DESIGN STUDIO GROUP LTD.
(Incorporated in the Republic of Singapore)
(Co. Reg. No.: 199401553D)

RESPONSE TO QUERIES FROM SGX-ST IN RELATION TO COMPANY'S UNAUDITED FY2020 FINANCIAL STATEMENTS ANNOUNCEMENT ON 28 APRIL 2021 (the "COMPANY ANNOUNCEMENT")

The Board of Directors of Design Studio Group Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the below queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), and wishes to provide its response as follows:

SGX Query 1

Please provide the reasons and breakdown for the impairment losses on financial assets and contract assets of $9.85 million for the 2H2020 and $10.95 million for the FY2020.

Company's Response

The breakdown of the impairment losses on the financial assets and contract assets are as follows:-

	2H2020	FY2020
Impairment against trade receivables & retention	$7.0 million	$7.5 million
Impairment against other receivables	$2.3 million	$2.8 million
Impairment against contract assets	$7.5 million	$7.6 million
Impairment against PPE	$0.3 million	$0.3 million
Less: China discontinued operations impairment	$7.3 million	$7.3 million
Total impairment loss	$9.8 million	$10.9 million

The impairment losses on financial assets and contract assets are mainly due to Malaysia (about 45% of the totals) and Singapore BU (about 55%). These impairment losses amounting due to reductions in estimated project margins, predominantly as a result of higher than expected project costs, including cost increases due to prolonged project execution periods, defects and potential liquidated damage claims. It is the result of a careful review of contract assets related to all active projects. Such reviews are performed regularly, and where it deems necessary, corrections are done in the form of loss allowances.

SGX Query 2

It was disclosed in the unaudited FY2019 financial statements announced on 28 April 2021 that impairment loss on financial assets and contract assets for FY2019 was $15.72 million. However, it is disclosed on page 2 of the unaudited FY2020 financial statement that the impairment loss for FY2019 was $14.42 million instead. Please explain and reconcile the difference.

Company's Response

It was disclosed on page 2 of the unaudited FY2020 financial statement, that the impairment loss for FY2019 is $15.72 million, which should be $14.52 million, with the difference of $1.2 million due to the impairment loss relating to the discontinued operations of the DS China Group.

SGX Query 3

Please disclose what are the financial assets amounting to $15.29 million that had been written off in FY2020 and explain the basis of how the amount of write off was determined.

Company's Response

The financial assets amounting to $15.29 million, that had been written off in FY2020, are mainly related to net written off amounts due from DS-China Group to the Company and its subsidiaries of $14.7 million. The DS-China Group was re-classified as assets held for sale as at 31 December 2020, and has subsequently been sold in March 2021.

SGX Query 4

Please explain the reasons why there was still a significant amount of impairment loss and write off of financial assets amounting to a total of $26.24 million in FY2020 after an impairment and write off of financial assets amounting to a total of $15.06 million was recorded in FY2019.

Company's Response

There was still a significant amount of impairment loss and write off of financial assets amounting to a total of $26.24 million in FY2020. $14.7 million are pertaining to the net written off amount due from DS-China Group to the company and its subsidiaries. China Group was classified as assets held for sale as at 31 December 2020, and has subsequently been sold in March 2021.

SGX Query 5

Please explain what are the factors that resulted in the reversal of impairment loss on financial assets amounting to $4.85 million in FY2020.

Company's Response

The reversal of impairment loss on financial assets amounting to $4.85 million in FY2020 relating to $0.67million in trade receivables, $0.11 million in retention receivables, $2.44 million in contract assets and $1.6 million in other receivables. Reasons are the continued reviews and re-valuations of all balance positions in the context of the ongoing restructuring exercise.

SGX Query 6

Please provide the Board's assessment on the recoverability of the

a. non-current trade and other receivables amounting to $2.48 million; and

Company's Response

The non-current trade and other receivables amounting to $2.48 million relating to current year billings.

The Group assesses its credit exposure on a continuous basis. The Group provides impairment loss where significant increase in credit risk has been identified for specific receivable from time to time. In assessing the credit risk, the Group has considered factors such as the probability of insolvency or significant financial difficulties of the debtor, default or significant delay in payments and outcome of negotiations with customers.

The Group's objective is to seek minimising losses incurred due to increase in credit risk exposure. The Group trades only with recognised and creditworthy customers. In addition, receivables are monitored on an ongoing basis to minimise the Group's exposure to bad debts.

b. current trade and other receivables amounting to $16.73 million.

Company's Response

The current trade and other receivables amounting to $16.73 million mainly due to lower revenue and reduction in estimated project margins as a result of higher than expected project costs including defects and provision for foreseeable loss for certain projects.

The Group assesses its credit exposure on a continuous basis. The Group provides impairment loss where significant increase in credit risk has been identified for specific receivable from time to time.

