

CIRCULAR DATED 9 OCTOBER 2020

THIS CIRCULAR TO SHAREHOLDERS (“CIRCULAR”) IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

This Circular is issued by Sapphire Corporation Limited (the “Company”). If you are in any doubt about the contents of this Circular or the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

If you have sold or transferred all your ordinary shares in the capital of the Company (“**Shares**”) held through The Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular to the purchaser or transferee as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares represented by physical share certificate(s) which are not deposited with CDP, you should immediately forward this Circular, together with the Notice of Extraordinary General Meeting and the accompanying proxy form to the purchaser or transferee, or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular has been prepared by the Company. The Singapore Exchange Securities Trading Limited (“**SGX-ST**”) assumes no responsibility for the contents of this Circular, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this Circular.

SAPPHIRE

盛世企业

SAPPHIRE CORPORATION LIMITED

(Company Registration Number: 198502465W)
(Incorporated in the Republic of Singapore)

CIRCULAR TO SHAREHOLDERS

in relation to

**THE PROPOSED SALE OF EQUITY INTERESTS IN, AND MATERIAL DILUTION OF
EFFECTIVE EQUITY INTERESTS IN, RANKEN RAILWAY CONSTRUCTION
GROUP CO., LTD. (“RANKEN RAILWAY”), RESULTING IN RANKEN RAILWAY
CEASING TO BE A SUBSIDIARY OF THE COMPANY**

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form : 21 October 2020 at 2.30 p.m.

Date and time of Extraordinary General Meeting : 24 October 2020 at 2.30 p.m.

CONTENTS

DEFINITIONS	2
LETTER TO SHAREHOLDERS	8
1. INTRODUCTION	8
2. INFORMATION ON RANKEN RAILWAY AND THE INVESTOR	9
3. THE PROPOSED TRANSACTION	13
4. RATIONALE FOR THE PROPOSED TRANSACTION	21
5. INTENDED USE OF PROCEEDS FROM THE PROPOSED TRANSACTION	22
6. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL	26
7. FINANCIAL INFORMATION	27
8. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTION	30
9. IRREVOCABLE UNDERTAKING	33
10. SERVICE CONTRACTS	33
11. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS	34
12. DIRECTORS' RECOMMENDATIONS	35
13. EXTRAORDINARY GENERAL MEETING	35
14. ACTIONS TO BE TAKEN BY SHAREHOLDERS	35
15. DOCUMENTS FOR INSPECTION	36
16. DIRECTORS' RESPONSIBILITY STATEMENT	36
APPENDIX A	37
APPENDIX B	39
APPENDIX C	42
APPENDIX D	44
APPENDIX E	50
NOTICE OF EXTRAORDINARY GENERAL MEETING	N-1
PROXY FORM	

DEFINITIONS

In this Circular, the following definitions shall apply throughout unless the context otherwise requires or otherwise stated:–

“Agreement”	:	Has the meaning ascribed to it in Section 1.1 of this Circular
“Announcement”	:	The Company’s SGXNET announcement on 2 June 2020 in relation to the Proposed Transaction
“Audit Committee”	:	The audit committee of the Company, from time to time
“Audit Period”	:	The period from 1 September 2019 (being the day after the Transaction Valuation date) up to the Completion Date
“BFL”	:	Best Feast Limited
“Board of Directors” or “Board”	:	The board of directors of the Company, from time to time
“Business Day”	:	Business days prescribed under PRC law, other than Saturdays, Sundays and prescribed public holidays
“Carved-out Assets”	:	Has the meaning ascribed to it in Section 2.1 of this Circular
“CDP”	:	The Central Depository (Pte) Limited
“CEO”	:	Chief executive officer
“Chengdu KQR”	:	Chengdu Kai Qi Rui Business Management Co., Ltd.
“Circular”	:	This circular to Shareholders dated 9 October 2020
“CJPS”	:	成都嘉隆物业服务服务有限公司 (Chengdu Jialong Property Service Co., Ltd.)
“Closing Price”	:	Has the meaning ascribed to it in Section 4(a) of this Circular
“Companies Act”	:	The Companies Act, Chapter 50 of Singapore, as amended, modified or supplemented from time to time
“Company”	:	Sapphire Corporation Limited
“Company Usage Sum”	:	Has the meaning ascribed to it in Section 5 of this Circular
“Completion”	:	The completion of the registration of the transfer of the Sale Shares to, and the Subscription of the Subscription Shares by, the Investor
“Completion Date”	:	The date on which the Sale Shares and the Subscription Shares are registered in the name of the Investor

