company incorporated in Singapore, which holds the entire share capital of DSH. DSH operates as the centralized manufacturing facility for the Group’s business units and related parties, which includes businesses in Singapore, Malaysia, UAE and Thailand.

3. INFORMATION ON THE BUYER SPV, AJCAPITAL ADVISORY AND TRUEVERA

- 3.1 The Buyer SPV is a special purpose vehicle incorporated in the British Virgin Islands and functions as an intermediate holding entity for the DS China Group while a sale is pursued. The Buyer SPV is owned and controlled by Luke Furler, the Chief Restructuring Officer of the Company and a partner of AJCapital Advisory, the independent financial advisor to the Company in respect of the Restructuring Exercise. AJCapital Advisory is a specialist restructuring firm with offices in Singapore and Jakarta.

¹ Please refer to the Company’s announcements dated 20 January 2020, 26 February 2020, 18 June 2020 and 20 October 2020 for further information on the Restructuring Exercise.

- 3.2 Truevera Investments Limited ("**Truevera**") is a specialist restructuring advisory firm incorporated in Hong Kong with a presence in China and Vietnam. Truevera was engaged by the Company to provide advice in relation to the pre-closure, divestment and preparation of the DS China Group.
- 3.3 Save for the appointments of AJCapital Advisory and Truevera for the purpose of the Restructuring Exercise, the directors and shareholders of AJCapital Advisory and Truevera have no past or current relationships with the Company, its directors or shareholders.

4. THE DISPOSAL AND THIRD PARTY SALE

4.1 The Disposal

- 4.1.1 Pursuant to the SPA, the Company shall transfer the entire share capital of DS China to the Buyer SPV.
- 4.1.2 The initial consideration for the Disposal shall be S\$1.00 (the "**Initial Consideration**"). The Initial Consideration was agreed on a willing buyer, willing seller basis, taking into consideration the Adjustment (as defined in paragraph 4.1.3 below) and the fact that the DS China Group is loss-making and the value of its liabilities exceeds its assets.
- 4.1.3 In the event a Third Party Sale (as defined in paragraph 4.2 below) is successfully concluded, the Initial Consideration shall be adjusted and the Buyer SPV shall pay an additional consideration equivalent to the proceeds of the Third Party Sale, less the Initial Consideration and the costs and expenses incurred by Buyer SPV in connection with the Third Party Sale (the "**Adjustment**"). For the avoidance of doubt, no further liability will accrue to the Company as part of any Adjustment.
- 4.1.4 In connection with the Disposal, each entity within the DS China Group shall execute a deed waiving and releasing all rights against the Company and its affiliates in respect of intercompany debts, and *vice versa*, as the entities within the Group are insolvent and such intra-group debts are deemed unrecoverable.
- 4.1.5 The Company will make a further announcement upon completion of the Disposal.

4.2 The Third Party Sale

- 4.2.1 Following the completion of the Disposal, the Buyer SPV shall attempt to market the DS China Group with a view to on-selling the DS China Group or its business (or any part thereof) to a third party buyer within six (6) months (the "**Third Party Sale**").
- 4.2.2 In conducting the Third Party Sale, the Buyer SPV shall be assisted by Truevera to source a third party buyer for the DS China Group.
- 4.2.3 The Buyer SPV is intended to be a holding entity for the DS China Group pending a successful Third Party Sale or the potential closure of the DS China Group in the event that a Third Party Sale is not successfully concluded.
- 4.2.4 The Company will make a further announcement in compliance with Listing Rule 1010 if a Third Party Sale materialises.

