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

BUSINESS UPDATE AND PROFIT WARNING
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2021

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 the current financial year ending 31 December 2021 ("**FY2021**"). Based on the management information currently available to the Company, the Board wishes to advise that for FY2021, the Group is likely to incur a net loss after non-controlling interests. Compared to the net loss after non-controlling interests of approximately S$81.1 million incurred by the Group for the last financial year ended 31 December 2020 ("**FY2020**"), the net loss after non-controlling interests to be incurred for FY2021 is expected to be significantly smaller.

While the Group managed to generate a net profit for the half-year ended 30 June 2021 ("**1H2021**"), the businesses and operations of the Group continue to face challenges due to the ongoing COVID-19 pandemic. The Group has been adversely affected by factors arising from the COVID-pandemic such as labour shortage on the construction front, disruptions in the global supply chain for construction materials, border control measures and increased operating costs.

The Company will provide further details when it releases its unaudited consolidated financial results announcement for FY2021 around mid-February 2022.

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 the date of this announcement, the Group has three on-going residential development projects in Singapore, namely, Park Colonial, Parc Komo and Kopar at Newton.

The Group also has a new mixed-use redevelopment project in the pipeline. On 10 November 2021, the Company, together with its joint venture partners, completed an enbloc acquisition of the commercial development known as Maxwell House. The Company holds a 40% equity interest in the joint venture. Maxwell House is located at 20 Maxwell Road, in the Central Business District. The Company and its joint venture partners will undertake the redevelopment of Maxwell House into a commercial and residential mixed-use development, and intend to get the redevelopment project ready for sale from the last quarter of 2022 onwards. Please refer to the announcements released by the Company on 7 May 2021, 19 May 2021, 24 August 2021, 8 November 2021 and 10 November 2021 for more information on the acquisition and redevelopment of Maxwell House.

Compared to the sales figures announced by the Company on 5 August 2021 in its unaudited consolidated financial results announcement for 1H2021, sales for all of the Group's ongoing development projects in Singapore have increased as follows:

Development Project	Sales as at 3 August 2021	Sales as at 8 November 2021
Park Colonial	100.0%	100.0%
Parc Komo	67.0%	80.1%
Kopar at Newton	51.9%	58.2%

In spite of the ongoing challenges on the construction front due to restrictions on the inflow of migrant construction workers, Park Colonial remains on track to obtain its Temporary Occupation Permit by end 2021. However, the Group's other two developments, Kopar at Newton and Parc Komo, have been adversely impacted by continuing delays in construction. Consequently, these two development projects have not managed to achieve their construction milestones, which in turn materially affects revenue recognition and progressive payments from property buyers. Despite the relatively healthy sales figures for these two development projects, the Group is not able to recognise as much revenue as originally expected. Completion of these two development projects is now expected to be in 2023.

Australia

The Company, together with its joint venture partner in Australia, has launched its redevelopment project in South Perth, Western Australia for sale. The Company has a 70% equity stake in the joint venture. The new development, known as 28 Lyall, will be a mixed-use development comprising residential apartments with a commercial podium. As at 8 November 2021, 50% of the units have been sold.

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>

As at 30 September 2021, the Group's order book for its construction business segment is approximately S$1.49 billion.

The Group's suite of capabilities in its construction business now include: (i) building works for public and private residential projects; (ii) production of precast and prefabricated prefinished volumetric construction building components; (iii) civil, industrial and utilities infrastructure projects; and (iv) water and environmental engineering projects.

In FY2021, the Group's construction business continued to face challenges presented by the COVID-19 pandemic such as manpower shortages, intermittent work stoppages, disruptions in the global supply chain, fluctuations in prices of raw materials and increased operating costs. Consequently, the handover dates for some of the Group's projects have been extended.

Notwithstanding the above, the Group's construction business is performing significantly better in FY2021, compared to FY2020 when its operations were severely impacted by lengthy work stoppages. Projects completed by the Group in FY2021 include the Housing Development Board's ("**HDB**") Toa Payoh Bidadari Contract 6 and Contract 7 project and HDB's G27A upgrading project at Yishun Ring Road and Yishun Street 61. In addition, the Group has substantially completed the works for the Land Transport Authority Contract T227 (construction of Marina South Station and tunnels for Thomson-East Coast Line) and the Public Utilities Board Contract C22A (Changi Water Reclamation Plant Phase 2 – Foundation Works for Train 5), and is on track to handover these projects by their scheduled completion dates in 2022 and 2021 respectively.

