CHIP ENG SENG CORPORATION LTD.
Co. Reg. No. 199805196H

BUSINESS UPDATE AND PROFIT WARNING FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the "**Board**") of Chip Eng Seng Corporation Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to issue a profit warning regarding the Group's financial results for financial year ended 31 December 2020 ("**FY2020**"). Based on the management information currently available to the Company, the Board wishes to advise that the Group will report a net loss for FY2020, compared to a net profit of approximately S$32.6 million for its financial year ended 31 December 2019.

On 3 August 2020, the Company announced a net loss of S$25.7 million for the half-year ended 30 June 2020 ("**1H2020**"). Based on the Company's preliminary review of the financial information relating to the Group for FY2020, the net loss incurred for the whole of FY2020 will be wider than the net loss reported for 1H2020. The losses are mainly due to the adverse impact of the COVID-19 pandemic on the Group's businesses, which impact was previously announced on 28 May 2020 (*Impact of COVID-19 Pandemic on the Group's Businesses and Profit Guidance for the First Half-Year Ending 30 June 2020*) and further updated below.

The Company is still in the process of finalising the Group's financial results for FY2020 and will provide further details when it releases its consolidated financial results announcement for FY2020 around mid-February 2021.

In the meantime, shareholders of the Company are advised to exercise caution when dealing in the shares of the Company. Persons who are in doubt as to the action they should take should consult their stock broker, bank managers, solicitors, accountants or other professional advisers.

PROPERTY DEVELOPMENT

Singapore

As at 31 December 2020, the Group has four on-going development projects in Singapore, namely, Grandeur Park Residences, Park Colonial, Parc Komo and Kopar at Newton.

Construction works for Grandeur Park Residences, Park Colonial and Parc Komo were affected by the closure of their construction sites for several months in FY2020. As a result, these development projects did not manage to achieve their construction milestones, which affected revenue recognition and progressive payments from property buyers. While construction works for Kopar at Newton commenced after the end of the circuit breaker period, the construction progress was very much in the initial stages. Accordingly, there was negligible revenue recognition for this development project in FY2020.

Compared to sales figures announced by the Company on 3 August 2020 in its unaudited financial results announcement for 1H 2020, sales for all of the Group's development projects in Singapore have increased as follows:

Development Project	Sales as at 3 August 2020	Sales as at 3 January 2021
Grandeur Park Residences	99.2%	99.9%
Park Colonial	90.2%	94.5%
Parc Komo	42.8%	48.9%
Kopar at Newton	39.7%	44.4%

Despite the relatively healthy sales figures garnered by the Group's development projects for the second half-year ended 31 December 2020 ("**2H2020**"), the Group was not able to recognise as much revenue from these projects as originally expected due to the above-mentioned delay in construction progress.

As the Group has built sufficient buffer into its project timelines, its assessment is that it will still be able to meet the stipulated deadlines for completing and delivering its development projects to the property buyers. The Temporary Occupation Permit ("**TOP**") for Grandeur Park Residences was granted on 30 December 2020. The TOPs for Park Colonial and Parc Komo are expected to be granted in the second half of 2021 and the first half of 2022 respectively

Australia

The residential property market in Australia in FY2020 has been impacted by the weakened economic conditions and a plunge in consumer sentiment. The Group has thus recalibrated its strategy by exploring opportunities to divest certain of its development sites in Australia so that it can re-deploy capital towards asset classes that can generate better returns. To this end, the Company announced on 18 December 2020 that the Group had entered into an agreement for the sale of its property located at 15-55 and 85 Gladstone Street in South Melbourne, Australia. The sale of the property will only be accounted for in the Group's financial statements for the current financial year ending 31 December 2021 ("**FY2021**") as completion will take place in end-March 2021, subject to satisfaction of conditions precedent. As mentioned in the announcement released on 18 December 2020, the sale of the property is not expected to have any material impact on the net tangible assets and the earnings per share of the Company for FY2021.

Going Forward

The Group will continue to exercise caution in acquiring land plots and development projects for its property development business in Singapore and overseas.

<u>CONSTRUCTION</u>

The bulk of the Group's construction activities were not considered essential services and were not allowed to continue during the circuit breaker period. Even after the circuit breaker was lifted, construction works did not immediately resume as a significant amount of time had to be spent on implementing safe management measures at the work sites before construction work could resume. Thus, the Group was only able to gradually resume work for most of its construction projects around October 2020.

The stoppage, and subsequent slow resumption, of work has caused delay to project schedules and increased project costs. Consequently, contribution of revenue from the Group's construction business segment for FY2020 has been adversely affected. The Group will also have to make provisions for project prolongation costs and increased costs relating to manpower, compliance with safe distancing measures and maintenance of work sites.