5. RATIONALE FOR AND BENEFITS OF THE DISPOSAL AND THIRD PARTY SALE

- 5.1 DSH, the only operating company within the DS China Group, employs around 200 employees. Since its inception in 2011, DS China Group has generated a loss in seven out of its ten years of operation, the last year of profitability being in 2016. The DS China Group's losses also led to the Company announcing a profit warning on 19 October 2018. The operating costs of DSH in 2019 and 2020, have been funded by the Singapore and Malaysia entities of the Group. In addition, the depreciation of the fixed assets of DSH continuously erodes the consolidated net asset value of the Group. While the Disposal is not expected to generate material cash inflow to the Group, it will significantly reduce the Group's cash burden and loss making operations going forward, allowing the Group to fund ongoing working capital requirements in Singapore, Malaysia and Myanmar.
- 5.2 As at the date of this announcement, the DS China Group is unable to continue carrying on as a going concern unless it receives further funding. Given the current financial condition of the Group, the Company does not intend to and is unable to provide further funding to the DS China Group. As such, DSH's operations have been scaled down to the care and maintenance of its plant and equipment only to preserve its limited funds so as to allow time for the Buyer SPV (working together with Truevera) to conduct the Third Party Sale.
- 5.3 Due to the limitations in the formal insolvency regime in China in particular relating to small and medium sized enterprises (SMEs) which provides for a mechanism to temporarily restrain creditor action against an insolvent company, in order to effect an orderly winding up of an entity in China requires payment of all creditors in full, including the payment of employee severance, before a company can effectively realise its assets. The Company has been advised that the value of the assets of DSH is insufficient to discharge its liabilities were it to be liquidated, and that the estimated costs of an orderly winding up and dissolution of the DS China Group ranges between US\$2.5 to US\$3.3 million. The Company does not have sufficient financial means to fund and effect an orderly winding up and dissolution of the DS China Group. As such, the Company has decided to pursue the Proposed Disposal in better manage the risks associated with the DS China Group while pursuing a Third Party Sale and the Restructuring Exercise.
- 5.4 The creditors of the DS China Group are outside the jurisdiction of the courts of Singapore and Malaysia, and their debts will not be capable of compromise under the schemes of arrangement to be proposed by the Group to compromise its liabilities in both jurisdictions (the "**Schemes**"). As such, concluding the Disposal of the DS China Group as early as possible is critical to the success of the Restructuring Exercise as whole. The Group's creditors in Singapore and Malaysia will be unlikely to approve the Schemes to compromise their debts if the Group continues to own DS China Group, whose creditors will not have their debts similarly compromised. Further, the Group is not able to fund the costs of an orderly winding up of the DS China Group. Continuing to hold the DS China Group through a disorderly and contentious process to wind down its operations presents risk to the Group, which will discourage the Singapore and Malaysia creditors of the Group from voting in favour of the Schemes, and will further pose significant risk to the condition of the Group going forward even if the Schemes are successfully approved.
- 5.5 To ensure that the Group benefits from the proceeds of any Third Party Sale, the terms of the Disposal ensures that the Company will receive any excess proceeds from a Third Party Sale, if such a transaction is successfully concluded.

6. USE OF PROCEEDS

- 6.1 The Company does not anticipate that the Initial Consideration for the Disposal will generate any material proceeds for the Company. The Company will announce the intended use of proceeds arising from the Adjustment in the event a Third Party Sale materialises.

7. FINANCIAL EFFECTS OF THE DISPOSAL

7.1 Bases and assumptions

The *pro forma* financial effects are presented for illustration only and are not intended to reflect the actual future financial situation of the Company after Disposal.

These illustrative *pro forma* financial effects were computed based on (a) the Group's last audited consolidated financial statements for the financial year ended 31 December 2018 ("FY2018"); and (b) the Group's unaudited management accounts for the financial year ended 31 December 2019 ("FY2019"), based on the following assumptions:

- (a) the Group (including the DS China Group) is carrying on as a going concern;
- (b) all intra-group debts between the DS China Group and Group (excluding the DS China Group) are waived;
- (c) the Third Party Sale has not been concluded; and
- (d) expenses incurred by the Company in connection with the Disposal are disregarded for the purpose of these illustrative financial effects.

Save as disclosed above, these *pro forma* financial effects do not take into account (i) any corporate actions announced and undertaken by the Group, including the Restructuring Exercise; and (ii) any issuance of new shares in the share capital of the Company (the "Shares"), on or after 1 January 2018.

7.2 Net tangible assets ("NTA") per Share

The illustrative financial effects of the Disposal on the NTA of the Group as at 31 December 2018 and 31 December 2019 are as follows:

	FY2018 ⁽¹⁾ (Audited)		FY2019 ⁽²⁾ (Unaudited)	
	Before	After	Before	After
NTA (S\$'000) ⁽³⁾	62,939	53,104	(18,404)	(28,239)
Shares ('000)	260,264	260,264	260,264	260,264
NTA per Share (cents)	24.18	20.40	(7.07)	(10.85)

Notes:

- (1) Assuming the Disposal was completed on 31 December 2018.
- (2) Assuming the Disposal was completed on 31 December 2019.
- (3) NTA means total assets less the sum of total liabilities, non-controlling interests and intangible assets (net of non- controlling interests).

7.3 Earnings per Share (“EPS”)

The illustrative financial effects of the Disposal on the EPS of the Group for FY2018 and FY2019 are as follows:

	FY2018 ⁽¹⁾ (Audited)		FY2019 ⁽²⁾ (Unaudited)	
	Before	After	Before	After
(Loss) attributable to shareholders (S\$'000)	(26,446)	(36,281)	(83,135)	(92,970)
Weighted average number of Shares ('000)	260,264	260,264	260,264	260,264
Basic EPS (cents)	(10.16)	(13.94)	(31.94)	(35.72)

Notes:

(1) Assuming the Disposal was completed on 1 January 2018.