The Group has also secured key public projects in FY2021, namely HDB's building works project to be undertaken at Pasir Ris Neighbourhood 5 Contract 26 & 27, and its appointment as the replacement main contractor for the remaining building works to be undertaken for HDB's Build-To-Order housing project at Marsiling Grove in Woodlands.

Going Forward

The Group aims to transform its construction business through innovation and technology, which will in turn increase efficiency and productivity, thereby also enhancing its competitive edge.

To this end, the Group is harnessing 3D printing technology to deliver new solutions in the competitive construction segment and to access the growing demand for new construction projects. The provision of 3D printing services will be undertaken by the Group's wholly-owned subsidiary, CES_INNOVFAB Pte. Ltd. 3D printing is a dynamic construction method as it allows more complex components to be designed and fabricated without the need for the more traditional methods or tools. 3D printing relies heavily on machines for the production of the components, which facilitates quality control. At the same time, there is reduced reliance on manual labour as well as reduced health and safety risks. Other advantages include the reduction of wastage and the control of construction noise. As 3D printing can be closely interfaced with conventional and precast construction methods, it is complementary to the Group's suite of construction capabilities. Going forward, 3D printing technology will be a more efficient construction method. In addition, utilising 3D printing will also allow the Group to hedge its risks associated with manpower shortages in the construction industry, which constraints have been exacerbated by the ongoing COVID-19 pandemic.

HOSPITALITY

In FY2021, the occupancy rates and revenue of the Group's hotels in Australia and Maldives have seen positive recovery, albeit marginal.

The Group's two hotels in Australia, The Sebel Mandurah in Western Australia and Grosvenor Hotel Adelaide, have benefitted from the uptick in domestic travel within Australia.

The Group's resort in the Maldives, Grand Park Kodhipparu, has also benefitted from the resumption of visitor arrivals from Europe, the Middle East and South Asia.

However, there has not been significant recovery in revenue and occupancy rates for the Group's hotel in Singapore, Park Hotel Alexandra. For most of FY2021, Park Hotel Alexandra's predominant source of revenue has been from operating as an isolation purpose facility for persons who have to serve their stay home notice and for those who have to be quarantined.

While revenue from the Group's hospitality operations is likely to increase in FY2021 compared to FY2020, the overall financial performance of the Group's hospitality business segment for the full financial year may nevertheless still be adversely affected by the likely impairment of the value of its hotel properties.

Going Forward

Rising vaccination rates in major economies will hopefully result in further easing of border controls, paving the way for a gradual resumption of air travel for leisure and business and correspondingly, a gradual recovery for the hospitality sector.

The Group has further deferred commencement of construction works for its new hotel development projects in Adelaide, South Australia and in the Maldives to the first half of 2022. The targeted timelines for commencement of operations of the Group's new hotels are expected to coincide with the period when international travel and tourism are projected to return to normalcy.

PROPERTY INVESTMENT

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

Compared to FY2020, the occupancy rates for the Group's investment properties in Singapore and Australia have been relatively stable. However, there has been a decline in the occupancy rate for the office building in Auckland, New Zealand due to extended periods of lockdown in Auckland.

In FY2021, the Group capitalised on the significant pick-up in interest and transaction prices for shophouses in Singapore and divested all its shophouse properties in Singapore. Completion of the disposal of the last of the Group's shophouse properties located at 84/A/B and 86/A/B Tanjong Pagar Road is scheduled to take place on 23 December 2021. The shophouse properties were all sold at prices above their respective valuations assessed as at 31 December 2020 by independent valuers appointed by the Company. The total sale consideration for all of the shophouse properties will be S$32.8 million. The disposal of the shophouse properties is in line with the Company's asset management strategy to divest non-strategic or non-core assets.

In the Company's unaudited consolidated financial results announcement for 1H2021, which were released on 5 August 2021, the Group's investment properties recorded a net fair value loss of S$3.0 million. The Group expects its remaining investment properties to still record a fair value loss for the full financial year.

