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 FY2019 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 explain why subcontractors costs remained high at $27.13 million in 4Q2019 compared to $29.77 million in 4Q2018 when revenue fell 69.6% from $41.4 million to $12.58 million in the respective periods. Please also explain why subcontractor costs of $27.13 million was double the amount of revenue earned of $12.58 million in 4Q2019.

Company's Response

As compared to 4QFY2018, subcontractors costs, employee benefit, raw materials and consumables used decreased by S$2.6 million, S$3.2 million and S$1.8 million respectively which is in line with the reduction in revenue during the period. However, the subcontractors costs remained high at $27.13 million in 4Q2019 was mainly due to the profit margin deteriorate in the current period by Singapore and Malaysia BUs with the shutdown of the Group's manufacturing operations in Malaysia and also to meet with timely projects delivery.

SGX Query 2

Please provide reasons and breakdown for impairment loss on financial assets and contract assets and elaborate on the factors that resulted in the increase in the impairment from $0.62 million in 4Q2018 to $8.8 million in 4Q2019, and from $0.83 million in FY2018 to $15.7 million in FY2019. Please also disclose if any of these are interested person transactions.

Company's Response

All impairment losses are related to external parties.

The impairment losses of $8.8 million in 4Q2019 were mainly attributed to Malaysia BU ($8.3 million) and Singapore BU ($0.5 million). The breakdown of the impairment loss of $8.8 million are as follows:

Impairment against trade receivables & retention	$3.3 million
Impairment against other receivables	$1.8 million
Impairment against contract assets	$3.7 million
Total impairment loss	$8.8 million

The impairment loss provisions were made for Malaysia BU in consideration of the difficulty encountered in recovery of the receivables, retention and contract assets, some of which are pertaining to final account claims on completed projects which the management are resolving with customers. The Group will continue its efforts to pursue its contractual claims through all available channels.

The breakdown of the impairment loss of $15.7 million in FY2019 are as follows:

Impairment against trade receivables & retention	$4.2 million
Impairment against other receivables	$2.3 million
Impairment Loss on property, plant and equipment	$1.0 million
Impairment against contract assets	$8.2 million
Total impairment loss	$15.7 million

SGX Query 3

Please elaborate on the reasons for and provide details of the impairment loss of goodwill of $2.7 million recorded in 4Q2019 and FY2019.

Company's Response

Under Singapore Financial Reporting Standards 36 – Impairment of asset's requirement, the Company need to test goodwill acquired in a business combination for impairment annually. Based on the Company's assessment there an indicative of impairment loss on goodwill acquired at point of acquired one of it's subsidiary – DSG Asia Holdings Pte Ltd. Hence, on prudent basis the company take up this impairment loss for goodwill in FY2019.

SGX Query 4

Please disclose the reasons for the non-current nature of trade and other receivables amounting to $4.4 million. Please explain whether these non-current trade and other receivables have been recovered, and the Board's assessment on recoverability of any outstanding amounts.

Company's Response

The reasons for the non-current nature of trade and other receivables amounting to $4.4 million are due to the retention relating to Shareholding Company ($0.9 million) and retention relating to other receivables (S$3.5million).

The retention relating to Shareholding Company and part of the retention of other receivables has been recovered.

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.

SGX Query 5

Please provide the reasons for the increase in the provision of loss allowances for current trade and other receivables from $0.8 million in FY2018 to S$6.6 million in FY2019. Please disclose whether any of these are major customers or interested person transactions.

Company's Response

The increase in the provision of loss allowances for current trade and other receivables of $5.8 million as at comprised of both trade receivables and other receivables arising from current period billings in FY2019.

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. A diligent review of business operations resulted, that the expected margins on various projects have been overestimated, leading to the stated impairments related to contract assets, trade and other receivables. The impairment applied to the majority of major projects in Singapore, Malaysia and Thailand.

SGX Query 6

Please provide the reasons for the increase in the provision of loss allowances for contract assets from $0.17 million in FY2018 to $8.4 million in FY2019.

Company's Response

The factors leading to the significant increase of $8.23 million in the provision of loss allowances for contract assets in the Malaysia BU, Manufacturing BU, Singapore BU & Others segment was mainly due to increase in trade creditors and accrued contract cost.

The impairment loss provisions were made in consideration of the difficulty encountered in recovery of the contract assets, some of which are pertaining to final account claims on completed projects which the management are resolving with customers. The Group will continue its efforts to pursue its contractual claims through all available channels.

SGX Query 7

The Company explained on page 13 that "impairment loss [on financial assets and contract assets] was mainly attributed to Malaysia BU and International BU mainly due to advance payment from customers, lower contract revenue due to the lower number of projects and higher impairment loss on contract assets". To elaborate how the following had led to impairment loss on financial assets:

Company's Response

The impairment loss is only due to financial- and contract assets. The impairment loss does not relate to advance payments from customers and lower number of projects. Reasons for the impairment losses are predominantly corrections on the expected margins of ongoing projects, caused by miscalculations at tender stage, underestimation of costs for works the company is less familiar with, cost increments during project execution and underestimations of prelims.

SGX Query 8

The Company explained on page 14 that it "obtained loan of S$3.7 million from Depa United Group PJSC." Please disclose details and terms of the loan and quantify the interested person transaction value at risk.

Company's Response

The Company obtained loan of S$3.7 million from Depa United Group PJSC, the controlling shareholder of the Company, exclusively for working capital requirements in FY2019.

The loan agreement is made on 29 November 2019 between Depa United Group PJSC and Design Studio Group Limited. Compound interest will be charged on a monthly basis on the month end outstanding principal amounts advanced hereunder plus all accrued and unpaid interest at the rate of three (3) months' United Arab Emirates interbank offer rate (3 months EIBOR) plus 5.5% per annum.

There are no interested person transaction value at risk.

SGX Query 9

Please provide the information on interested person transactions set out in the table on page 18 in the format as specified in Listing Rule 907 and include the column "Nature of relationship" in the table. Please also provide details of the underlying transactions for these interested person transactions.

Listing Rule 907 requires issuers to disclose the aggregate value of interested person transactions entered into during the financial year under review in its annual report. The name of the interested person, nature of relationship and the corresponding aggregate value of the interested person transactions entered into with the same interested person must be presented in the following format: 1) Name of interested person; 2) Nature of relationship; 3) Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920); and 4) Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)

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$524,106	-
Depa Interiors LLC	Company's largest shareholders	-	S$13,955

By Order of the Board

Steven James Salo
Executive Director and Interim Chief Executive Officer

14 May 2021