(2) Assuming the Disposal was completed on 1 January 2019.

8. RELATIVE BASES UNDER RULE 1006 OF THE LISTING MANUAL

8.1 Based on the latest announced unaudited financial statements of the Group for the 9-month financial period ended 30 September 2019 (“3Q2019”), the relative figures of the Disposal computed on the bases set out in Rule 1006 of the Listing Manual are set out below:

Rule 1006	Bases of Calculation	Relative Figure (%)
(a)	Net asset value of the assets to be disposed of compared with the Group’s net asset value	-10.89 ⁽¹⁾
(b)	The net profits ⁽²⁾ attributable to the assets disposed of, compared with Group’s net profits	-5.81 ⁽³⁾
(c)	Aggregate value of the consideration to be received, compared with the Company’s market capitalisation	NM ⁽⁴⁾
(d)	The number of consideration shares issued by the Company, compared with the number of Shares (excluding treasury shares) previously in issue	N.A.
(e)	The aggregate volume of proved and probable reserves to be disposed of compared with the Group’s probable and proved reserves	N.A.

Notes:

(1) Computed based on the unaudited net asset value of the Group as at 30 September 2019 of S\$29,915,000 and the unaudited net asset value of the DS China Group as at 30 September 2019 of negative S\$3,257,000.

- (2) Under Rule 1002(3) of the Listing Manual, “net profits” means profit or loss before income tax, minority interests and extraordinary items.
 - (3) Computed based on the unaudited net loss (before income tax, minority interests and extraordinary items) of the Group for 3Q2019 of S\$34,552,000 and the unaudited net loss (before income tax, minority interests and extraordinary items) of the DS China Group for 3Q2019 of S\$2,008,000.
 - (4) Based on the initial consideration of S\$1.00.
- 8.2 Based on the unaudited management accounts of the DS China Group in respect of the nine (9) month period ended 30 September 2020, the DS China Group had a net asset value (“NAV”) of approximately S\$9.8 million.
- 8.3 As the entities within the Group are insolvent, all intra-group debts between DS China Group and the other entities within the Group are deemed to be unrecoverable and shall be waived before the Disposal. Upon completion of the Disposal, the Group expects to record a loss on disposal of the DS China Group of approximately S\$9.8 million, primarily due to the de-consolidation of retained earnings of the DS China Group arising from the waiver of intra-group debts between DS China Group and the Group (excluding the DS China Group). The loss on disposal of the DS China Group represents approximately 27.9% of the net losses of the Group based on its unaudited financial statements for 3Q2019.
- 8.4 As the relative figure computed based on Rule 1006(a) and (b) of the Listing Manual are negative figures, and the loss on disposal exceeds 10% of the net loss of the Group, Listing Rule 1014 would apply to the Disposal pursuant to paragraph 4.6 of Practice Note 10.1 of the Listing Manual.
- 8.5 The Company is pleased to announce that the SGX-ST has granted the Waiver. As such, the Disposal will not be subject to the prior approval of Shareholders. In accordance with the conditions of the Waiver, the Company will instead convene an extraordinary general meeting within three (3) months from 27 November 2020 to obtain shareholder ratification of the Disposal.

9. THE WAIVER

9.1 Conditions to the Waiver

The Company is pleased to announce that the SGX-ST has granted the Waiver, subject to the following conditions:

- (a) The Company announcing the Waiver granted, the reasons for seeking the Waiver, the conditions as required under Mainboard Listing Rule 107 and if the Waiver conditions have been satisfied. If the Waiver conditions have not been met on the date of the announcement, the Company must make an update announcement when the conditions have all been met;
- (b) Ratification of the Disposal by shareholders at an EGM to be convened within 3 months from the date of the Waiver;
- (c) Unanimous confirmation from the board of directors that the Disposal is in the best interests of the Company;

- (d) An irrevocable written undertaking from Depa, the controlling shareholder of the Company, that Depa will vote and/or procure the voting of all its 89.6% shares in favour of the Disposal and that Depa will not transfer, sell or otherwise dispose of any or all of its approximate 89.6% interest in the Company's shares prior to and during the period of the EGM to be convened for the shareholders' ratification;
- (e) The Target Disposal Group not being subsequently sold by Truevera or other parties to interested persons within the meaning envisaged under Chapter 9 of the Listing Manual or their nominees;
- (f) Confirmation from the Board and controlling shareholder(s) and Truevera that they will seek shareholders' prior approval if the DS China Group or part thereof is sold to interested persons within the meaning envisaged under Chapter 9 of the Listing Manual or their nominees; and
- (g) Compliance with Rule 1010 when the assets are sold to third parties or otherwise liquidated by Truevera and/or AJCapital.