DEFINITIONS

“Conditions Precedent”	:	Has the meaning ascribed to it in Section 3.2 of this Circular
“Consideration”	:	The Sale Consideration and the Subscription Consideration
“Constitution”	:	The constitution of the Company, as amended, modified or supplemented from time to time
“CPF”	:	The Central Provident Fund
“Delegation Agreement”	:	The agreement dated 28 May 2020 entered into between Mr. Cheung and the Investor
“Director” or “Directors”	:	A director or directors of the Company
“Dividend Allocation Sum”	:	An amount equivalent to 36.3% of the Net Proceeds
“EGM”	:	The extraordinary general meeting of the Company to be held by electronic means on 24 October 2020, at 2.30 p.m., notice of which is set out on pages N-1 to N-2 of this Circular
“EPS”	:	Earnings per Share
“Escrow Account”	:	Has the meaning ascribed to it in Section 5 of the Circular
“FY”	:	The financial year commenced or, as the case may be, commencing, on 1 January and ended, or as the case may be, ending 31 December
“GM”	:	General manager
“Group”	:	The Company and its subsidiaries
“HY”	:	The financial period commenced or, as the case may be, commencing, on 1 January and ended, or as the case may be, ending 30 June
“Investor”	:	Shandong Hi-Speed Road & Bridge Investment Management Co., Ltd
“Irrevocable Undertaking”	:	Has the meaning ascribed to it in Section 9.2 of this Circular
“Latest Practicable Date”	:	7 October 2020, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	:	The listing manual of the SGX-ST and its relevant rules, as amended, modified or supplemented from time to time

DEFINITIONS

“Mr. Cheung”	:	Mr. Cheung Wai Suen
“NAV”	:	Net asset value
“Net Proceeds”	:	Has the meaning ascribed to it in Section 5 of this Circular
“Notice of EGM”	:	The notice of the EGM as set out on pages N-1 to N-2 of this Circular
“NTA”	:	Net tangible assets
“Ordinary Resolution”	:	The ordinary resolution to be passed by Shareholders at the EGM as set out in the Notice of EGM
“PRC”	:	The People’s Republic of China
“Proposed Transaction”	:	The Sale and the Subscription
“Proxy Form”	:	The proxy form in respect of the EGM as attached to this Circular
“Ranken Railway”	:	Ranken Railway Construction Group Co., Ltd.
“Register of Members”	:	The register of members of the Company
“RMB”	:	Renminbi, the lawful currency of the PRC
“RSM Valuation Report”	:	The valuation report issued by the Valuer dated 8 May 2020
“Sale”	:	Has the meaning ascribed to it in Section 1.1 of this Circular
“Sale Consideration”	:	Has the meaning ascribed to it in Section 1.2(a) of this Circular
“Sale Shares”	:	263,237,476 shares of Ranken Railway held by Chengdu KQR
“Securities Account”	:	A securities account maintained by a Depositor with CDP
“Securities and Futures Act”	:	The Securities and Futures Act, Chapter 289 of Singapore, as amended, modified or supplemented from time to time
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“SGXNET”	:	Singapore Exchange Network, the corporate announcement system maintained by the SGX-ST for the submission of information and announcements by listed companies
“Shandong HSG”	:	Shandong Hi-Speed Group Co., Ltd.
“Shandong Listco”	:	Shandong Hi-Speed Road & Bridge Co., Ltd.

