

HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020

PART 1

Information required for announcements of quarterly (Q1, Q2, Q3), Half Year and Full Year Announcements

1(a)(i) An income statement and statement of comprehensive income, for the Group, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		
	1H2020 RMB'000	1H2019 RMB'000	Change %
Revenue	640,676	697,304	(8.1)
Cost of sales	(592,437)	(638,683)	(7.2)
Gross profit	48,239	58,621	(17.7)
Other income	4,790	5,167	(7.3)
Selling and distribution costs	(4,911)	(3,751)	30.9
Administrative expenses	(23,393)	(26,046)	(10.2)
Other expenses	(4,265)	(6,016)	(29.1)
Profit from operating activities	20,460	27,975	(26.9)
Finance costs	(9,494)	(11,165)	(15.0)
Share of profit of equity-accounted investees (net of tax)	1,413	—	N.M.
Profit before tax	12,379	16,810	(26.4)
Tax expenses	(2,078)	(4,699)	(55.8)
Profit for the period	10,301	12,111	(14.9)
Profit attributable to:			
Owners of the Company	9,980	11,771	(15.2)
Non-controlling interests	321	340	(5.6)
Profit for the period	10,301	12,111	(14.9)

Consolidated Statement of Comprehensive Income

	Group		
	1H2020 RMB'000	1H2019 RMB'000	Change %
Profit for the period	10,301	12,111	(14.9)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences	(30)	(89)	(66.3)
Other comprehensive income for the period, net of tax	(30)	(89)	(66.3)
Total comprehensive income for the period	10,271	12,022	(14.6)
Total comprehensive income attributable to:			
Owners of the Company	9,950	11,682	(14.8)
Non-controlling interest	321	340	(5.6)
Total comprehensive income for the period	10,271	12,022	(14.6)

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1(a)(ii) Items, which if significant must be included in the income statement.

Notes to Income Statement

	Group		
	1H2020	1H2019	Change
	RMB'000	RMB'000	%
Other income includes the following:			
Interest income – banks	207	179	15.6
Rental income	2,147	2,045	5.0
Unwinding of discount for long-term receivable	–	535	N.M.
Exchange gain, net	748	–	N.M.
Gain on disposal of property, plant and equipment, net	312	1,139	(72.6)
Other expenses include the following:			
Exchange loss, net	–	(332)	N.M.
Change in fair value of financial asset designated as fair value through profit or loss	(949)	(34)	2,691.2
Finance costs include the following:			
Interest expense – banks and financing institution	(7,639)	(8,804)	(13.2)
Interest expense – corporate bond	–	(85)	N.M.
Interest expense – finance leases	(1,855)	(2,276)	(18.5)
Profit before income tax is arrived after deducting:			
Depreciation of property, plant and equipment	(14,764)	(22,581)	(34.6)
Depreciation of investment properties	(1,205)	(1,205)	–

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1(b)(i) A statement of financial position (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	30.6.2020	31.12.2019	30.6.2020	31.12.2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Property, plant and equipment	24,839	184,623	130	221
Intangible assets and goodwill	—	42,417	—	—
Investment properties	—	52,274	—	—
Subsidiaries	—	—	442,048	451,205
Associated company	—	48,726	—	—
Other investments	—	4	—	—
Deferred tax assets	—	13,586	—	—
Total non-current assets	24,839	341,630	442,178	451,426
Other investment	2,136	3,158	2,136	3,158
Inventories	2,052	34,945	—	—
Contract assets	—	911,679	—	—
Trade receivables	8,239	564,917	—	—
Other receivables	19,492	186,423	9,488	11,526
Assets classified as held for sale (Note 1)	1,863,153	—	—	—
Cash and cash equivalents	1,489	169,345	155	134
Total current assets	1,896,561	1,870,467	11,779	14,818
Total assets	1,921,400	2,212,097	453,957	466,244
Equity				
Share capital	466,700	466,700	466,700	466,700
Reserves	122,970	113,020	(15,567)	(4,044)
Equity attributable to owners of the Company	589,670	579,720	451,133	462,656
Non-controlling interests	11,227	10,906	—	—
Total equity	600,897	590,626	451,133	462,656
Liabilities				
Loans and borrowings	—	103,840	—	—
Deferred tax liabilities	—	6,501	—	—
Total non-current liabilities	—	110,341	—	—
Trade payables	8,624	1,009,859	—	—
Other payables	10,748	169,061	2,753	3,435
Contract liabilities	61	160,351	—	—
Loans and borrowings	71	154,776	71	153
Current tax liabilities	—	17,083	—	—
Liabilities classified as held for sale (Note 1)	1,300,999	—	—	—
Total current liabilities	1,320,503	1,511,130	2,824	3,588
Total liabilities	1,320,503	1,621,471	2,824	3,588
Total equity and liabilities	1,921,400	2,212,097	453,957	466,244

HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020

Note 1: As at 30 June 2020, the assets and liabilities classified as held for sale are as follows:

	Group 30.6.2020 RMB'000
Assets	
Property, plant and equipment	138,928
Goodwill	42,417
Investment properties	51,068
Associated company	50,139
Other investments	4
Deferred tax assets	13,586
Total non-current assets	296,142
Inventories	21,722
Contract assets	864,482
Trade receivables	426,084
Other receivables	209,232
Cash and cash equivalents	107,576
Total current assets	1,629,096
Total assets	1,925,238
Amount due from Chengdu KQR	(50,670)
Amount due from SYE	(11,415)
Assets classified as held for sale disclosed on the balance sheet	1,863,153
Liabilities	
Loans and borrowings	127,819
Deferred tax liabilities	6,414
Total non-current liabilities	134,233
Trade payables	789,072
Other payables	117,379
Contract liabilities	88,457
Loans and borrowings	213,007
Current tax liabilities	13,320
Total current liabilities	1,221,235
Total liabilities	1,355,468
Amount due to Ranken Holding Co., Limited	(52,422)
Interest payable to Ranken Holding Co., Limited	(1,047)
Amount due to CJPS	(1,000)
Liabilities classified as held for sale disclosed on the balance sheet	1,300,999

As announced on 2 June 2020, Chengdu Kai Qi Rui Business Management Co., Ltd. ("Chengdu KQR"), the Company's 98%-owned subsidiary, and Ranken Railway, Chengdu KQR's 99.6%-owned subsidiary, have entered into a share transfer and capital increase agreement dated 28 May 2020 ("Agreement") with Shandong Hi-Speed Road & Bridge Investment Management Co., Ltd. ("Investor"), for the (a) sale of a certain percentage of the equity interests in Ranken Railway held by Chengdu KQR to the Investor ("Sale"); and (b) subscription by the Investor for additional equity interests in Ranken Railway ("Subscription". and collectively with the Sale, the "Proposed Transaction").

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Upon completion of the Proposed Transaction, each of the Investor and Chengdu KQR will hold approximately 49.82% of the enlarged equity capital of Ranken Railway, with the remaining equity interests in Ranken Railway continuing to be held by Mr. Cheung Wai Suen (“Mr. Cheung”), the Executive Chairman of the Company. Accordingly, upon completion of the Proposed Transaction, Ranken Railway will cease to be a subsidiary of the Company and become an “associated company” of the Group as defined under the Listing Manual, with the Company’s effective interest in Ranken Railway reduced from 97.60% to 48.82%.

Upon completion of the Proposed Transaction, the Company will continue to be an investment management and holding company with a business model aligned towards urbanisation trends. The Group will continue to be principally engaged in the investment, engineering, procurement and construction business related to the land transport infrastructure and water conservancy and environmental projects in China.

The Proposed Transaction excludes the Carved-out Assets of 四川易隆装备有限公司 (Sichuan Yilong Equipment Co., Ltd.) (“SYE”) and 成都嘉隆物业服务服务有限公司 (Chengdu Jialong Property Service Co., Ltd.) (“CJPS”).

The financial statements of the Ranken Railway (less Carved-out Assets) (“Disposal Group”) are presented in the Balance Sheet as Held for Sale.

HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

	30.6.2020		31.12.2019	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Amount repayable in one year or less, or on demand	160,656	—	154,776	—
Amount repayable after one year	127,819	—	103,840	—
	288,475	—	258,616	—
Corporate function				
Current portion of finance lease	71	—	153	—
Ranken (Disposal Group)				
Short-term bank borrowings	98,000	—	89,000	—
Long-term bank borrowings	98,000	—	98,000	—
Current portion of finance lease	22,585	—	25,623	—
Non-current portion of finance lease	29,819	—	5,840	—
Secured borrowings from financial institution	40,000	—	40,000	—
Total	288,475	—	258,616	—

Details of any collateral as at 30 June 2020

Ranken

- (i) The short-term and long-term bank loans for Ranken are secured by personal guarantees by the vendors of Ranken and land and building with total carrying amounts of RMB 60.8 million.
- (ii) The carrying value of fixed assets under finance lease as at 30 June 2020 approximates RMB 41.4 million.
- (iii) As at 30 June 2020, the vendors have granted personal guarantees for the purpose of securing total banking facilities of RMB 0.9 billion for Ranken's working capital.

The Group's overall gearing was approximately 0.5 times as at 30 June 2020.

HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020

1(c) A statement of cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group	
	1H2020	1H2019
	RMB'000	RMB'000
Operating activities		
Profit before tax	12,379	16,810
Adjustments for:		
Depreciation of property, plant and equipment	14,764	22,581
Amortisation of investment properties	1,205	1,205
Gain on disposal of property, plant and equipment, net	(312)	(1,139)
Change in fair value of financial asset designated as fair value through profit or loss	949	34
Unwinding of discount for long term receivable	–	(535)
Interest income	(207)	(179)
Interest expense	9,494	11,165
Share of profit of equity-accounted investees (net of tax)	(1,413)	–
Operating profit before working capital changes	36,859	49,942
Changes in working capital:		
Inventories	11,171	(12,754)
Contract assets	47,198	(41,173)
Contract liabilities	(71,833)	154,529
Trade and other payables	(242,728)	(56,374)
Trade and other receivables	137,962	(57,237)
Cash flows (used in)/generated from operations	(81,371)	36,933
Tax paid	(5,929)	(8,426)
Net cash (used in)/generated from operating activities	(87,300)	28,507
Investing activities		
Interest received	207	179
Payment for purchase of plant and equipment	(3,961)	(24,730)
Proceeds from disposal of plant and equipment	10,366	4,604
Net cash generated from/(used in) investing activities	6,612	(19,947)

HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020

	Group	
	1H2020	1H2019
	RMB'000	RMB'000
Financing activities		
Interest paid	(7,603)	(8,275)
Proceeds from bank loans	49,000	40,000
Payment of bank loans	(40,000)	(20,000)
Proceeds from refinancing of lease liabilities	47,000	—
Payment of finance lease liabilities	(28,032)	(17,974)
Repayment of bond issued	—	(35,000)
Proceeds from rights issue	—	52,861
Payment of transaction cost relating to rights issue	—	(2,191)
(Placement)/withdrawal of fixed deposit pledged, net	(3,500)	3,942
Net cash generated from in financing activities	16,865	13,363
Net (decrease)/increase in cash and cash equivalents	(63,823)	21,923
Cash and cash equivalents at beginning of the period	169,341	196,040
Effect of exchange rate changes on the balances held in foreign currencies	45	(155)
Cash and cash equivalents classified as held for sale	(104,074)	—
Cash and cash equivalents at end of the period	1,489	217,808
Cash and cash equivalents consist of the following:		
Cash and cash equivalents in the statement of financial position	1,489	221,758
Fixed deposits pledged	—	(3,950)
Cash and cash equivalents in the statement of cash flows	1,489	217,808

HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2020

1(d)(i) A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

Consolidated Statement of Changes in Equity

Group	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserve RMB'000	Translation reserve RMB'000	Accumulated profit RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
6M2019									
As at 1 January 2019	413,839	(7,585)	(9,217)	(6,777)	2,808	112,849	505,917	10,219	516,136
Profit for the period	–	–	–	–	–	11,771	11,771	340	12,111
Other comprehensive income									
Foreign currency translation differences	–	–	–	–	(89)	–	(89)	–	(89)
Total other comprehensive income	–	–	–	–	(89)	–	(89)	–	(89)
Total comprehensive income	–	–	–	–	(89)	11,771	11,682	340	12,022
Transactions with owners, recognised directly in equity									
Rights issue, net of expenses	52,861	–	–	(2,191)	–	–	50,670	–	50,670
Total contributions by and distributions to owner	52,861	–	–	(2,191)	–	–	50,670	–	50,670
As at 30 June 2019	466,700	(7,585)	(9,217)	(8,968)	2,719	124,620	568,269	10,559	578,828

