Letter to Shareholders

As an organisation, we continue to develop resilient partnerships to manage the dynamic challenges that are ahead and to bounce back stronger when the global economy recovers.

Dear Fellow Shareholders,

As we present our Boustead Projects FY2020 Annual Report to you, our credible performance for the financial year ended 31 March 2020 has been overshadowed by extremely challenging circumstances.

Our performance was achieved in a challenging industry environment which has been aggravated by trade wars, de-globalisation movements and towards the end of the financial year, the onset of the COVID-19 pandemic. Revenue was 82% higher year-on-year at a record S$426.2 million, driven by conversion of our strong design-and-build order backlog carried over from FY2019 and higher real estate revenue from the commencement of new leases and improved management fees under the Boustead Development Partnership ("BDP").

Despite record revenue, profit attributable to you – our fellow shareholders – was 27% lower year-on-year at S$22.2 million, mainly due to lower gross margins on ongoing projects, lower quantum of cost savings from previously completed projects, higher overhead costs and the absence of a one-off gain associated with a property sale recorded in FY2019. After adjusting for the after-tax gain on sale of the property and an impairment loss on financial asset, comparative net profit would be 10% lower year-on-year.

FY2020 – Expanding Design-and-Build and Real Estate Activities

Against the challenging landscape in FY2020, we continued to scale up resources to manage our significantly enlarged design-and-build revenue base, which given the intense margin pressures impacting our industry, is essential for us to grow this segment's profit. Under our real estate business, we expanded our leasehold portfolio of completed income-generating properties (both wholly-owned and jointly-owned), with the growth of jointly-owned properties enabling us to concurrently strengthen our development management and asset management businesses.

At our design-and-build business, segment revenue for FY2020 rose 91% year-on-year to a record S$391.9 million, supported by our strong order backlog carried forward from FY2019. We made significant progress on our largest public and private sector projects to date, respectively the S$242 million contract for JTC Kranji Green, Singapore's first multi-storey recycling facility, and the over S$200 million contract for Surbana Jurong Campus, an iconic global headquarters designed by Safdie Surbana Jurong that is the first large-scale industrial development to be rated Green Mark Platinum – Super Low Energy, an exemplary project on how building design can mitigate climate change.

Design-and-build profit before income tax ("PBT") for FY2020 was 13% lower year-on-year at S$19.6 million, which in addition to lower gross margins, lower quantum of cost savings and higher overhead costs mentioned earlier, was also affected by lower interest income due to the completion of a project under a deferred payment arrangement in the prior year. We also incurred higher costs of sales and overhead costs in relation to mobilising and scaling up resources to manage several large projects.

To better manage our internal resources and execute on our sizeable order backlog, we shifted our business development efforts towards pursuing projects in strategic and higher value sectors and new geographies, securing a total of S$93 million in new contracts for FY2020, followed by an additional S$97 million of contracts in early FY2021. These include design-and-build contracts from two repeat pharmaceutical and medical technology clients, as well as a significant contract in Malaysia to design-and-build an advanced integrated high-tech manufacturing and office facility for a Fortune 500 technology corporation.

John Lim Kok Min
Chairman

Thomas Chu Kok Hong
Managing Director

During FY2020, we continued our journey to consolidate our position as Singapore's leading design-and-build partner for smart eco-sustainable business park and industrial developments. Further building upon our integrated digital delivery ("IDD") approach guided by Industry 4.0 transformation standards and incorporating 7D building information modelling ("BIM"), virtual design and construction, and design for manufacturing and assembly ("DfMA"), we achieved significantly higher internal adoption rates for game-changing methodologies such as 3D scanning, artificial intelligence and machine learning, data analytics and virtual reality.

Our transformational methodologies are best displayed at our project for JTC Kranji Green. Extensive use of DfMA prefabrication for JTC Kranji Green has demonstrated our capability to work with some of the largest DfMA prefabricated components involved in any industrial project. We were able to achieve a very high level of IDD adoption within this project, which includes: (i) improving project planning and tracking by aggregating all construction and scheduling data into a single Cloud-based platform; (ii) significantly optimising design approvals through virtual walkthroughs of BIM with relevant stakeholders; and (iii) working towards a digital operations and maintenance manual for the development, which will see the final as-built BIM used for multi-decade facilities management – a first of its kind in Asia.

At our real estate business, segment revenue for FY2020 grew 18% year-on-year to S$34.3 million, mainly due to the commencement of leasing revenue from 85 Tuas South Avenue 1 and Boustead Industrial Park Phase 1 in Vietnam ("BIP Vietnam Phase 1"), and improved management fees from the BDP. In line with our higher real estate revenue, segment PBT increased 8% year-on-year, excluding the previous year's gain on sale of a property.

During FY2020, we delivered a mix of greenfield and brownfield developments under our leasehold portfolio (both wholly-owned and jointly-owned) including Amcor's integrated production and logistics facility under the BDP, additions & alterations work for 85 Tuas South Avenue 1 to prepare the facility for Cummins and construction of BIP Vietnam Phase 1. For the first time ever, the BDP also acquired a property – 6 Tampines Industrial Avenue 5 for S$77.4 million – a sizeable high-specification facility which has been converted into a multi-tenanted technology centre, with the majority of net leasable area taken up by a global technology corporation.