DEFINITIONS

“Shareholders”	:	Registered holders of Shares in the Register of Members of the Company, except that where the registered holder is CDP, the term “Shareholders” shall, where the context admits, mean the persons named as Depositors in the Depository Register maintained by CDP and into whose Securities Accounts those Shares are credited
“Shares”	:	Ordinary shares in the capital of the Company
“SOE”	:	State-owned enterprise
“Subscription”	:	Has the meaning ascribed to it in Section 1.1 of this Circular
“Subscription Consideration”	:	Has the meaning ascribed to it in Section 1.2(b) of this Circular
“Subscription Shares”	:	71,125,048 shares of Ranken Railway to be subscribed for by the Investor pursuant to the Subscription
“SYE”	:	四川易隆装备有限公司 (Sichuan Yilong Equipment Co., Ltd.)
“S\$” and “Cents”	:	Singapore dollars and cents, respectively
“Tranche 1 Escrowed Sum”	:	An amount equivalent to 64.3% of the Net Proceeds, being the Net Proceeds less the Tranche 2 Escrowed Sum
“Tranche 2 Escrowed Sum”	:	An amount equivalent to 35.7% of the Net Proceeds
“Transaction Valuation”	:	Has the meaning ascribed to it in Section 3.1 of this Circular
“Valuation”	:	Has the meaning ascribed to it in Section 3.1 of this Circular
“Valuer”	:	RSM Corporate Advisory Pte. Ltd.
“Zhonglian Assets”	:	中联资产评估集团有限公司 (Zhonglian Assets Valuation Group Co., Ltd.)
“%” or “per cent”	:	Percentage or per centum

DEFINITIONS

In this Circular:

- (a) The terms “**Depositor**”, “**Depository Register**”, and “**Depository Agent**” shall have the same meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act.
- (b) The terms “**subsidiary**”, “**treasury share**”, “**related company**”, and “**substantial Shareholder**” shall have the same meanings ascribed to them respectively in the Companies Act.
- (c) The term “**subsidiary holdings**” shall have the same meaning ascribed to it in the Listing Manual.
- (d) Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter genders.
- (e) References to persons shall include corporations.
- (f) Unless otherwise provided, references to Sections and Appendices are to sections and appendices of this Circular.
- (g) The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.
- (h) Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, Securities and Futures Act, Listing Manual, or any statutory modification thereof and used in this Circular shall, unless otherwise defined in this Circular, have the same meaning assigned to it under the Companies Act, Securities and Futures Act, Listing Manual, or any statutory modification thereof, as the case may be.
- (i) Any reference to a time of a day or date in this Circular shall be a reference to Singapore time and dates unless otherwise stated.
- (j) Any discrepancies in the tables in this Circular between the listed amounts and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures that precede them.
- (k) Various names with Chinese characters have been translated into English names. These translations are provided solely for convenience. The English translations may not have been registered with the relevant Chinese authorities and should not be construed as representations that the English names actually represent the names in Chinese characters.

DEFINITIONS

Cautionary Note on Forward-looking Statements

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as “seek”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “plan”, “strategy”, “forecast” and similar expressions or future or conditional verbs such as “will”, “would”, “should”, “could”, “may” and “might”. These statements reflect the Company’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks, uncertainties and other factors that may cause the Group’s actual results, performance and achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Accordingly, actual results may differ materially from those described in such forward-looking statements. Shareholders and investors should not place undue reliance on such forward-looking statements, and the Company disclaims any responsibility and does not undertake any obligation to update publicly or revise any forward-looking statements contained in this Circular to reflect any change in the Group’s expectations with respect to such statements after the date of this Circular or to reflect any change in events, conditions or circumstances on which the Company based any such statements subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any regulatory or supervisory body or agency.

Dentons Rodyk & Davidson LLP has been appointed as the legal adviser to the Company as to Singapore law in respect of the Proposed Transaction. Zhong Lun Law Firm has been appointed as the legal adviser to Ranken Railway as to PRC law in respect of the Proposed Transaction. An extract of the firm profile of Zhong Lun Law Firm is set out in Appendix E of this Circular.

