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

MANDATORY UNCONDITIONAL CASH OFFER BY UNITED OVERSEAS BANK LIMITED FOR AND ON BEHALF OF TANG DYNASTY TREASURE PTE. LTD. FOR ALL THE SHARES IN THE CAPITAL OF CHIP ENG SENG CORPORATION LTD.

RESPONSES TO SGX-ST'S QUERIES

1. Introduction

1.1 The board of directors (the "**Board**") of Chip Eng Seng Corporation Ltd. (the "**Company**") refers to queries received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in relation to the letter from Xandar Capital Pte. Ltd. (the "**IFA Letter**"), the independent financial adviser (the "**IFA**") to the directors of the Company ("**Directors**") who are considered independent for the purposes of the Offer (as defined in the IFA Letter). The IFA Letter is set out in Appendix A of the circular dated 22 December 2022 issued by the Company.

1.2 Unless otherwise defined, all capitalised terms not defined herein shall have the same meanings ascribed to them in the IFA Letter.

2. SGX-ST Queries

The Company sets out below the responses of the IFA to the SGX-ST queries in relation to the IFA Letter:

2.1 **SGX-ST Query 1**: ***We refer to the IFA letter and note that "the Company has appointed Independent Valuers to conduct independent valuations of some of the Group's development properties, property, plant and equipment and investment properties which had a total net book value of approximately S$1,076.69 million, representing approximately 82.45% of the total property-related assets of the Group". The revaluation indicated a 34.9% increase in value from S$776.9 million to S$1,047.9 million.***

Please (i) disclose a list of properties that make up the balance 17.55% of the total property-related assets of the Group where no valuation was undertaken for the purpose of the Offer; and (ii) explain whether these properties would have similarly experienced the same significant increase in market value compared to their net book values. If so, to provide the reasons why the AC is of the view that no valuation is required for these remaining properties.

IFA's Response to SGX-ST Query 1:

The properties that make up the balance 17.55% of the total property-related assets of the Group where no valuation was undertaken for the purposes of the Offer are as follow:

1. the office building at 171 Chin Swee Road, Singapore 169877 ("**CES Centre**");

2. the property and hotel business trading as "**The Sebel Mandurah**" located at 1 Marco Polo Drive, Mandurah Australia (the "**Mandurah Properties**");

3. the development site located at 217 and 221 – 223 Separation Street, Northcote, Victoria, Australia;

4. the development site at 51 Pirie Street, Adelaide, South Australia;

5. the two-storey buildings with basement commercial units located at 72, 74-78 and 80-82, Hindley Street, Adelaide, South Australia;

6. the single-user single-storey warehouse with a 4-storey ancillary office and temporary ancillary workers' dormitory located at 2 Tuas South Street 8, Singapore;

7. the factory building located at 65 Tech Park Crescent, Singapore;

8. the precast plant located at Senai Industrial Park, Senai, Johor, Malaysia;

9. the international school located at No. 8 Jalan Purnama, Bandar Seri Alam, Malaysia; and

10. the lagoon located in North Malé Atoll, Maldives, known as Samarafushi lagoon.

In assessing which of the Group's properties would be considered material to warrant valuation for the purposes of the Offer, the IFA had considered the following:

(a) whether the net book value of each property exceeds 5% of the total property-related assets of the Group;

(b) whether there is a current valuation (or indicative market price) on each property. A "current valuation" shall be a valuation dated not more than six (6) months prior to the Latest Practicable Date with reference to Rule 222 of the SGX-ST Listing Manual;

(c) if a current valuation (or indicative market price) is not available, whether there was significant fluctuation in the market value of each property in the preceding three financial years (being the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021). In this case, a fluctuation of 5% between each of such financial years would be considered significant; and

(d) whether the percentage coverage is sufficient for the IFA to complete its evaluation of the Offer and render an opinion on the estimated range of value of Shares required under the Code.

As stated in the IFA Letter at page 19, the IFA had referred to a valuation commissioned by the Company on CES Centre as at 28 June 2022 for its accounting and financing purposes. The net book value of CES Centre represents approximately 12.09% of the total property-related assets of the Group, as at 30 June 2022.

In addition, on page 19 of the IFA Letter, the IFA had noted the announcement by the Company on 15 December 2022 of the entry into a call option deed to grant options to unrelated third parties for the sale of the Mandurah Properties at an aggregate purchase price of A$18.0 million It was further noted by the IFA on page 19 of the IFA Letter that while there is no assurance that the unrelated third parties will exercise such options, the aggregate purchase price under the call option deed provides an indicative value to the Mandurah Properties which had a net book value of A$14.81 million as at 30 June 2022, which represents approximately 1.09% of the total property-related assets of the Group, as at 30 June 2022. As set out in the Company's announcement dated 15 December 2022, "*the Purchase Price was arrived at on a willing-buyer willing-seller basis on arm's length negotiations with the Purchasers after taking into consideration, inter alia, various commercial factors such as the potential returns on the Sale Assets and prevailing market conditions.*"

Excluding CES Centre and the Mandurah Properties, the balance of property-related assets not subject to valuation represents less than 5% of the net book value of the Group's total property-related assets.

The Recommending Directors concurred with the approach taken by the IFA.

