

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 2Q2019 FINANCIAL STATEMENTS ANNOUNCEMENT ON 8 AUGUST 2019

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 2Q2019, the Group recognized significant impairment loss of \$6.9million on "financial assets and contract assets".

- a. Please disclose and elaborate with details on what are these financial assets and contract assets;
- b. To disclose a breakdown of these assets;
- c. To disclose what is the amount of the underlying financial asset(s) and contract assets(s) that resulted in the significant loss;
- d. Explain how these assets resulted in an impairment;
- e. Please disclose whether the contract(s) are still ongoing.

Company's Response

The impairment losses of \$6.9 million in 2Q2019 were mainly attributed to Malaysia BU (\$6.4 million) and Singapore BU (\$0.5 million). The breakdown of the impairment loss of \$6.9 million are as follows:

Impairment against trade receivables & retention	\$1.9 million
Impairment against other receivables	\$0.5 million
Impairment against contract assets	<u>\$4.5 million</u>
Total impairment loss	<u>\$6.9 million</u>

The impairment loss of \$6.9 million was made against outstanding receivables, retention and contract assets totalling \$14.2 million for the project types shown below:

Type of projects	Outstanding receivables, retention and contract assets which impairment was made against	Impairment loss allowed in 2Q2019
	\$' million	\$' million
Commercial	7.3	4.3
Residential	0.7	0.5
Hospitality	6.2	2.1
Total	14.2	6.9

Of the outstanding receivables, retention and contract assets totalling \$14.2 million where impairment losses were made against, approximately 86% of this value are pertained to completed projects.

The impairment loss provisions were made 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.

SGX Query 2

As at 30 June 2019 (1H2019), trade and other receivables amounted to \$45.4million as compared to \$51.4 million six months earlier, on 31 December 2018.

- a. Please explain why almost all of the Company's 1H2019 trade and other receivables remains uncollected;
- b. To disclose whether the customers have problems paying;
- c. If so, what are the risks of the trade and other receivables becoming uncollectable.

Company's Response

The trade and other receivables of \$45.4 million as at 30 June 2019 comprised of both trade and other receivables arising from current period billings in 1H2019 and trade and other receivables brought forward from 31 December 2018 which have yet to be collected as at 30 June 2019.

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 3

On Pg 5, Note 1(b)(4) Contract Assets and contract liabilities, we note that the Group has made a significant increase in loss allowance of \$4.5 million for the 6 months' ended 30 June 2019 compared to only \$172k on 31 December 2018.

- a. Please disclose the reasons for the significant increase in loss allowance;
- b. To provide a breakdown of the losses;
- c. To disclose Management's view on the recoverability of the contract assets of \$64.3million as at 30 June 2019;
- d. Provide the aging schedule of these contract assets in bands of 3 months (with upper limit of the longest due debt specified in bands of 3 months).

Company's Response

Please refer to our response to Query 1 above for the breakdown of the impairment loss of \$6.9 million which included an impairment loss of \$4.5 million made against contract assets as at 30 June 2019.

The impairment loss of \$4.5 million was made against contract assets totalling \$10.0 million under Malaysia BU for project types shown below:

Type of projects	Contract assets which impairment was made against	Impairment loss allowed in 2Q2019
	\$' million	\$' million
Commercial	4.4	2.1
Residential	0.7	0.5
Hospitality	4.9	1.9
Total	10.0	4.5

The Group had adopted SFRS(I) 15 with effect from FY2018, where the stage of project completion is measured by reference to the proportion of contract costs incurred to-date to the estimated total contract costs for contract. Contract assets represent the unbilled amounts arose from the adoption of this revenue recognition method, which is pegged to the proportion of contract costs incurred to date to the estimated total contract costs. On this basis, the management is of the view that it would not be meaningful to present the aging schedule for contract assets.

SGX Query 4

On Pg 5, Note 1(b)(4) Contract Assets and contract liabilities, the Company disclosed receipt of advance payments from customers amounting to \$12.2 million in 2Q2019. This is an increase of \$4.8 million in advance payments, as compared to 6 months' ago, as at 31 December 2018.

- a. Please disclose the reasons for the significant increase in advance payments when revenue in fact decreased by 42.5% in 1H2019;
- b. Please disclose the order book relating to these advance payments from customers.

Company's Response

The increase in advance payments from customers was mainly attributed to International projects, where the Group received advance payments from customers at the initial stage of contract commencement. The order book pertaining to the advance payments of \$12.2 million from customers is approximately \$77 million.

SGX Query 5

On Pg 14, at para 10, it was disclosed that "The Group has an outstanding order book of approximately \$164 million as at 30 June 2019". Please disclose:

- a. Details of the nature of the projects in the order book;
- b. The profile and segments of customers;
- c. The expected completion date(s) of these projects;

Company's Response

The Group's outstanding order book of approximately \$164 million as at 30 June 2019 consists of projects in Singapore and overseas with breakdown as follows:

Type of projects	Order book as at 30 June 2019
	\$' million
Commercial	17
Residential	98
Hospitality	49
Total	164

The Group's customers include main contractors and developers. These projects are expected to be progressively completed from 2H2019 to 1H2023.

By Order of the Board

Hazel Chia
Company Secretary

20 August 2019