The Group's construction business segment undertakes projects primarily for government agencies and government-controlled private entities. Apart from those, this business segment also undertakes construction works for certain of the Group's property development projects. The Group has thus far been able to obtain an extension of time for all its affected projects.

Construction demand was low for the second and third quarters of FY2020. The Group secured three public sector projects in the first quarter of FY2020, with an aggregate contract value of approximately S$758.3 million. Thereafter, it was only towards the end of FY2020 that the Group managed to secure new projects as follows:

(a) a contract amounting to approximately S$17.8 million for the supply, fabrication and delivery of certain precast concrete components for the Housing and Development Board's ("**HDB**") proposed public housing development at Punggol East (Punggol East Contract 48 and Common Green) comprising primarily seven blocks of residential buildings. The contract was awarded by

Expand Construction Pte. Ltd., the main contractor for the balance of works relating to the project. The supply period will be from December 2020 to October 2021; and

(b) a contract awarded by HDB for the design and build of upgrading projects amounting to approximately S$32.9 million.

The bulk of the supply of works for the abovementioned two new projects will be in FY2021. Accordingly, revenue for these new projects will be progressively recognised only from FY2021.

As at 31 December 2020, the Group's order book for its construction business segment (including ongoing projects by its newly-acquired subsidiary, Boustead Salcon Water Solutions Pte. Ltd.) is approximately S$1.3 billion.

Going Forward

The Group expects that its construction business segment will continue to face a challenging landscape in the near-term as profit margins (if any) will remain slim due to increased costs presented by the shortage of manpower and compliance requirements to maintain safe management measures at the work sites. Any resurgence of rampant COVID-19 infections in the foreign worker dormitories in Singapore as well as disruptions in the global supply chain for raw materials will also severely impact this business segment.

In recent years, the Group has taken steps to augment its construction business by expanding its capabilities in the building, infrastructure, construction and construction project management business so that it can participate in a broader range of competitive construction tender projects, including civil and building infrastructure projects which are of larger scale and/or higher value. To this end, in December 2019, the Group acquired CES_SDC Pte. Ltd., a design and build construction service provider which undertakes civil and building infrastructure projects. More recently in December 2020, the Group acquired Boustead Salcon Water Solutions Pte. Ltd., a fully integrated engineering, procurement, construction and maintenance contractor which provides water and wastewater treatment technologies and solutions to various projects globally. The Group will continue to explore new growth areas for its construction business segment.

HOSPITALITY

There has not been significant recovery in occupancy rates and revenue for the Group's hotels in Singapore, Australia and the Maldives as stringent travel restrictions continued to apply and demand for international travel remained low throughout FY2020.

In 2H2020, Park Hotel Alexandra's predominant source of revenue was from operating as an accommodation facility for persons serving their stay-home notices in hotels. The occupancy rate at the Group's two hotels in Australia (The Sebel Mandurah in Western Australia and Mercure & Ibis Styles Grosvenor Hotel in Adelaide) continued to remain low, and had in fact declined further compared to 1H2020, as demand for travel was severely curtailed by Australia's travel restrictions and quarantine requirements throughout 2H2020. Similarly, the occupancy rate at the Group's hotel in the Maldives (the Grand Park Kodhipparu Resort) declined in 2H2020 compared to 1H2020. Although the Maldives re-opened for tourist arrivals in mid-July, limited air travel into the country coupled with ongoing travel restrictions imposed by many countries meant that hotel occupancy did not pick up for the most of 2H2020. It was only towards the Christmas and New Year festive season in late December that there was a spike in occupancy at the resort.

As part of the Group's cost containment measures, the Group closed the smaller Ibis Styles section (comprising 65 economy rooms) of its Mercure & Ibis Styles Grosvenor Hotel in Adelaide, Australia in the second quarter of FY2020. As there are no definite plans to re-open this section of the hotel, a portion of the hotel's cost of investment will be written-off.

The adverse impact of the COVID-19 pandemic on the Group's hotel operations has also affected the valuation of the Group's hotel properties. Consequently, significant impairment losses will be recorded in the Group's consolidated financial statements for FY2020 with respect to its hotel properties. The Group is still in the process of working out the extent of the losses with its auditors.

Going Forward

The hospitality business segment is highly dependent on there being demand for travel. Continued border controls and travel restrictions imposed by governments across the world make the timing and degree of sustainable recovery of this business segment uncertain.

To mitigate the operating costs of its hotels, the Group is continuing with its cost containment measures such as temporary closure of non-essential facilities and amenities, reduction of manpower, shortening of work hours and suspension of non-essential services. Where applicable, the Group will consider de-branding certain of its hotels as part of the cost containment measures.