Consolidated Statement of Changes in Equity

Group	Share capital	Capital reserve	Fair value reserve	Other reserve	Translation reserve	Accumulated profit	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
6M2020									
As at 1 January 2020	466,700	(7,585)	(14,205)	(8,968)	4,559	139,219	579,720	10,906	590,626
Profit for the period	–	–	–	–	–	9,980	9,980	321	10,301
Other comprehensive income									
Foreign currency translation differences	–	–	–	–	(30)	–	(30)	–	(30)
Total other comprehensive income	–	–	–	–	(30)	–	(30)	–	(30)
Total comprehensive income	–	–	–	–	(30)	9,980	9,950	321	10,271
As at 30 June 2020	466,700	(7,585)	(14,205)	(8,968)	4,529	149,199	589,670	11,227	600,897

Statement of Changes in Equity

	Share Capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Translation reserve RMB'000	Accumulated profit RMB'000	Total equity RMB'000
Company							
6M2019							
At 1 January 2019	413,839	(8,294)	(9,217)	(6,777)	20,085	6,025	415,661
Loss for the period	–	–	–	–	–	(1,703)	(1,703)
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	3,287	–	3,287
Total other comprehensive income	–	–	–	–	3,287	–	3,287
Total comprehensive income	–	–	–	–	3,287	(1,703)	1,584
Transactions with owners, recognised directly in equity							
Rights issue, net of expenses	52,861	–	–	(2,191)	–	–	50,670
Total contributions by and distributions to owner	52,861	–	–	(2,191)	–	–	50,670
At 30 June 2019	466,700	(8,294)	(9,217)	(8,968)	23,372	4,322	467,915

Statement of Changes in Equity

	Share Capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Translation reserve RMB'000	Accumulated profit / (losses) RMB'000	Total equity RMB'000
Company							
6M2020							
At 1 January 2020	466,700	(8,294)	(14,205)	(8,968)	32,254	(4,831)	462,656
Loss for the period	—	—	—	—	—	(2,115)	(2,115)
Other comprehensive income							
Foreign currency translation differences	—	—	—	—	(9,408)	—	(9,408)
Total other comprehensive income	—	—	—	—	(9,408)	—	(9,408)
Total comprehensive income	—	—	—	—	(9,408)	(2,115)	(11,523)
At 30 June 2020	466,700	(8,294)	(14,205)	(8,968)	22,846	(6,946)	451,133

- 1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

Share Capital

There was no change in the Company's issued capital since the previous period reported on.

Convertible Securities

The Company has no outstanding convertible securities as at end of the current financial period and as at the end of the corresponding period of the immediately preceding financial year.

- 1d(iii) To show the total number of issued shares excluding treasury shares as at end of the current financial period and as at end of the immediately preceding year**

	30.06.2020	31.12.2019
Total number of issued shares excluding treasury shares	407,589,893	407,589,893

- 1d(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at end of the current financial period reported on**

There were no treasury shares as at end of the current financial year.

- 2 Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice**

The figures have not been audited or reviewed by our auditors.

- 3 Where the figures have been audited, or reviewed, the auditors' report (including any qualification or emphasis of a matter)**

Not applicable.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for current reporting year compared with the audited financial statements for the year ended 31 December 2019.

5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as reasons for, and the effect of, the change

The Group and the Company have adopted the following amendments to SFRS(I)s which took effect from financial year beginning 1 January 2020:

- Amendments to References to Conceptual Framework in SFRS(I) Standards
- Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 Definition of Material
- Amendments to SFRS(I) 3 Definition of a Business
- Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7 Interest Rate Benchmark Reform

The adoption of the above amendments to SFRS(I)s is assessed to have no material financial effect on the results and financial position of the Group and of the Company for the year ending 31 December 2020.