The abovementioned properties have boosted the number of completed properties in our leasehold portfolio to 22 properties totalling over 351,000 square metres in gross floor area ("GFA"), with a total market valuation exceeding S$932 million and supported by a relatively well-staggered lease expiry profile and well-diversified and reputable tenant base. Including projects still under development, the leasehold portfolio will eventually be boosted to a total market valuation exceeding S$1.2 billion, with over 414,000 square metres in GFA.

In line with our broader strategy to recycle our capital for business expansion and collaborate with strategic partners for co-investment opportunities regionally, we syndicated approximately half of the equity interest in our Braddell Road development – 351 on Braddell – to a new strategic partner, The Platform-Hanwha ARESF Fund No 1 ("The Platform-Hanwha") during FY2020. We continued to advance on initiatives to unlock value from our completed leasehold portfolio and look forward to sharing more details when all arrangements have been finalised.

Towards the end of FY2020, the pandemic struck, leading to an unprecedented level of lockdowns and travel restrictions, resulting in massive socio-economic disruptions. During the pandemic's

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initial stages, we moved quickly to safeguard the wellbeing of our stakeholders including our team, subcontractors and their employees, clients and surrounding communities by implementing strict health checks, social distancing measures, split team and telecommuting arrangements.

In light of the disruptions brought on by the pandemic, our prospects and financial performance for FY2021 are expected to be materially lower than that of FY2020. Given the expected challenges generated by the disruptions, weaker financial performance anticipated for FY2021, need to conserve cash to buffer against global uncertainties in the months ahead and also the lower net profit in FY2020, your Board has proposed a final cash dividend of 0.8 Singapore cents per share for FY2020.

FY2021 – Prevailing Over the 'New Normal'

The Circuit Breaker imposed by the Singapore Government from 7 April to 1 June 2020 led to the suspension of all non-essential construction activities in Singapore, resulting in the closure of our HQ and design-and-build project sites. Although we managed to conduct most of our project management activities through secure Cloud-based technology platforms and telecommuting, nearly all of our physical construction activities have been halted for almost four months since April 2020.

Post-Circuit Breaker, the Building & Construction Authority ("BCA") has administered a gradual, controlled reopening of Singapore's construction industry in multiple phases, further delaying the resumption of the majority of construction projects in Singapore, including our own. We only recently received approvals to restart most of our design-and-build projects with preparation works and will continue to work closely with the BCA and relevant authorities to ensure the wellbeing, health and safety of all stakeholders as we resume and scale up operations.

Project completion delays are expected as productivity will be impacted by the need to comply with new safe management measures, along with the serious shortage of worker resources – a problem affecting Singapore's entire construction industry due to the high infection levels among foreign workers. This will lead to slower revenue conversion, accompanied by associated resumption, compliance, prolongation and acceleration costs which are still being ascertained given the fluidity of the situation. Later completion of development projects will also correspondingly delay the commencement of leasing income.

We have proactively taken several measures to mitigate the impact of these delays and to protect the viability and long-term value of our businesses. Our cost management measures include organisation-wide cost reviews, a salary freeze for our entire team and a reduction in Board fees and senior management salaries since June 2020. Our Board and executive directors will take 10% reductions in directors' fees and base salaries respectively, while the rest of our senior management team will be subject to tiered 5% to 7.5% reductions in base salaries.

Our significantly impacted businesses in Singapore have however been somewhat mitigated by our geographic expansion efforts, which recently yielded a significant contract win in Malaysia as mentioned earlier, as well as ongoing projects in China and Vietnam. In Malaysia, our new client was highly impressed by our safety track record, safe work practices and adoption of transformative technologies including the use of IDD and BIM to significantly shorten the project timeframe – technologies not commonly deployed by Malaysia's construction industry – which allowed our core team in Singapore to secure the contract from decision-makers in Malaysia and the US.

The Singapore Government's various COVID-19 support measures for businesses have also provided us with much-needed partial relief, particularly through the Jobs Support Scheme and foreign worker levy waivers and rebates. The BCA also announced additional support measures for the construction sector including co-funding certain safe management implementations. In addition, the Singapore Government will continue to bear the costs of COVID-19 testing for the construction sector until 31 March 2021.

While we expect an increasingly manpower-lean, more closely regulated, dynamic and higher operating cost environment will form part of the 'new normal' in the future, our collaborative and progressive approach in staying ahead of the industry transformation curve has competitively positioned us as a design-and-build partner well-equipped to execute projects under challenging conditions. Although split team and telecommuting arrangements necessitated by the pandemic have slightly impacted our team's overall productivity, they also demonstrate that our business continuity plans are functioning, with our ability to conduct many of our activities remotely and effectively through secure Cloud-based collaboration and productivity platforms that we have invested in and implemented organisation-wide. Our transformative technologies are contributing in-built resilience that will help us prevail in the Singapore construction industry's greatest crisis in history.

