

SAPPHIRE CORPORATION LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198502465W)

RESPONSE TO SGX QUERIES

The Board of Directors (the “**Board**”) of Sapphire Corporation Limited (the “**Company**”) together with its subsidiaries (collectively known as the “**Group**”) refers to the announcement made by the Company on 29 February 2023 in relation to the Company’s unaudited financial statements for the full year ended 31 December 2023 (“**Financial Statements**”) via SGXNET.

The Company sets out below its responses to the queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”).

SGX query 1:

The Group’s gross profit for FY2023 decreased significantly to 1.7% (FY2022: 13.7%). Elaborate on the specific reasons why there was a lower decline in costs of sales than the decline in revenue. In your response, please include an explanation for the deterioration in the financial performance of Jialong and Yilong from both recording segmental profits in FY2022 to both recording segmental losses in FY2023.

Company’s response:

Jialong’s major projects were completed in FY2023 so all the relevant costs of sales were recorded accordingly. For the planning of the urban improvement and renewal works for the First Ring Road (一环路), this project’s revenue stream ended in 2023 and accounts for the majority of Jialong’s revenue. Certain costs incurred such as sub-contracting could only be finalized and was recorded in FY2023, resulting in a gross loss for this project in FY2023 and the deterioration in the financial performance of Jialong (The audit process is still on going and may be subject to further changes). In FY2023, Yilong assessed and recorded an ECL impairment on its receivables of RMB 795,000, which resulted in its loss before tax of RMB 321,000.

SGX query 2:

The Group’s administrative expenses for FY2023 increased significantly to RMB 17.8 million (FY2022: RMB 10.7 million). The Company explained that it was mainly due to increased staff costs of RMB 3.7 million and traveling expenses of RMB 1.2 million. Provide a breakdown of the material items in administrative expenses in FY2023 including the comparative amounts incurred in FY2022 and elaborate on the nature of each item as well as the reason(s) for any significant increase/decrease. For staff costs, please include a breakdown by subsidiary and include an explanation of why it increased materially despite earning less revenue during the year.

Company's response:

The breakdown of the material items in administrative expenses in FY2023 including the comparative amounts incurred in FY2022 is as follows:

	FY 2023	FY 2022	Variance	Variance	
	RMB'000	RMB'000	RMB'000		Explanation
Directors' fees	1,050	904	146	16%	not significant
Audit fees	2,806	1,543	1,263	82%	Increase in audit fees due to appointment of HLB Shanghai as the component auditor of Ranken Railway as stated in announcement on 3 October 2023
Travelling expenses	1,574	335	1,239	369%	Increase in travelling expenses to find new projects
Staff and related costs	10,127	6,278	3,849	61%	Increase in staff strength (2023: 72 staff, 2022: 55 staff) as the Group is anticipating potentially more projects in FY2024.
Telecommunication expenses	191	91	100	110%	Increase in costs is in line with the increase in number of staff.
Office expenses	642	300	342	114%	Increase in costs is in line with the increase in number of staff.
Advertising expenses	167	5	162	3049%	More advertising costs is incurred in order to find more sales.
Other general and management costs	1,274	1,263	11	1%	Not significant
Total	17,831	10,719			

The breakdown of the staff costs is as follows:

FY2023				
Jialong	Yilong	Chengdu KQR	Sapphire	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
3,542	2,102	1,815	2,668	10,127

FY2022				
Jialong	Yilong	Chengdu KQR	Sapphire	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1,198	951	1,696	2,433	6,278

SGX query 3:

The Group recorded impairment loss on receivables in FY2023 of RMB 6.9 million pursuant to the share transfer and capital increase agreement (the "Agreement") dated 28 May 2020 with Ranken Railway. Under this Agreement, Chengdu KQR effectively guaranteed the collection of Ranken Railway's receivables.

a) Please disclose the total amount of receivables in Ranken Railway that are currently guaranteed by Chengdu KQR under the Agreement along with the aging of such receivables in bands of 1 year (up to the 5 years). To include any amounts that had previously been assigned to Chengdu KQR.