The Group has also deferred commencement of construction works for its new hotel development projects in Adelaide, Australia and in the Maldives to the second half of 2021. The targeted timelines for commencement of operations of the Group's new hotels are expected to coincide with the period for when international travel and tourism are projected to return to normalcy.

<u>PROPERTY INVESTMENT</u>

Rental income generated from the Group's investment properties do not contribute significantly to the Group's revenue.

There has been an overall decline in the occupancy rate of CES Centre in FY2020 compared to the corresponding full-year period in FY2019. Save for the foregoing, the occupancy rates of the Group's investment properties have remained relatively stable, in part due to the multiple support schemes implemented by the Singapore Government to provide rental rebates to commercial tenants.

Significant impairment losses will be recorded in the Group's consolidated financial statements for FY2020 with respect to its investment properties, which are primarily attributable to the decline in valuation of CES Centre. The Group is still in the process of working out the extent of the losses with its auditors.

Going Forward

The Group has commenced discussions with its tenants with respect to those leases that are due for renewal in FY2021. In addition, the Group is also seeing a gradual increase in interest from prospective tenants.

<u>EDUCATION</u>

In FY2020, the COVID-19 pandemic has in part delayed the licensing and completion of renovation for the Group's new schools that were in the pipeline, such as the Invictus-branded international schools in Singapore (Centrium Square campus), Hong Kong (Tai Tam campus) and Cambodia (Phnom Penh campus). This in turn affected the Group's ability to market the schools and secure enrolment numbers. Consequently, revenue contribution from these schools in FY2020 was negligible while operating costs and expenses were incurred during this period.

The aforementioned schools have since received their respective licences in the last quarter of FY2020 and will commence operations in the first quarter of FY2021.

Further, the COVID-19 pandemic slowed down the growth of student enrolment in the Group's existing schools. Notwithstanding the decline in student enrolment, the Group adopted measures to ease the financial burden on affected families such as reducing, or in certain cases, waiving, school fees. The Group has seen a gradual recovery in student enrolment towards the later part of FY2020.

The Group will be making a provision for doubtful debts with respect to its investment in American Scholar Group, Inc ("**ASG**") in the United States of America ("**USA**"). ASG provides education consultancy services to foreign students (the bulk of whom are from China) seeking education opportunities in the USA. However, ASG's business model has been severely impacted in the face of political tensions between the USA and China, which has made it challenging for ASG to recruit students from China for its programmes. The COVID-19 pandemic has further exacerbated the recruitment situation. The Group anticipates that it will be an uphill task for ASG to overcome the challenges in attracting students from Asia to study in high schools in the USA or for short-term educational programmes in the USA. ASG has taken steps to reduce its scale and cost of operations, while looking into revamping its business model so as to regain financial viability.

Going Forward

To keep up with the rapidly changing business environment precipitated by amongst others, the COVID-19 pandemic, the Group's education business segment has undertaken a strategic review of its businesses. The Group intends to train its focus on the establishment of K-12 international schools. To this end, the Company announced on 28 December 2020 that the Group's collaboration with Repton International Schools Ltd ("**RISL**") relating to the establishment of international kindergartens in certain countries within the Asia Pacific region will terminate with effect from 31 March 2021. Both the Group and RISL agreed to focus their collaboration going forward in the operation of Repton International School, Malaysia ("**Repton Malaysia**"). Repton Malaysia, which commenced operations in September 2020, is an international K-12 school situated in Johor Bahru.

The Group will also optimise usage of its proprietary brands to harness operational efficiency and synergy across, and to create a stronger identity for, these brands. The Group's existing two Repton pre-school centres will be rebranded using one of the Group's proprietary brands. The Group is further exploring a school management and licensing business model pursuant to which the Group will extend management and consultancy services to schools owned through joint ventures or by third parties, and also licence its proprietary brand for use by such schools, for recurring management and licensing fees. With respect to a venture where such business model is being applied, please refer to the announcement released by the Company on 26 August 2020 (*Joint Venture with Dongguan Duowei Education Technology Co., Ltd*).

<u>CASHFLOW</u>

In FY2020, the Group took steps to conserve its cashflow by postponing non-strategic investments and non-essential capital expenditures. The Group was able to meet all its financial obligations that matured in FY2020.

Based on the Company's cashflow projection for FY2021, the financial impact on the Group caused by the COVID-19 pandemic is not expected to affect the Group's ability to fulfil its financial obligations in FY2021, barring unforeseen circumstances.

<u>OVERALL</u>

The Group will continue to closely monitor its operations and the COVID-19 situation in order to adjust its measures and strategies accordingly, and will provide updates as and when any material developments arise.

Submitted by Chia Lee Meng Raymond, Executive Director and Group Chief Executive Officer, on 11 January 2021 to the SGX.