Developing Resilient Partnerships

The unprecedented scale of global disruption brought about by the pandemic has triggered other unprecedented collapses such as in global crude oil prices and simultaneous plunges in GDP worldwide. On the business development front, we have observed clear signs of business slowdown as many corporations postpone expansion and investment plans and enter a cash conservation mode in anticipation of the potential economic hardship ahead.

Against this 'new normal', we have chosen 'Developing Resilient Partnerships' as the theme for our FY2020 Annual Report because we believe that our resilient partnerships are more relevant now than ever as governments, businesses and communities need to collaborate to overcome the pandemic and recover from what could be long-lasting economic effects. As an organisation, we continue to develop resilient partnerships that can help us to manage the dynamic challenges that are ahead and to bounce back stronger when the global economy recovers.

Resilient partnerships come in all forms in the ecosystem we are part of – from our team and subcontractors to clients and strategic partners.

Among those most badly affected by the pandemic are our subcontractors whose many employees reside at foreign worker dormitories where infection levels have been high. Throughout this crisis, we have continued to closely engage with our subcontractors on the situation, enabling us to better appreciate the challenges they face and allowing us to render them appropriate assistance and support where possible. The resilience of our supply chain partnerships will be critical to our collective efforts to resolve the issue of worker resource availability even as we restart our Singapore construction projects.

To better protect and track the movement of our subcontractors' employees within our project sites and facilitate contact tracing as part of safe management requirements, we are partnering a local nominee of TraceSafe to deploy its wearable devices and Cloud management software at our Singapore project sites. The first deployment will be at a single project site and once the relevant government approvals and support are obtained, we will work towards expanding this deployment across all Singapore project sites.

In a separate effort to minimise human exposure to onsite activities that can be automated, we are partnering with Airsquire – a startup specialising in image analytics for construction design – to automate the validation of construction progress scans against BIM through the use of 3D scanning, AI and machine learning, and drones. This will reduce inspection times by up to 40% compared to manual inspection methods, automate construction verification to minimise updating errors in the final BIM and limit the need for our team to expose themselves unnecessarily.

As we push forward with expansion plans, another area of developing resilient partnerships is with strategic capital partners. Selecting resilient strategic capital partners is vital, since they can affect our ability to continue financing developments that are in the pipeline and critical to our future success. Our strong collaborations include the BDP, Echo Base-BP Capital, Perennial Real Estate and most recently, The Platform-Hanwha. The entry of The Platform-Hanwha as our strategic partner for 351 on Braddell has enhanced our current pool of strong, synergistic development partnerships that have enabled us to undertake a wider range and greater number of developments across more real estate sectors and geographic markets.

We also recognise that our provision of smart eco-sustainable business park and industrial developments is dependent on resilient technology partnerships that address both Industry 4.0 transformation standards and climate change. With regards to smart building capabilities, we have partnered with Getronics – a leading global infocommunications technology service provider – to help future-proof our developments with a flexible and scalable platform for new and ever-changing technologies, allowing us to manage smart developments in our leasehold portfolio through a single integrated technology platform.

On the renewable energy front, we have partnered with Sunseap – the largest and most established integrated clean energy solutions provider in Singapore – which is intended to better utilise the rooftop space of our leasehold properties through the potential installation of rooftop industrial solar energy systems and offer lower-cost clean energy solutions to our clients and tenants.

At the beginning of FY2020, we also invested S$4.2 million for a 25% shareholding in DSCO Group Holdings Pte Ltd ("DSCO"), a provider of specialised building engineering consulting services in the Asia Pacific, with a strong reputation as a leading designer in data centres. We expect our strategic partnership with DSCO to support our future expansion and augment our design-and-build and development capabilities in high-tech, high value-added projects and intend to leverage DSCO's expertise, experience and reputable position in the high-growth data centre industry to jointly pursue data centre projects.

Our resilient strategic partnerships and in-built resilience are further supported by our strong balance sheet, healthy order backlog and expanding leasehold portfolio, positioning us to continue pursuing growth opportunities and initiatives that advance and shape Asia's built environment sector.

Words of Appreciation

We would like to thank our leadership and team members for their continued dedication and efforts in protecting the viability and value of our organisation in a challenging landscape. We would also like to extend our gratitude to all of our partners and key stakeholders – our clients, business partners, associates, bankers, suppliers and you, our shareholders for your continuing support. Last but not least, we would like to express our appreciation to our fellow Board colleagues for their wisdom, guidance and continued advice as we collectively tackle the challenges ahead. We believe the resilient partnerships we continue to forge will not only help us to weather through this crisis but allow us to emerge stronger.

We look forward to meeting with you at Boustead Projects' very first virtual Annual General Meeting. In the meantime, may you and your loved ones stay well, healthy and safe during these tumultuous times.

John Lim Kok Min
Chairman

Thomas Chu Kok Hong
Managing Director