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

IMPACT OF COVID-19 PANDEMIC ON THE GROUP'S BUSINESSES AND PROFIT GUIDANCE FOR THE FIRST HALF-YEAR ENDING 30 JUNE 2020

The Board of Directors of Chip Eng Seng Corporation Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to provide an assessment of the impact of the COVID-19 pandemic on the Group's businesses. The exacerbation of the COVID-19 situation globally and measures taken by governments to combat its spread have disrupted supply chains, international travel, and business activities, which in turn have had an adverse impact on the Group's businesses in Singapore and overseas.

Property Development

<u>Singapore</u>

As at the date of this announcement, the Group has four on-going development projects in Singapore, namely, Grandeur Park Residences, Park Colonial, Parc Komo and Kopar at Newton. Following the implementation of the circuit breaker measures on 7 April 2020, the Group has closed its sale galleries for the four development projects, while implementing digital marketing tools which enable virtual showflat viewing and online sales. Based on latest available data, 20 property units for Kopar at Newton have been sold during the circuit breaker period using online tools. The Group has also been notified by the Urban Redevelopment Authority on 20 May 2020 that all sale galleries are to remain closed until further notice. In the meantime, the Group will continue its digital marketing efforts until the sale galleries are allowed to re-open.

Compared to the sales figures announced by the Company on 14 February 2020 in its unaudited financial results announcement for the financial year ended 31 December 2019 (the "**14 February Financial Results Announcement**"), sales for Park Colonial and Grandeur Park Residences have increased slightly from 89.1% to 89.6% and from 97.8% to 98.2% respectively. Since the 14 February Financial Results Announcement, sales for Parc Komo have declined slightly from 41.7% from 41.3% due to an aborted sale.

The Group launched its latest residential project, Kopar at Newton, in late March, approximately a week before the circuit breaker measures were implemented. Based on latest available data, the Group has sold 25.9% of its units at Kopar at Newton.

Construction works for Grandeur Park Residences, Park Colonial and Parc Komo have been affected by the closure of their construction sites and these development projects therefore did not manage to achieve their most recent construction milestones. Consequently, this has affected revenue recognition and progressive payments from property buyers.

Notwithstanding the delayed construction progress, the Group assesses 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 Permits ("**TOP**") for Park Colonial and Parc Komo are expected to be granted in the third quarter of 2021 and the first half of 2022 respectively. Based on current construction progress, there would be sufficient buffer to accommodate the delays caused thus far by the COVID-19 outbreak. TOP of Grandeur Park Residences is expected to be granted by end-2020.

Construction works for Kopar at Newton are not due to commence until after the circuit breaker restrictions on construction works have been lifted.

The financial impact caused by the COVID-19 outbreak is partially mitigated by the announcement made by the Ministry of National Development on 6 May 2020, that property developers will be granted an extension by six months for (a) the project completion period (PCP) for qualifying residential development projects, and (b) the deadlines under the Additional Buyer's Stamp Duty (ABSD) regime to commence and complete residential development, and sell all housing units in the residential development project.

<u>Australia</u>

Based on a real estate market report prepared by analytics firm CoreLogic in May 2020, the residential property market in Australia has been impacted by the weakened economic conditions and a plunge in consumer sentiment. In view of this, the Group has suspended its marketing efforts for its residential development project in Melbourne, FIFTEEN85, till 2021.

<u>Going forward</u>

The Group will continue to monitor the COVID-19 situation and will exercise caution in acquiring land plots and development projects for its property development business in Singapore and overseas.

Construction

The Group's construction projects are carried out in Singapore. The Group currently has a total of 12 projects involving building and infrastructure construction works. Save for certain construction works undertaken for the Land Transport Authority, the bulk of the Group's construction activities are not considered essential services and were not allowed to continue during the circuit breaker period.

The stoppage of most of the Group's construction projects has caused delay to project schedules and increased project costs. At this point, the Group is not able to determine with certainty the extent of the delay as construction works cannot immediately resume to their normal level of operations even after the circuit breaker period ends on 1 June 2020. The border control measures implemented in Singapore and overseas have also caused a disruption to the supply chain of raw materials, and disruption in the work of sub-contractors and outsourced partners. Certain of the Group's construction projects have become loss-making as a result of the aforementioned factors. Contribution of revenue from the Group's construction business segment has been and will continue to be adversely affected.

The Group expects that its construction business will continue to face a challenging landscape in the near-term. The Singapore Government has stated that the circuit breaker measures will be lifted in a gradual and controlled manner, and strict safe distancing measures will be imposed on construction sites, which will inevitably affect productivity and create a backlog of work. In addition, the situation is likely to be further exacerbated by continuing travel restrictions and imposition of quarantine or stay-home notices on workers who have either contracted COVID-19 or have been in close contact with COVID-19 patients.

The Group's construction business segment undertakes construction projects primarily for government agencies and government-controlled private entities. Apart from those, the Group's construction business segment also undertakes the construction works for certain of the Group's property development projects. The Group believes that it will be able to obtain an extension of time for its affected projects to avoid claims for liquidated damages.

Reliefs provided by the Singapore Government in the form of rebates, waiver of foreign worker levies and wage support have helped defray part of the Group's fixed costs during the circuit breaker period. In addition, certain project owners have allowed the Group to submit advance progress claims, which has helped to ease cashflow for the Group's construction segment.