6 Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	For the 6 months ended	
	1H2020	1H2019
Basic earnings per share (RMB cents)	2.45	3.48
Diluted earnings per share (RMB cents)	2.45	3.48

The calculation of the above basic earnings per share and diluted earnings per share was computed based on profit attributable to owners of the Company divided by the weighted average number of shares as detailed below:

	1H2020	1H2019
Weighted average number of shares	407,589,893	337,781,680

The weighted average number of shares during the year is the number of shares outstanding at the beginning of the year, adjusted by the number of shares issued during the year multiplied by a time-weighting factor.

The diluted earnings per share are the same as basic earnings per share as the Group does not have any dilutive capital instruments.

- 7 Net asset value (for the issuer and the Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the current financial period reported on and the immediately preceding financial year**

	Group		Company	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Net asset value per ordinary share (RMB cents)	144.67	142.23	110.68	113.51
Number of shares in issue	407,589,893	407,589,893	407,589,893	407,589,893

- 8 A review of the performance of the Group to the extent necessary for a reasonable understanding of the Group's business. The review must discuss any significant factors that affected the turnover, costs and earnings of the Group for the current financial period reported on, including (where applicable) seasonal, or cyclical factors. It must also discuss any material factors that affected the cashflow, working capital, assets or liabilities of the Group during the current financial period reported on.**

Review of Financial Performance (1H2020 vs 1H2019)

Revenue fell by RMB 56.6 million to RMB 640.7 million mainly due to the extended Chinese New Year break and temporary cessation of operations as directed by the Chinese government for strict measures to contain the spread of Covid-19 in late January 2020. As announced on 11 March 2020, some of the work sites in relation to the Group's ongoing urban railway projects have progressively started work. As updated on 22 May 2020, all construction operations and activities of Ranken have resumed.

For the similar reasons mentioned above, gross profit fell by RMB 10.4 million to RMB 48.2 million. While certain cost control measures were put in place, there were fixed operating costs during the temporary cessation of operations.

Other income fell by RMB 0.4 million to RMB 4.8 million mainly due the absence of unwinding of discount for long-term receivable and lower gain disposal of plant and equipment, offset by higher rental income and exchange gain.

Selling and distribution costs rose by RMB 1.2 million to RMB 4.9 million mainly due to contribution made to Chengdu Charitable Federation (成都市慈善总会). These funds are directed to West China Hospital of Sichuan University (四川大学华西医院), where its medical staff have been on the front line of the epidemic prevention and control in Wuhan and had made a significant contribution to the prevention and control of epidemic situation in Sichuan and Chengdu.

Administrative expenses fell by RMB 2.7 million to RMB 23.4 million, mainly due to effective costs control.

Other expenses fell by RMB 1.8 million to RMB 4.3 million, mainly due to the absence of exchange loss and amortization of intangible assets and renovation costs incurred in 1H2019. The decrease is offset by a higher fair value loss of financial assets.

Finance costs fell by RMB 1.7 million to RMB 9.5 million mainly due to lower interest expense incurred for banks and financial institution and finance leases.

The share of profit of equity-accounted investees (net of tax) of RMB 1.4 million relates to the Group's share of profits generated by its associated company, Chengdu Derun Jinlong Environmental Management Co., Ltd.

Tax expenses fell by RMB 2.6 million to RMB 2.1 million mainly due to lower taxable profits for Ranken's operations and government's tax relief.

Given the above, net profit for 1H2020 fell by RMB 1.8 million to RMB 10.0 million, net of non-controlling interest.

Review of Financial Position (30 June 2020 vs 31 December 2019)

Note: Significant changes in financial position during the financial period under review were mainly attributed to classification of Ranken Railway (less Carved-out Assets)'s financial position to assets and liabilities held for sale as at 30 June 2020.

Total non-current assets fell by RMB 316.8 million mainly due to classification of the disposal group's non-current assets as Held for Sale. As at 31 December 2019 and 30 June 2020, non-current assets of the disposal group were RMB 317.2 million and RMB 296.1 million, respectively. The decrease in non-current assets of the disposal group was mainly due to depreciation and disposal of construction site facilities during the period. As at 31 December 2019 and 30 June 2020, the non-current assets of the remaining group were RMB 24.4 million and RMB 24.8 million, respectively. These remained relatively unchanged as additions offset depreciation and disposal during the period.