Going Forward

The positive economic outlook for Singapore and the recovering global economy, coupled with accelerated vaccination programmes globally, are expected to prop up business sentiment. Against this backdrop, the Group has commenced discussions with some of its tenants with respect to those leases that are due for renewal in the next financial year ending 31 December 2022 ("**FY2022**"). In addition, the Group is also seeing a gradual increase in interest from prospective tenants.

The Group will review its property investment portfolio from time to time to assess which of its assets should be divested as a result of having become non-strategic or non-core over time and also explore expanding its asset portfolio to include diversified asset classes.

EDUCATION

The ongoing COVID-19 pandemic continued to impact the enrolment growth of the Group's pre-schools and K12 international schools in Singapore and the region. The actual growth in enrolment is much lower than the projected enrolment growth. Consequently, the revenue contribution from these schools in FY2021 is lower than previously projected while operating costs and expenses continue to be incurred during this period.

The Group's pre-schools are predominantly located in Singapore and they serve mainly children from expatriate families. The ongoing COVID-19 pandemic had led to the closure of borders in Singapore, which caused a decline in the number of expatriate families relocating to Singapore for work. A significant number of expatriate families also left Singapore to return to their home countries. Consequently, there was an overall decline in enrolment in the Group's pre-schools in FY2021.

In July 2021, regulatory measures were rolled out in the People's Republic of China (the "**PRC**") targeting the tuition industry. Such measures have impacted the Group's investment in Guangzhou Yuanda Information Development Co. Ltd ("**Yuanda**"). Yuanda's key business segments are the provision of an online platform for primary school mathematics and online and onsite tuition. The latter is affected by the regulatory measures. Yuanda has since confined the use of its online platform to subscriptions from the primary schools (as opposed to individual students) and has also expanded its offerings for subscription by schools. Such offerings include curriculum to support the after-school programmes offered by schools as well as professional development programmes for schoolteachers who teach primary school mathematics.

As stated in the Company's announcement released on 28 July 2021 (*Update on Education Business in The People's Republic of China*), save for the Group's investment in Yuanda, the Group's other education-related ventures in the PRC are not in tuition. However, the regulatory measures targeting the tuition industry have nevertheless dampened enrolment growth in the Group's other education-related ventures in the PRC because of the uncertainty surrounding the implementation of these measures on the private school education industry in general. As at 8 November 2021, revenue generated from the Group's education business in the PRC accounted for approximately 0.1% of the Group's total revenue.

The Group intends to write-down a material portion of its investment in Yuanda. As at 30 September 2021, the carrying amount of the Group's investment in Yuanda is approximately S$11.3 million.

Going Forward

The Group will continue to focus on K12 international schools. In this regard, the Group will look into consolidating and synergising its existing network of schools in the region and will further expand its network of K12 international schools where opportunities arise.

The Group has also been developing its proprietary Invictus Global Schoolhouse programme (the "**IGSH Programme**"). This is a 3-year smart school programme that uses blended learning to prepare students from non-English speaking countries for the Cambridge International A-level examinations. It comprises both online learning and onsite learning. The IGSH Programme includes an online learning component that comprises self-directed learning and face-to-face teacher facilitated learning in academic subjects as well as onsite learning that include science practical sessions and enrichment activities such as design thinking and values education. The IGSH Programme is still in development stage, and will be piloted in the Invictus campus at Centrium Square, Singapore in January 2022. The launch of the fully developed IGSH Programme is expected to take place in the second half of 2022. The IGSH Programme can be deployed in the schools owned and operated by the Group and can also be licensed to third party education-related organisations which wish to adopt the programme as part of their curriculum. In the case of the latter, the Group will charge management and/or licensing fees for the use of the programme. As the IGSH Programme leverages on technologies extensively, it offers both greater flexibility in business model and better scalability in expansion of business.

CASHFLOW AND FINANCIAL OBLIGATIONS

In FY2021, the Group has continued to conserve its cashflow. Measures taken by the Group include entering into joint ventures for projects which are more capital intensive in nature and deferring the construction of its new hotel projects in Adelaide and the Maldives.

The Company actively manages its debt capital structure and where feasible, will take steps to improve its debt maturity profile and optimise financing costs.

Thus far in FY2021, the Group has been able to meet all its financial obligations that have matured, and will be able to meet all its financial obligations for the rest of FY2021.

Based on the Company's cashflow projection for FY2022, 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 FY2022, barring unforeseen circumstances.

OVERALL

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 12 November 2021 to the SGX.