



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

PROPOSED INVESTMENT IN A REAL ESTATE DEVELOPMENT PROJECT IN TAICANG CITY, THE PEOPLE'S REPUBLIC OF CHINA

The Board of Directors of Chip Eng Seng Corporation Ltd (the "**Company**") wishes to announce its proposed investment in a real estate development project (the "**Project**") located in Taicang City, Jiangsu Province, the People's Republic of China (the "**PRC**").

The Company (through its wholly-owned subsidiary) and Haiyi Shantou Investment Group Co., Ltd (汕头市海逸投资(集团)有限公司) ("**Haiyi Investment**") will jointly invest (the "**Investment**") in Taicang Jianianhua Real Estate Development Co., Ltd (太仓嘉年华房地产开发有限公司) (the "**Project Co**"), which owns the real estate property for the Project. Following the Investment, the Company and Haiyi Investment will respectively hold 51% and 29% of the equity interest of Project Co. The remaining 20% of the equity interest of Project Co will be held by a newly incorporated entity to be controlled by the Local Shareholder (as defined below).

INFORMATION RELATING TO PROJECT CO AND THE PROJECT

Project Co is a limited liability company incorporated in the PRC in February 2010. Project Co's effective controller is Mr Ren Weimin (the "**Local Shareholder**") who controls the equity interest held in Project Co via registered shareholders who either hold the equity interest on his behalf or through companies controlled by him (collectively, with the Local Shareholder, the "**Existing Shareholders**").

Project Co currently owns a real estate property covering a total land area of approximately 90,657 square meters (the "**Property**"). The Property is located at 26 Dangqian Road, Huangjing Town, Taicang City, Jiangsu Province, PRC. Project Co has constructed a mixed development on the Property over a land area of approximately 51,684 square meters, consisting of 12 residential buildings and two commercial buildings ("**Phase I**").

The Project will involve the development and construction of a residential development on the remaining land area of approximately 38,000 square meters of the Property, with a gross floor area of approximately 111,111 square meters.

Due to Project Co running out of funds in Phase I, Project Co has outstanding indebtedness due and payable to creditors, including its lending bank, contractors, service providers, and suppliers. Certain creditors (including Project Co's lending bank and contractors) have commenced legal action for the repayment of such indebtedness. As a result of the ongoing legal proceedings, the assets of Project Co (including the land use right to the Property (the "**Land Use Right**")) are currently sealed off by the local courts. Accordingly, the Project Co is not able to commence any development works in relation to the Project at this point in time.

The objective of the Investment is for Project Co to apply the proceeds from the Investment towards discharging its outstanding liabilities such that its assets will be unsealed, after which it can resume normal operations and commence work on the Project.

RATIONALE FOR THE INVESTMENT

Property development is one of the core businesses of the Company and as part of its expansion strategy, the Company has been on the lookout to extend its geographical reach in this business

segment. The Project was introduced to the Company by a business contact (which for the avoidance of doubt, is unrelated to Haiyi Investment). The Company is cognizant that while it is an established property developer, it nevertheless has no prior experience investing in the real estate market in the PRC. Haiyi Investment has been involved in property development and hotel management projects in various provinces across the PRC. Through Haiyi Investment's participation in the Project, the Company will have access to needed resources and local experience that are critical to the successful execution of the Project.

As the Company's first foray into property development in the PRC, the Investment will provide the opportunity for the Company to establish a presence in the fast-growing Yangtze River delta area. The Property is situated in the northeast of Taicang City, which is bordered by Shanghai. Taicang City is a county-level city under the jurisdiction of Suzhou City, Jiangsu Province. Taicang City has been consistently ranked in top 10 of the National Bureau of Statistics' 100 Most Competitive County-Level Cities in the PRC, and its steady pace of growth presents significant potential for the development of a prime residential development. The Project will enjoy excellent connectivity as it will benefit from a direct connection to Shanghai via an upcoming station of the Shanghai–Nantong High Speed Railway (Hutong Railway 沪通高铁) which is expected to be completed in 2020. Rising home prices and the limited supply of housing in Shanghai will also drive the demand for housing by non-locals working in Shanghai and retirees looking for more affordable housing alternatives. Based on the sales of Phase I (of which most of the residential and commercial units have been sold) as well as the rising prices of new residential developments in the surrounding area, the Company expects strong sales to be generated from Phase II.

The Company believes that by leveraging on its strength as an established property developer both in Singapore and overseas, coupled with the familiarity of Haiyi Investment with the property development market in the PRC and the Local Shareholder's experience in developing and constructing Phase I, it is unlikely that Project Co will run into further funding and related problems for the Project.

KEY TERMS RELATING TO THE INVESTMENT

A. Entry into Master Framework Agreement

On 14 June 2019, the Company's wholly-owned subsidiary, CEL Property Development Pte. Ltd. ("CEL") and Haiyi Investment (collectively, the "Investors") entered into a master framework agreement with Project Co and the Existing Shareholders (the "**Master Framework Agreement**"). CEL will set up a wholly foreign-owned enterprise in the PRC (the "**CEL WFOE**") to undertake the Investment.

The investment amount of RMB240 million will be contributed by the Investors in the proportion of 63.75% by CEL and 36.25% by Haiyi Investment respectively, such that on completion of the Equity Transfers (as defined below), CEL WFOE will hold 51% of the equity interest in Project Co while Haiyi Investment will hold 29% of the equity interest in Project Co. Any further funding required from shareholders to complete the Project will be contributed in accordance with their respective shareholding proportion.

B. Investment Approach

In accordance with the Master Framework Agreement, the Investment will be carried out in four stages as set out below.

