



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

PROPOSED ACQUISITION OF SEMBCORP DESIGN AND CONSTRUCTION PTE. LTD.

1. INTRODUCTION

The Board of Directors (the "**Board**") of Chip Eng Seng Corporation Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the trading update released by the Company on 20 September 2019 (the "**Trading Update**").

The Company had mentioned in the Trading Update that it is in discussions relating to a potential acquisition of 100% of the issued share capital of a Singapore incorporated private company, which is principally engaged in the building, construction and construction project management business.

The Board is pleased to update that its wholly-owned subsidiary, Chip Eng Seng Construction Pte. Ltd. (the "**Purchaser**"), has on 1 October 2019 entered into a sale and purchase agreement (the "**SPA**") with Sembawang Corporation Limited (the "**Seller**") to acquire 100% of the issued and paid-up share capital of Sembcorp Design and Construction Pte. Ltd. ("**SDC**") (the "**Proposed Acquisition**"). The Seller is a wholly-owned subsidiary of Sembcorp Industries Ltd. ("**SCI**"), which is listed on the Mainboard of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

2. INFORMATION ON SDC

Based on publically available information, SDC is a private company limited by shares that was incorporated in Singapore on 27 May 1994. SDC is a design and build construction service provider registered with the Building and Construction Authority of Singapore as an A1 building (CW01) civil engineering and (CW02) contracting firm and is qualified to tender for public sector contracts with unlimited tender sums. SDC also has a track record of undertaking various civil and building infrastructure projects and has a number of ongoing projects including the construction of the Marina South Station tunnels and station for the Thomson Line MRT, the construction of foundation works for the Changi Water Reclamation Plant and the second package of works relating to the development of a three-runway system at Changi Airport (collectively, the "**Projects**"). SDC's wholly-owned subsidiary in Myanmar, SDCI (Myanmar) Company Limited, has in 2018 also completed a construction project relating to a 225 megawatt gas-fired power facility in the Myingyan district of Myanmar.

SDC and its subsidiaries currently undertake a defence construction business (the "**Defence Business**") and a commercial construction business (the "**Commercial Business**"). The Proposed Acquisition is in respect of the Commercial Business only, which comprises the building, construction and construction project management business undertaken by SDC and its subsidiaries in respect of competitive construction tender projects in Singapore, including the Projects. As at end August 2019, the order book for the Commercial Business is in excess of S\$300 million.

The Defence Business will be transferred to a wholly-owned subsidiary of SCI, Sembcorp Specialised Construction Pte. Ltd., prior to the completion of the Proposed Acquisition.

3. RATIONALE FOR THE PROPOSED ACQUISITION

As stated in the Trading Update, the Group is considering augmenting 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.

The Board believes that, given SDC's differentiating building and construction capabilities from that of the Group, the Proposed Acquisition will extend the footprint of the Group's existing construction business to among other things, building, construction and construction management businesses in respect of competitive construction tender projects in Singapore. The Group will also benefit from SDC's capability and track record, which will enhance the ability of the Group to participate in tenders for a broader range of projects, such as civil engineering and building infrastructure projects. The Proposed Acquisition, when completed, will provide the Group's existing construction business with a good opportunity for horizontal integration in the construction sector.

4. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

- 4.1 Consideration.** The base consideration for the Proposed Acquisition is approximately S\$49.9 million, which will be further adjusted in accordance with the terms of the SPA for, amongst others, an interest component. The Purchaser will pay the final consideration in cash to the Seller on the date of the completion of the Proposed Acquisition (the "**Completion Date**"). The final consideration will be funded and paid out of the internal cash resources of the Group.

The consideration for the Proposed Acquisition was arrived at pursuant to a competitive bid process and on an arm's length willing-seller-willing-buyer basis. Based on a locked-box

formula agreed with the Seller for deriving the consideration, the Company had attributed an enterprise value of S\$26.0 million to the Commercial Business as at 31 December 2018 (the "**Locked Box Date**"), taking into account factors such as the average EBITDA of the Commercial Business for certain trailing financial periods, third party financial debt and the net working capital of SDC as at the Locked Box Date.

- 4.2 Terms.** The SPA contains customary provisions, including representations and warranties, pre-completion covenants regarding the operation of the Commercial Business, limitations of the Seller's liabilities and other commercial terms.
- 4.3 Restructuring.** After the signing of the SPA, SDC will undergo an internal restructuring exercise such that immediately prior to the Completion Date, SDC will only own subsidiaries and assets principally in connection with the Commercial Business (the "**Restructuring Exercise**").
- 4.4 Completion.** Completion of the Proposed Acquisition is conditional upon, *inter alia*, certain third party consents being obtained and the completion of the Restructuring Exercise. Completion is expected to take place in the last quarter of 2019.

5. FINANCIAL IMPACT

The Proposed Acquisition, when completed, is not expected to have a significant impact on the net tangible assets and earnings per share of the Company for the current financial year ending 31 December 2019.

6. INTEREST OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition, other than through their respective shareholdings in the Company.

Submitted by Chia Lee Meng Raymond, Executive Director and Group Chief Executive Officer, on 2 October 2019 to the SGX