2.2 **SGX-ST Query 2**: ***Please elaborate with specific details, the IFA's view that the Final Offer Consideration of S$0.75 per Share is a fair and reasonable offer, noting that the Final Offer Consideration represents a discount of approximately S$0.5863 or 43.88% to the RNAV per Share of S$1.3363, or a P/RNAV ratio of approximately 0.56 times.***

IFA's Response to SGX-ST Query 2:

The practice statement dated 13 July 2020 issued by the SIC states that:

"*The term "fair and reasonable" should be regarded as comprising two different concepts.*

The term "fair" relates to an opinion on the value of the offer price or consideration compared against the value of the securities subject to the offer (the "Offeree Securities"). An offer is "fair" if the price offered is equal to or greater than the value of the Offeree Securities.

In considering whether an offer is "reasonable", the IFA should consider other matters as well as the value of the Offeree Securities. Such matters include, but are not limited to, the existing voting rights in the offeree company held by the offeror and its concert parties and the market liquidity of the Offeree Securities."

Each of the factors underlying the "fairness" opinion have values assigned to the Shares, including market prices, NAV per Share, RNAV per Share, and valuation statistics such as premium or discounts to VWAP, P/E ratio, EV/EBITDA ratio, P/NAV ratio and P/RNAV ratio. The IFA compared these financial metrics and noted that there are eight (8) factors with financial metrics equals to or above the value/valuation of the Shares thus supporting the fairness of the Final Offer Consideration while there are only three (3) factors below the value/valuation of the Shares which are against the fairness of the Final Offer Consideration.

Accordingly, while the discount to RNAV per Share is high, the IFA is of the opinion that the "against" factors did not outweigh the "for" factors for the fairness opinion.

The IFA also wishes to highlight that, as stated in paragraph 8.2 of the IFA Letter, the IFA noted the discount to the NAV implied by the Final Offer Consideration and compared the P/NAV ratio implied by the Final Offer Consideration with the trailing P/NAV ratios of the Shares represented by the market prices of the Shares and the then latest announced NAV of the Group. The comparison chart set out on page 17 of the IFA Letter clearly depicts that the P/NAV ratio implied by the Final Offer Consideration is higher than the trailing P/NAV ratio of the Shares for the period between 18 October 2019 and the Holding Announcement Date, both dates inclusive. This is a “for” factor for the fairness of the Offer highlighted in paragraph 10.1(c) of the IFA Letter.

In addition, as set out in paragraph 8.5 of the IFA Letter and highlighted in paragraph 10.1(d) as a “for” factor for the fairness of the Offer, the P/NAV ratio implied by the Final Offer Consideration is higher than the P/NAV ratios of the Comparable Companies. The IFA has also stated in paragraph 8.5 of the IFA Letter that the P/RNAV ratio of the Company as implied by the Final Offer Consideration is within the range and higher than the mean and median P/NAV ratios of the Comparable Companies which have not taken into account RNAV adjustments, if any.

Hence, the IFA is of the opinion that, as of the date of the IFA Letter, the terms of the Offer, on balance, are fair.

2.3 **SGX-ST Query 3:** ***We note that the IFA had (i) used the last 6 months of FY2021 and HY2022 ended 30 June 2022 to calculate “LTM2022”, and (ii) used these figures in their computation of the P/E ratio and EV/EBITDA ratio. The LTM2022 figures included prior financial year’s results, i.e. from 1 July 2021 to 31 December 2021.***

Please explain why LTM2022 is a reasonable period for comparison purposes instead of the latest announced HY2022 results which show the most recent performance of the Company. To also disclose whether it is the IFA’s normal practice to use LTM2022 in all its other assessments of exit offers of companies and if not, please explain the basis for adopting this current methodology.

IFA’s Response to SGX-ST Query 3:

It is in line with industry practice to use the trailing 12-month results for calculating the P/E ratios and EV/EBITDA ratios. For reference, the independent financial advisers appointed in the recent takeover offers for the following companies had also adopted the same practice:

(a) Singapore Medical Group Limited (see the circular dated 18 October 2022);
(b) Silkroad Nickel Ltd (see the circular dated 26 September 2022); and
(c) GYP Properties Limited (see the supplemental letter dated 22 September 2022).

As the Company’s current financial year has not ended, it is not possible for the IFA to calculate the P/E ratios and EV/EBITDA ratios based on just the HY2022 results as it will entail the IFA having to make a forecast on the Company’s full year results for the financial year ending 31 December 2022.

3. Responsibility Statement

3.1 The Directors (including those who may have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated and opinions expressed in this announcement are fair and accurate and that there are no other material facts not contained in this announcement, the omission of which would make any statement in this announcement misleading. The Directors jointly and severally accept responsibility accordingly.

3.2 Where any information has been extracted or reproduced from published or otherwise publicly available sources or obtained from the Offeror and/or the IFA (including, without limitation, the Offer Document, the IFA Letter and the responses from the IFA set out in this announcement), the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information is accurately extracted from such sources or, as the case may be, accurately reflected or reproduced herein.

BY ORDER OF THE BOARD

Chia Lee Meng Raymond
Executive Director and Group Chief Executive Officer
for and on behalf of
CHIP ENG SENG CORPORATION LTD.

27 December 2022