Total current assets increased by RMB 26.1 million mainly due to classification of the disposal group's non-current assets as Held for Sale, offset by lower current assets of the disposal group. As at 31 December 2019 and 30 June 2020, current assets of the disposal group were RMB 1,881.1 million and RMB 1,629.1 million, respectively. The decrease in current assets of the disposal group was due to lower inventories, contract assets, trade and other receivables and cash and cash equivalents arising mainly from lower operating activities during the period.

As at 31 December 2019 and 30 June 2020, current assets of the remaining group were RMB 32.4 million and RMB 33.4 million, respectively. Significant changes in the current assets of the remaining group were:

- Other investment fell by RMB 1.0 million mainly due to fair value loss;
- Inventories rose by RMB 2.0 million mainly due to purchasing of equipment for lease; and
- Trade receivables rose by RMB 1.3 million mainly due to new lease of warehouse and equipment.

Total non-current liabilities fell by RMB 110.3 million, due classification of the disposal group's non-current liabilities as Held for Sale.

Total current liabilities fell by RMB 190.6 million, despite the classification of the disposal group's non-current liabilities as Held for Sale, mainly due to lower current liabilities of the disposal group. As at 31 December 2019 and 30 June 2020, current liabilities of the disposal group were RMB 1,530.9 million and RMB 1,221.2 million, respectively. The decrease in current liabilities of the disposal group was mainly due to lower trade and other payables, contract liabilities and current tax liabilities arising mainly from lower operating activities during the period. The decrease was offset by higher loans and borrowings of the disposal group amounting to RMB 288.5 million as at 30 June 2020 as compared to RMB 258.6 million as at 31 December 2019. The increase in loans and borrowings was due to refinancing lease liabilities and higher bank borrowings.

As at 31 December 2019 and 30 June 2020, current liabilities of the remaining group were RMB 19.6 million and RMB 19.5 million, respectively. The rise in trade payables of the remaining group was offset by lower other payables with payments made.

Total equity

Total equity attributable to owners of the Company or Shareholders' Equity rose by RMB 10.0 million to RMB 589.7 million mainly due to current period earnings of RMB 10.0 million.

Review of Cash Flows (1H2020 vs 1H2019)

Operating cash flow fell by RMB 115.8 million to cash outflow of RMB 87.3 million after accounting for (i) operating profit before working capital changes of RMB 36.9 million and (ii) net working capital changes of RMB 118.2 million, net of tax payment of RMB 5.9 million.

Cash flow generated from investing activities rose by RMB 26.6 million to cash inflow of RMB 6.6 million, mainly due to higher proceeds from disposal of plant and equipment.

Cash flows generated from financing activities rose by RMB 3.5 million to RMB 16.9 million, mainly due to proceeds from bank loans and Proceeds from refinancing of lease liabilities offset by repayment of bank loans, finance lease liabilities and interest paid.

Given the above, cash and cash equivalents fell by RMB 63.8 million. The classification of the disposal group's cash and cash equivalent of RMB 104.1 million as Held for Sale further resulted in the cash and cash equivalent disclosed on the balance sheet to fall to RMB 1.5 million as at 30 June 2020.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

As disclosed in the FY2019 results announcement on 27 February 2020, "the prolonged delay in resumption of normal operations will result in project delays and increase in project costs, with consequential erosion of profit margins and stress the Group's cash flows. With the Group already two months into the current calendar year, the Group expects COVID-19 outbreak to impact on the Group financial results for 1H2020 despite the Group's management taking all measures to minimise impact."

The Group updated on 22 May 2020 via "BUSINESS UPDATE FOR 1Q2020 – IMPACT OF COVID-19" that "all construction operations and activities of the Group have resumed and there are no foreseeable significant risks to the Group's ability to operate as a going concern. The prolonged delay in the resumption of normal operations had impacted the Group's 1Q2020 financial results. However, the Group has resumed full operations in 2Q2020 and barring unforeseen circumstances, the Group is cautiously optimistic that it can return to profitability in 2Q2020."

The above actual results for 1H2020 is in line with the prospect statement disclosed on 27 February 2020 and 22 May 2020.

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months

Aligned with the various urbanisation trends and environmental policies under China's 2016-2020 13th Five-Year Plan, Sapphire has adopted a two-prong strategy in its business model to tap new business opportunities in China as the Group transforms into an integrated urban infrastructure solutions enterprise.