SGX Query 7

Please provide the reasons for the provision of loss allowances amounting to $0.3 million for non-current trade and other receivables, $14.6 million for current trade and other receivables, and $7.9 million for contract assets. Please also provide the Board's opinion on the reasonableness of the methodologies used to determine the value of the loss allowances.

Company's Response

The reason for the provision of loss allowances amounting to due to reduction in estimated project margins, predominantly as a result of higher than expected project costs, including cost increases due to prolonged project execution periods, defects and potential liquidated damage claims. The provided amounts are the extract of detailed individual; project reviews with the relevant BU management.

SGX Query 8

Please explain why loss allowance for current trade receivables had increased from $4.4 million in FY2019 to $11.07 million in FY2020.

Company's Response

The increase in the provision of loss allowances for current trade and other receivables of $6.7 million is comprised of both, trade receivables and other receivables arising from current period billings in FY2020. In the context of ongoing detailed review of all balance positions during the restructuring process, certain positions were considered as doubtful or disputed by customers due to dissatisfactory project delivery.

The Group assesses its credit exposure on a continuous basis. The Group provides impairment loss where significant increase in credit risk has been identified for specific receivables.

SGX Query 9

Please explain how the amount of $7.5 million for loss allowance for contract revenue was determined and disclose the stage of the progress in the contract(s).

Company's Response

The amount of $7.496m ($7.5m) is the result of a careful review of contract assets related to all active projects. Such reviews are performed regularly, and where it deems necessary, corrections are done in the form of loss allowances. The allowances are derived by review of anticipated margins by the end of each projects. Margin reductions are caused by cost increases compared to initially budgeted procurement costs, prolonged project execution times causing elevated preliminaries, potential liquidated damages and previously unexpected other costs. By time of the announcement, the majority of projects with corrected contract assets have been completed or exited by the company.

SGX Query 10

Please elaborate on and provide further details on the 'pre-pack' scheme of arrangement that the Company is undertaking through DSG Asia Holdings Pte Ltd as part of the Company's restructuring efforts.

Company's Response

The Group has proposed a 'pre-pack' scheme of arrangement pursuant to section 71 of the Insolvency, Restructuring and Dissolution Act (Act No 40 of 2018, Singapore) through DSG Asia Holdings Pte Ltd (the "Pre-Pack Scheme") on 8 March 2021. The "Pre-Pack Scheme" is a consolidated, combined scheme for all nine entities, compared to nine previously individual schemes. While in the initial individual scheme, the creditors of each scheme company would have to approve the proposed scheme by number and value, and one company not reaching the required threshold approval would cause all nine individual schemes to fail due to the inter-conditional name of the individual scheme, the consolidated, combined "Pre-Pack Scheme" groups all schemes together for the purpose of achieving the required threshold approval for number and value. The "Pre-Pack Scheme" was proposed under DSG Asia Holdings Pte Ltd, all other terms and conditions remain unchanged. By time of the announcement of FY2020 based on unaudited management results, the proposed scheme has been approved by the creditors and is now awaiting the sanctioning by the Singapore courts, tentatively scheduled for May 27th, 2021.

SGX Query 11

Please provide the information on interested person transactions set out in the table on page 20 in the format as specified in Listing Rule 907which includes the column "Nature of relationship" in the table. Please also provide details of the nature of the interested person transactions.

Company's Response

Name of interested person	Nature of relationship	Aggregate value of all IPT for the financial period ended 31 December 2020 (excluding transaction less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) S$'000	Aggregate value of all IPT for the financial period ended 31 December 2020 conducted under shareholders' mandate pursuant to Rule 920 (including transactions less than $100,000) S$'000
Depa United Group PJSC	Related Party of Company shareholders – Depa Interiors LLC	S$1,116,675	-
Depa Interiors LLC	Company's largest shareholders	-	S$12,292

SGX Query 12

Listing Rule 905(4) states that “If the group's latest audited net tangible assets is negative, the issuer should consult the Exchange on the appropriate benchmark to calculate the relevant thresholds in Rule 905(1) and 905(2), which may be based on its market capitalisation.” Please disclose if the company is in compliance with the Listing Rules in relation to its interested person transactions.

Company’s Response

The Group’s latest audited net tangible assets are positive, this refers to FY2018. However, in absence of audited financial statements for FY2019 and FY2020, the company reports negative net tangible assets for FY2020 in its unaudited management accounts. The factor is mitigated by the initiated proposed creditor scheme, which is supposed to create a significant positive correction of the net tangible assets. Further, the company’s Board and Group Management are in ongoing negotiations with all relevant stakeholders to cover any remaining negative net tangible assets after the exact positive contribution of the proposed scheme has been exactly determined. The Group will consult the exchange on the appropriate benchmark in case, the net tangible assets are negative in the audited financial statements for 2019 and 2020.

By Order of the Board

Steven James Salo
Executive Director and Interim Chief Executive Officer

25 May 2021