As at the date of this announcement, the conditions set out under 9.19.1 sub-paragraphs (b) and (g) above have not been satisfied. The Company shall make an update announcement when the conditions above have all been met.

9.2 Grounds for the Waiver

The Company's grounds for the application of the Waiver are as follows:

- (a) The Company is of the opinion that the Disposal will materially reduce the risk profile of the Group and is critical to the survival of the Group, on the basis that:
 - (i) the DS China Group is unable to carry on as a going concern and will cease operations unless the Third Party Sale is successfully concluded;
 - (ii) the debts of the DS China Group are not capable of compromise under the Schemes;
 - (iii) the Company is unable to fund the costs of an orderly winding up and dissolution of the DS China Group, which is estimated to be between S\$2.5 to S\$3.3 million; and
 - (iv) for the reasons set out above and in paragraph 5 of this announcement, the failure to conclude the Disposal is likely to have a material adverse impact on the success of the Restructuring Exercise as a whole, and may lead to the insolvency of the Group.
- (b) The Disposal has been foreshadowed, as the Company announced on 20 January 2020 that the Restructuring Exercise would include potential asset divestments to increase efficiency and productivity, and manage costs. Furthermore, DS China Group is an ancillary manufacturing business whose principal business is the manufacture of paneling products to support Group's core business of providing interior fit-out solutions and the supply and installation of paneling products. As the Company is undertaking a restructuring exercise, the disposal of non-core, lossmaking assets to reduce costs and

streamline the operations of the Group would be expected by its shareholders and creditors.

- (c) The Company's majority shareholder, Depa Interiors LLC ("**Depa**"), controls approximately 89.6% of the voting shares of the Company. Depa has provided the Company with an irrevocable undertaking to vote in favour of the Disposal at the EGM. In light of the support from Depa, the Company is of the view that requirement for prior shareholder approval for the Disposal would be a mere formality and an unnecessary strain on the Group's limited financial resources.

10. CONFIRMATIONS IN RELATION TO THE DISPOSAL AND THIRD PARTY SALE

- 10.1 For the reasons set out in paragraph 5 of this announcement, the Directors confirm that they are unanimously of the opinion that the Disposal is in the best interests of the Company.
- 10.2 As required under the condition set out in paragraph 9.1(f) of this announcement, Depa, the Buyer SPV and Truevera have confirmed to the Company that they shall ensure that, in the event that the DS China Group or any part thereof is sold to an interested person within the meaning envisaged under Chapter 9 of the Listing Manual pursuant to the Third Party Sale, such Third Party Sale shall be made conditional on the prior approval of the independent Shareholders of the Company. Accordingly, the Board confirms that the Company shall seek the prior approval of the independent Shareholders the event that that the DS China Group or any part thereof is sold to an interested person within the meaning envisaged under Chapter 9 of the Listing Manual.

11. UNDERTAKING TO VOTE

Depa controls approximately 89.6% of the share capital of the Company. Depa has undertaken (a) not to transfer, sell or otherwise dispose of any or all of its Shares prior to the EGM; and (b) to vote and/or procure the voting of all of its Shares in favour of the Disposal at the EGM. Save as disclosed above, the Company is not aware of any other undertakings given by Shareholders to vote for or against the Disposal at the EGM.

12. CIRCULAR TO SHAREHOLDERS AND EGM

The Company will convene the EGM to seek Shareholders' ratification of the Disposal. A circular containing, *inter alia*, the notice of EGM and details of the Disposal will be despatched to Shareholders in due course.

13. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors and their respective associates has any interest, direct or indirect, in the Disposal (other than through their respective shareholding interests in the Company, if any).

The Directors have not received any notification of interest in the Disposal from any controlling shareholders of the Company and their respective associates and are not aware of any controlling shareholders of the Company and their respective associates who has any interest, direct or indirect, in the Disposal (other than through their respective shareholding interests in the Company).

14. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Disposal. Accordingly, no service contract is proposed to be entered into by the Company in connection with the Disposal.

15. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SPA will be made available for inspection by Shareholders during normal business hours from 9.00 a.m. to 5.00 p.m. at the Company's registered office at 8 Sungei Kadut Crescent, Singapore 728682, for a period of three months from the date of this announcement.

By Order of the Board

Steven James Salo
Executive Director and Interim Chief Executive Officer

15 January 2021