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 14 MAY 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

In relation to the Company's response to query 1, we note that 4Q2019 subcontractor costs amounted to $27.13 million despite the decline of 69.6% in revenue to $12.58 million. Please provide a breakdown of the subcontractors cost of $27.13 million in 4Q2109 vs the $29.77 million in 4Q2018.

Company's Response

The company is using a wide range of subcontractors in the various BU's. The circle of subcontractors has a low rate of fluctuation, unless a client nominates its own suppliers and novates the contracts under the company's management.

Generally, the subcontractors costs remained high at $27.13 million in 4Q2019, and not deteriorating in the same pace as turnover, this mainly due to the profit margin deterioration in the questioned period by Singapore and Malaysia Bus reasoned by increased costs by correcting previous miscalculations of expected costs and to meet with timely projects delivery in order to minimize liquidated damages claims.

Further has particularly the shutdown of the Malaysia manufacturing facility led to increased costs for ongoing projects, as procurement from outsourced suppliers, especially with short lead times, caused increased costs compared to initially planned in-house manufacturing.

SGX Query 2

In relation to the Company's response to query 2, the Company stated that "[a]ll impairment losses are related to external parties." Please clarify if these are related or unrelated external parties and as requested previously, please confirm whether there are any interested person transactions ("IPTs") involved.

Company's Response

The Company stated that "[a]ll impairment losses are related to external parties." All these are unrelated external parties and there are no interested person transactions ("IPTs") involved.

SGX Query 3

As requested in the original query 2, please also provide the reasons and elaborate on the factors that resulted in the increase of impairment losses of $15.7 million in FY2019 compared to $0.83 million in FY2018.

Company's Response

The impairment loss provisions were made predominantly in the Malaysia BU. The majority in consideration of valuation of contract assets, in consequence of revised margin expectations. Further are pertaining to final account claims on practically completed projects, with clients disputing claims related variation orders. The Group will continue its efforts to pursue its contractual claims through all available channels.

SGX Query 4

In relation to the Company's response to query 4, please disclose how much of the $4.4 million non-current trade and other receivables have been recovered.

Company's Response

The reasons for the non-current nature of trade and other receivables amounting to $4.4 million are due to a retention receivable relating to an affiliated company ($0.9 million) and other retention receivables (S$3.5 million) – each not due.

The retention relating to the affiliated company, and parts of the other retention receivables have been recovered after falling due.

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

In relation to the Company's response to query 5, please provide the breakdown of the increase of $5.8 million provision of loss allowance between current trade and current other receivables and elaborate on the factors resulting in each of the loss allowance.

Company's Response

The breakdown of the increase of the $5.8 million provision of loss allowance between current trade and current other receivables are as follows:-

Current Trade Provision of Loss allowance	$3.5 million
Current Other Receivables of Loss allowance	$2.3 million
Total	$5.8 million

The factors resulting in both current trade provision and current other receivables of the loss allowance are pertaining to expected additional costs for completed and almost completed projects due to rectification costs, liquidated damages claims, increased costs due to material prices inflation factor due to extended project execution times.

SGX Query 6

As requested in the original query 5, please disclose if any of the trade and other receivables for which provision of loss allowances of $6.6 million was made in FY2019 are in relation to IPTs.

Company's Response

None of the provision of loss allowances of $6.6 million recorded in FY2019 were related to IPT's. None of the working capital provided through IPT transactions and related interest charges were waived.

SGX Query 7

In relation to the Company's response to query 6, please explain the underlying factors which caused the difficulty in the recovery of the contract assets.

Company's Response

The impairment loss provisions related to contract assets were made due to re-considerations of expected margins on completion for a number of projects. Causes are miscalculations at tender stage, rising extended project execution periods leading to rising costs for prelims, liquidated damage claims by clients and difficulties to obtain certificates for variation orders.

SGX Query 8

In relation to the Company's response to query 7, please explain why the Company disclosed in the FY2019 unaudited statements that advance payment from customers and lower number of projects were also the reasons for the impairment losses when this was not the case. Please explain how had the board assessed the reliability of its disclosures prior to announcement of its results.

Company's Response

Advance payments from customers and a generally lower number of projects were not major reasons for impairment losses, overall as mentioned in our original response to query 7. However a reduction in advance payments affects our liquidity.

Initially the company was of the opinion, the reduced availability of advance payments from clients would lead to either increased financing costs for projects, or to higher procurement prices in exchange with extended payment terms – both reducing expected margins, impacting group liquidity and subsequently leading to provisions for contract assets. After analysing these effects further, the company believes the effect is on liquidity and only indirectly affecting impairment losses and therefore clarified its initial response.

As strongly highlighted in the announcement of the financial results FY2019, the operating environment for the construction and interior fit-out industry in the countries and sectors where the Group operates has been and is expected to continue to be challenging in FY2019. The challenges faced by the Group has resulted in reductions in the Group's revenue and estimated project margins as a result of higher than expected project costs, which has had an adverse effect on the Group's business and led to liquidity shortages across the Group.

SGX Query 9

In relation to the Company's response to query 8, Listing Rule 909(3) states that in the case of borrowing of funds from an interested person, the value of the transaction is the interest payable on the borrowing. Please clarify why there is no IPT value at risk in the undertaking of the loan of S$3.7 million from Depa United Group PJSC which carried an interest rate of 3 months EIBOR plus 5.5% p.a. Please disclose if interest on the loan has been waived for the period under review. If not, please clearly quantify the value at risk of the IPTs.

Company's Response

The interest has not been waived. The value at risk in relation to the interest charged for the loan is equivalent to $0.05 million.

SGX Query 10

In relation to the Company's response to query 9, please disclose details of the underlying transactions for these IPTs as requested in the original query 9.

Company's Response

The IPT's are related to the temporary provision of working capital, interest charges and charges incurred for corporate guarantees for banking lines.

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 shareholder	-	S$13,955

By Order of the Board

Steven James Salo
Executive Director and Interim Chief Executive Officer

28 June 2021