On a more positive note, in the first quarter of 2020 ("**1Q2020**"), the Group's civil engineering and infrastructure arm, CES_SDC Pte Ltd ("**CES_SDC**"), secured two public sector projects worth approximately $660 million. Together with the other contracts secured by the Group's construction business in 1Q2020, the Group's order book has increased substantially from approximately S$591 million as at 31 December 2019 to $1.304 billion as at 31 March 2020. The newly secured projects will contribute positively to the revenue from the Group's construction division, which revenue will be recognised progressively in the next few years. The Group expects the demand for infrastructure projects to continue even in the wake of the COVID-19 pandemic and CES_SDC, with its strong track record in public infrastructure projects, will be well-placed to bid for such projects.

In order to ensure the well-being of the Group's construction workers, preparation is underway for the Group to implement and enforce safe distancing and other measures at its work sites as the circuit breaker measures are being relaxed.

Hospitality

The Group's hotels in Singapore, Australia and the Maldives have experienced declining occupancy rates and revenues since February 2020 as the COVID-19 outbreak escalated into a worldwide health crisis. In 1Q2020, the Group's hotels generally recorded occupancy rates ranging from 58% to 66% and RevPAR ranging from S$66 to S$471, which is a decline from the respective ranges of 68% to 85% and S$76 to S$611 in the corresponding quarter in 2019.

Occupancy in Park Hotel Alexandra in the second quarter of 2020 ("**2Q2020**") has been propped up by demand from local companies for accommodation of workers affected by Malaysia's movement control order and persons serving their stay-home notices in hotels. Accordingly, the occupancy rate of Park Hotel Alexandra in 2Q2020 has so far remained at a level comparable with 1Q2020.

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) has fallen to single-digit levels since March 2020. The Group expects occupancy in these two hotels to remain low so long as the demand for travel is severely curtailed by Australia's travel restrictions and quarantine requirements.

The Group's hotel in the Maldives, the Grand Park Kodhipparu Resort, has also not been spared from the adverse impact of the COVID-19 pandemic. Since late March, the Maldives Government has suspended all visas-on-arrival. Coupled with travel restrictions imposed by many countries, occupancy rates for the Grand Park Kodhipparu Resort further declined in 2Q2020 due to the drop in international visitors who make up the bulk of its occupants.

To contain the operating costs of its hotels, the Group has implemented cost cutting measures such as temporary closure of facilities, amenities, reduction of manpower, shortening of work hours and suspension of non-essential services. The Group will also defer commencement of construction works for its new hotel development projects in Adelaide, Australia and in the Maldives till 2021.

Property Investment

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

The occupancy rates of the Group's investment properties have remained relatively stable, save for the occupancy rate of CES Centre which has fallen due to the expiry of a key tenant's lease. However, due to the prolonged impact of the COVID-19 pandemic, the Group expects it to be more challenging to find replacement tenants for its investment properties. There is also no assurance that existing tenants will not default on their rental payments. In addition, the Group also faces more competition for new tenants due to the increased office space in the vicinity of CES Centre.

Education

The COVID-19 pandemic with its containment measures has in part delayed the licensing and completion of renovation for the Group's new schools that are in the pipeline, including the Group's Invictus-branded schools in Hong Kong and Cambodia. This in turn has affected the Group's ability to market the schools and secure enrolment numbers.

With respect to the Group's existing schools in Singapore, the White Lodge and Repton Schoolhouse preschools have reduced their fees during the circuit breaker period. In addition, Invictus International School has agreed to either fee reduction or waivers for students whose families have been financially affected by the COVID-19 outbreak, on a case-by-case basis.

The existing schools under the Group's education portfolio are also required to close during the circuit breaker period. However, to minimise disruption to the learning momentum and to ensure continuation of lesson plans, all preschools and schools under the Group's education portfolio have introduced online learning during the circuit period breaker.

Profit Guidance

The full extent of the COVID-19 impact on the Group's financial performance for the full financial year ended 31 December 2020 ("**FY2020**") cannot be ascertained at this point. However, the Group's financial performance in the first half of the financial year ending 30 June 2020 ("**1H2020**") will fare worse than the corresponding period in 2019. The Board wishes to issue a profit guidance note that the Group will record an overall loss for 1H2020.

Cashflow

The Group has also taken steps to conserve its cashflow by postponing non-strategic investments and non-essential capital expenditures. Based on the Company's cashflow projection for the rest of FY2020, the Group has the ability to meet all its borrowings that are maturing in FY2020. Barring unforeseen circumstances, the financial impact on the Group is not expected to affect the Group's ability to fulfil its near-term obligations.

Overall

The financial impact on the Group due to the COVID-19 outbreak is partially mitigated by the Singapore Government's support measures. In addition to industry-specific reliefs, the Job Support Scheme will provide the Group with wage support to help the Group ease its overheads for employees' salaries during the circuit breaker period.

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.

Shareholders are advised to read this announcement and any further announcements by the Company carefully, and to exercise caution in trading their shares in the Company. The Company will make further announcements as appropriate. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

Submitted by Chia Lee Meng Raymond, Executive Director and Group Chief Executive Officer, on 28 May 2020 to the SGX.