According to data from the National Bureau of Statistics (NBS), China's GDP expanded by 3.2% year on year in the second quarter, marking a sharp rebound from the 6.8% decline in the first quarter of 2020 as a result of the impact caused by the coronavirus pandemic.

As mentioned Part 1 of this Announcement, the Company has entered into the Proposed Transaction with the Investor which is majority-owned by a wholly-state-owned enterprise ("SOE") in the PRC, and upon completion of the Proposed Transaction, each of the Investor and Chengdu KQR will hold approximately 49.82% of the enlarged equity capital of Ranken Railway.

Ranken Railway has faced strong competitive pressure in tendering for projects in the PRC, with most of the projects it has tendered for awarded to SOEs. This has resulted in a decline in Ranken Railway's order book which stands at RMB 1.2 billion as at 30 June 2020.

Subject to completion of the Proposed Transaction, it is envisaged that Ranken Railway will - as an indirect and partial SOE - be able to tender for key infrastructure projects in the PRC which require contractors or vendors to be state-owned which it was previously ineligible to participate, in addition to projects which it could previously access as a privately-owned enterprise. At the same time, Ranken Railway may be able to enjoy lower interest rates on external borrowings from financial institutions.

The Company will be convening an Extraordinary General Meeting ("EGM") to seek shareholders' approval for the proposed transactions. A circular containing, inter alia, the notice of EGM and the details of the proposed transactions will be despatched to shareholders in due course.

Subject to and following completion of the Proposed Transaction, the Group will continue to be principally engaged in the investment, engineering, procurement and construction business related to the land transport infrastructure and water conservancy and environmental projects in China with a business model aligned towards urbanisation trends. In furtherance of its principal businesses and business model, the Group intends to allocate 50-70% of the net proceeds from the Proposed Transaction for investments into, financing, development of and supplying of materials for urbanisation, infrastructure and water and environmental conservation (WEM) projects and transit-oriented development (TOD) projects.

Coronavirus disease 2019 ("COVID-19") – Update

The combat against the Covid-19 across the world continues to unfold with no certainty of when each country will fully resume normal business operations and/or normal daily social activities. There is also no certainty when world travel and economy will recover to pre-Covid-19 levels. It is widely forecasted that the global economy will be adversely affected, the degree of which is uncertain.

On 22 May 2020, the Group has provided an update to highlight that the resumption of its construction operations and activities. While China has effectively contained the outbreak of COVID-19 with most Chinese cities progressively resuming business and daily activities, cluster infections have been reported in Urumqi and Dalian since late July.

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The Group currently has 3 on-going projects in Urumqi and none in Dalian. Given that the Group is committed to support each city's containment and precautionary measures, it has temporarily halted its construction activities for the projects in Urumqi.

The Group will continue to do its part to combat COVID-19 and ensure that our employees continue to work in a safe and healthy environment.

Other than the worksites in Urumqi, the Group continues to progress ahead with the construction operations and activities at the rest of its 13 other urban infrastructure projects in other Chinese cities.

Whilst the Group is profitable in 1H2020, the temporary stoppage of construction activities in its Urumqi worksites will result in project delays and increase in project costs, with consequential erosion of profit margins and impact the Group's cash flows.

The Group expects the COVID-19 outbreak to continue to impact on its financial results for 2H2020 despite the Group's management undertaking its best efforts to mitigate the impact. At this juncture, it is difficult to ascertain the full financial impact of the COVID-19 on the financial performance of the Group for the financial year ending on 31 December 2020.

11 Dividend

(a) Current Financial Period Reported on – any dividend declared for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year – any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12 If no dividend has been declared/recommendeded, a statement to that effect and the reasons for the decision

No dividend has been declared/recommendeded in the current period as the Group intends to conserve cash in particular during the current COVID-19 outbreak situation with consequential erosion of profit margins and impact on the Group's cash flows.

13 Disclosure of Interested Person Transaction Conducted under a Shareholder Mandate for the period ended 30 June 2020

There was no such interested person transaction in the current period reported on.

14 Confirmations by Directors

The Board of Directors of the Company hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited interim consolidated financial statements for the period ended 30 June 2020 to be false or misleading in any material aspect.

15 Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

BY ORDER OF THE BOARD

Wang Heng
Group Chief Executive Officer

14 August 2020