Company's response:

There were no other amounts that were previously assigned to Chengdu KQR. The total amount of receivables in Ranken Railway that are currently guaranteed by Chengdu KQR under the Agreement are as follows, which may be subject to further changes as the audit process is still ongoing:

Outstanding as at							
31-Dec-23	Current (Not past due)	Less than one year past due	1 to 2 years past due	between 2 to 3 years past due	between 3 to 4 years past due	between 4 to 5 years past due	more than 5 years past due
RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
302,584,886	236,025,625	2,645,815	2,032	943,412	380,056	25,634,678	36,953,268

Company will make further relevant disclosure if there are material differences post audit.

b) Please disclose who owes these receivables to Ranken Railway, what credit terms are offered to these customer(s) and whether such credit terms have previously been modified.

Company's response:

For project trade receivables, the credit terms is generally 1 - 3 months. The retention monies of RMB 236 million are currently undergoing final account assessment with customers and have not been approved yet. The credit terms will start once approval is given by the customers. Appendix 1 shows the list of parties owing such receivables to Ranken Railway.

c) Elaborate on the Board's assessment of the recoverability of the Ranken Railway receivables.

Company's response:

As mentioned in the announcement, Company has also engaged the component auditors, HLB ThinkBridge Shanghai CPA to perform agreed upon procedures to help verify the outstanding accounts receivables, its aging and assess the adequacy of the provision amount as of 31 December 2023. The appropriate ECL model is applied according to the aging of the outstanding accounts receivables, and the Board is satisfied that the provisions made thus far are adequate. Subject to the audit review, there may be further changes to the provisions which will be updated in our further announcements as well as in our audited financial statements for financial year ended 31 December 2023.

d) Ranken Railway also contributed a significant portion of the Group's share of profits of equity-accounted investees of RMB 31.6 million in FY2023. To disclose whether the revenues that contributed to the FY2023 profits have been collected by Ranken Railway.

Company's response:

Ranken Railway collected RMB 1.4 billion in FY2023, which can be attributed to past and present years' revenue.

SGX query 4:

4) The Group extended an additional loan of RMB 10 million to Ranken Railway in FY2023, bringing the aggregate loan to RMB 30 million.

a) Please elaborate on the reason for extending the loans to Ranken Railway.

Company's response:

From Company's Circular dated 9 October 2020,

"Chengdu KQR will remain a 49.82% shareholder of Ranken Railway. Accordingly, Ranken Railway may require capital support from Chengdu KQR – whether in the form of equity or loan – given the scale of its operations, as required under PRC laws and the requirements of the Shenzhen Stock Exchange (as informed by the Investor to the Company)."

The equity holdings of Shandong Hi-Speed Road & Bridge Co., Ltd. and Chengdu KQR in Ranken Railway are equal. As Ranken Railway required financing for its operational needs, Ranken Railway approached its shareholders Shandong Hi-Speed Road & Bridge Co., Ltd. and Chengdu KQR, each for a loan of RMB 30mil. Chengdu KQR after evaluating the intended use of the loans requested by Ranken Railway and that the loans would support the business of Ranken Railway for the benefit of Chengdu KQR as a shareholder thereof and after considering Chengdu KQR's liquidity position, Chengdu KQR extended the requested loan to Ranken Railway together with Shandong Hi-Speed Road & Bridge Co., Ltd. who also extended the requested loan to Ranken Railway. Each of the loans by Shandong Hi-Speed Road & Bridge Co., Ltd. and Chengdu KQR to Ranken Railway were on the same terms.

b) Disclose the terms of the loans and when the Group expects repayment of the loans by Ranken Railway. To disclose Ranken Railway's working capital for FY2023 and whether it is sufficient to support its operations and repay the loans.

Company's response:

The loan is repayable within 12 months and interest rate is 3.95% per annum.

Ranken Railway's working capital for FY2023: total current assets is RMB 3.4 billion vs total current liabilities of RMB 2.6 billion. Ranken Railway confirms that its working capital is sufficient to support its operations and repay the loans of RMB 30 million owing to Chengdu KQR.