Stage One: Provision of loan of RMB45 million (the "Tranche One Loan")

The Tranche One Loan will be disbursed when Project Co has satisfied conditions precedent, including the preparation of a detailed debt repayment plan (the "**Debt Repayment Plan**"), the entry into settlement agreements with its creditors based on the Debt Repayment Plan, and the entry into a

shareholders' agreement (the "**Shareholders' Agreement**") between CEL WFOE, Haiyi Investment and Local Shareholder to govern their relationship *inter se* as shareholders of Project Co and to regulate the business and affairs of Project Co. The Shareholders' Agreement will come into effect on completion of the Equity Transfers (as defined below).

Project Co will use the proceeds from the Tranche One Loan towards discharging the debts owed to its lending bank (being the mortgagee of the Land Use Right) as well as to the other creditors which have filed legal claims resulting in the assets of Project Co being sealed off by the court (the "**Tranche One Repayment**"). Following the Tranche One Repayment, Project Co will procure its lending bank to discharge the mortgage over the Land Use Right to the Property and thereafter, Project Co will mortgage the Land Use Right in favour of CEL WFOE. Project Co will also procure the discharge of all encumbrances over its assets.

Stage Two: Provision of loan of RMB171 million (the "Tranche Two Loan")

The Tranche Two Loan will be disbursed upon all encumbrances affecting the Property having been duly discharged and CES WFOE being registered as the first-ranking mortgagee of the Land Use Right.

The intention is for Project Co to use the proceeds from the Tranche Two Loan towards discharging the other debts owed to the bulk of its creditors, including its contractors, suppliers and its related parties.

Stage Three: Transfers of the 51% and 29% equity interests in Project Co to CEL WFOE and Haiyi Investment respectively for a combined consideration of RMB1.00 (the "Equity Transfers")

Upon the Investors being satisfied that Project Co would be in a position to resume normal operations and commence works on the Project, the Investors have the right to require the Existing Shareholders to effect the Equity Transfers within 15 working days of such request.

Upon completion of the Equity Transfers, the equity interests in Project Co will be as follows:

Shareholder	Percentage Interest
CEL WFOE	51%
Haiyi Investment	29%
Local Shareholder (through his newly-incorporated entity)	20%

Stage Four: Provision of loan of RMB24 million (the "Final Tranche Loan")

Project Co will be entitled to draw down the Final Tranche Loan after the Investors are registered as shareholders of Project Co. The proceeds from the Final Tranche Loan will be used towards discharging the indebtedness repayable to the remaining creditors in accordance with the Debt Repayment Plan.

INTERESTED PERSON TRANSACTION

A. Interested Person

Haiyi Investment is an associate (as defined in the Listing Manual) of Mr Gordon Tang ("**GT**") and Mrs Celine Tang ("**CT**") and together with GT, the "**Controlling Shareholders**"). As at the date of this Announcement, the Controlling Shareholders jointly hold approximately 29.73% in aggregate of the shareholding interest in the Company. CT is also the Non-Independent and Non-Executive Director and the Non-Executive Chairman of the Company. Haiyi Investment is thus an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.

Accordingly, the entry by CEL and Haiyi Investment into the Master Framework Agreement to jointly invest in Project Co constitutes an interested person transaction of the Company for the purposes of Chapter 9 of the Listing Manual.

B. Rule 916(2) of the Listing Manual

Based on the terms of the Master Framework Agreement, the Audit Committee of the Company is of the view that:

- (i) the risks and rewards for the Investment pursuant to the terms of the Master Framework Agreement are in proportion to the eventual equity of each of CEL WFOE and Haiyi Investment in Project Co; and
- (ii) the terms of the Investment pursuant to the Master Framework Agreement are on normal commercial terms and are not prejudicial to the interests of the Company and its minority shareholders.

As the risks and rewards for the Company and Haiyi Investment pursuant to the terms of the Master Framework Agreement are in proportion to the respective equity interest in Project Co to be transferred to them, and none of GT, CT or Haiyi Investment has an existing equity interest in Project Co prior to the signing of the Master Framework Agreement, the Investment is within the scope of Rule 916(2) of the Listing Manual.

The Company will make a further announcement when the Shareholders' Agreement is entered into, which announcement will also include the Audit Committee's views pursuant to Rule 916(2) of the Listing Manual.

C. Value of Interested Person Transaction

For the current financial year commencing 1 January 2019, save as disclosed below, there are no interested person transactions relating to the Controlling Shareholders and their associates:

- (i) the Company's proportionate contribution to the Investment amounting to RMB153 million (approximately S\$30 million), and
- (ii) the joint purchase by the Controlling Shareholders of S\$30 million in principal amount of the 6% notes due 2022 issued by CES Treasury Pte. Ltd. (a wholly-owned subsidiary of the Company) on 15 March 2019 (the "**Notes**"), with the value of this interested person transaction being the interest of S\$900,000 payable to the Controlling Shareholders on 15 September 2019 (the "**First Interest Payment Date**"). As at the date of this Announcement, the Controlling Shareholders hold S\$29 million in principal amount of the Notes, and the actual interest payable to them on the First Interest Payment Date is S\$870,000.

OTHERS

The Company's contribution of RMB153 million will be funded from internal sources and 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.

Save as disclosed in this announcement, none of the Directors and, to the best knowledge of the Directors, none of the controlling and substantial shareholders of the Company, has any direct or indirect interest in the Investment.

Submitted by Chia Lee Meng Raymond, Executive Director and Group Chief Executive Officer, on 14 June 2019 to the SGX.