SGX query 5:

5) Please provide the nature of the covered guarantee provided for the banking facilities of Ranken Railway. What is the rationale for the Group to be providing a guarantee for the increase in the bank loans from RMB 135.3 million in 2022 to RMB 184.5 million in 2023? Please provide the Board's assessment as to whether the Group's provision of guarantee for the banking facilities of Ranken Railway is in the best interests of the Company and the bases for such an assessment.

Company's response:

Shandong Hi-Speed Road & Bridge Co., Ltd. is providing a comprehensive credit guarantee(s) for the aggregate sum of up to RMB 371,700,000 ("Principal Guarantee") to lender(s) of Ranken Railway which will allow Ranken Railway obtain loan facilities with lower interest rates, than if such Principal Guarantee is not provided. Shandong Hi-Speed Road & Bridge Co., Ltd. is required under PRC laws and the requirements of the Shenzhen Stock Exchange to obtain from Chengdu KQR, a covered guarantee sum of the pro-rata equity holdings of Ranken Railway by Chengdu KQR (49.8% multiply by up to RMB 371.7mil). In the event of default by Ranken Railway, Shandong Hi-Speed Road & Bridge Co., Ltd. will need to fulfil its guarantee obligation to the lenders of Ranken Railway. Subsequently, Shandong Hi-Speed Road & Bridge Co., Ltd. will seek recourse from Chengdu KQR for the covered guarantee amount.

The guarantee provided by Shandong Hi-Speed Road & Bridge Co., Ltd. increased from up to RMB 293,960,000 (based on the audited NAV of Ranken Railway of FY2020 of RMB 589million under the PRC GAAP multiply by the percentage shareholding of 49.82%) to up to RMB 371,700,000 (based on the audited NAV of Ranken railway of FY2022 of RMB 746million under the PRC GAAP multiply by the percentage shareholding of 49.82%). Correspondingly, the covered guarantee to be provided by Chengdu KQR has increased as well.

The Board having assessed the financial position, profitability and credit standing of Ranken Railway, has deemed that the provision of the covered guarantee is in the best interest of the Company as this enables Ranken Railway to borrow at a lower borrowing cost. It is also stated in the Company's Circular dated 9 October 2020,

"Ranken Railway would be placed in a more favourable position to secure project contracts in the PRC, and may be able to enjoy lower interest rates on external borrowings from financial institutions, given its status as an indirect SOE following the Proposed Transaction"

SGX query 6:

6) The Group recorded trade payable and other payables owing to an associate company of RMB 7.7 million and RMB 30.6 million respectively. Please provide a breakdown of the payables. In the breakdown, include the counterparty and elaborate on the nature of the payables as well as the expected payment date.

Company's response:

	RMB	Nature	Expected payment terms
Trade payables			
Trade payable to associated Company Ranken Railway	7,679,000	Project related costs such as labour and others	within 12 months
Other payables			
Payable to associated Company Ranken Railway	20,588,000	Trade receivable Chengdu KQR has agreed to take over	within 12 months
Payable to associated Company Ranken Railway	10,000,000	Other deposit paid to Yilong	within 12 months

SGX query 7:

7) The Group recorded bills payable to a third party as at 31 Dec 2023 of RMB 20.0 million (31 Dec 2022: Nil). To disclose the counterparty, the nature of the payables, and the expected payment date.

Company's response:

The bills payable is to Chengdu Yantong Iron & Steel Co., Ltd. The nature of payable is purchase of materials & supplies and it was repaid on 31 January 24.

SGX query 8:

8) The Group recorded amounts owing to a related party as at 31 Dec 2023 of RMB 6.8 million (31 Dec 2022: Nil). To disclose the counterparty, the nature of the payables, and the expected payment date. To also reconcile this amount with its corresponding related party transaction(s) in Note 19 to the financial statements.

Company's response:

The counter party is Chengdu Yunlong Technology Pte Ltd. The nature of the payables is loan for operating requirements and expected payment date is November 2024. The interest expenses disclosed in Note 19 of RMB 238,000 is related to this loan.

By Order of the Board
SAPPHIRE CORPORATION LIMITED

Wang Heng
Chief Executive Officer and Executive Director
20 March 2024