LETTER TO SHAREHOLDERS

SAPPHIRE CORPORATION LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number 198502465W)

Board of Directors:

Mr. Cheung Wai Suen (*Executive Chairman*)
Ms. Wang Heng (*Chief Executive Officer and Executive Director*)
Mr. Oh Eng Bin (*Non-Executive Lead Independent Director*)
Mr. Duan Yang, Julien (*Non-Executive Independent Director*)
Mr. Tay Eng Kiat Jackson (*Non-Executive Independent Director*)

Registered Office:

1 Robinson Road #17-00
AIA Tower
Singapore 048542

9 October 2020

To: The Shareholders of Sapphire Corporation Limited

Dear Sir/Madam

THE PROPOSED SALE OF EQUITY INTERESTS IN, AND MATERIAL DILUTION OF EFFECTIVE EQUITY INTERESTS IN, RANKEN RAILWAY, RESULTING IN RANKEN RAILWAY CEASING TO BE A SUBSIDIARY OF THE COMPANY

1. INTRODUCTION

1.1. As announced by the Company on 2 June 2020, the Company's 98%-owned subsidiary, Chengdu KQR, 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 the Sale Shares held by Chengdu KQR to the Investor ("**Sale**"); and (b) subscription by the Investor for the Subscription Shares ("**Subscription**", and collectively with the Sale, the "**Proposed Transaction**").

1.2. The Proposed Transaction comprises:

- (a) the Sale by Chengdu KQR of the 263,237,476 Sale Shares amounting to approximately 43.87% of the existing equity capital of Ranken Railway (or equivalent to 39.22% of the enlarged equity capital of Ranken Railway post-Proposed Transaction) to the Investor, for a consideration of RMB280,000,000 ("**Sale Consideration**"); and
- (b) the Subscription by the Investor for the 71,125,048 Subscription Shares amounting to approximately 10.6% of the enlarged equity capital of Ranken Railway post-Proposed Transaction, at a subscription consideration of RMB75,654,172 ("**Subscription Consideration**", and collectively with the Sale Consideration, for an aggregate Consideration of RMB355,654,172).

Ranken Railway will undergo an internal restructuring prior to Completion of the Proposed Transaction such that SYE and CJPS will become subsidiaries of the Group post-Proposed Transaction.

LETTER TO SHAREHOLDERS

- 1.3. 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, 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. Please refer to Appendix A of this Circular for a diagrammatic representation of the current Group structure and the shareholdings of Ranken Railway post-Proposed Transaction.
- 1.4. As the relative figures in respect of the Proposed Transaction computed on the bases set out in Rule 1006 of the Listing Manual exceeds 20%, the Proposed Transaction constitutes a major transaction under Chapter 10 of the Listing Manual. Accordingly, the Proposed Transaction is conditional upon, *inter alia*, approval of the Shareholders being obtained.
- 1.5. As mentioned in the Announcement, the Company had consulted the SGX-ST on the applicability of Rule 1018(1) of the Listing Manual as to whether the Company would be considered a “cash company” (being a company in which the assets consist wholly or substantially of cash or short-dated securities as defined in Rule 1018(1) of the Listing Manual) subsequent to the Completion of the Proposed Transaction. The Company wishes to update that the Company has withdrawn its consultation from the SGX-ST. With Ranken Railway ceasing to be a subsidiary of the Company and its accounts no longer being consolidated with that of the Group’s, and there being no other principal subsidiary of the Company, the Company has voluntarily provided an undertaking to the SGX-ST that it will escrow the Net Proceeds in order for the Company not to be deemed as a cash company. The Company will also distribute an amount equivalent to 30% of the Net Proceeds to Shareholders. Please refer to Section 5 of this Circular for further details.
- 1.6. The purpose of this Circular is to provide the Shareholders with relevant information pertaining to the Proposed Transaction, which will be tabled at the EGM to be held by electronic means on 24 October 2020 at 2.30 p.m. The Notice of EGM is set out on pages N-1 to N-2 of this Circular.
- 1.7. The SGX-ST assumes no responsibility for the contents of this Circular, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this Circular.

2. INFORMATION ON RANKEN RAILWAY AND THE INVESTOR

2.1. Information on Ranken Railway

On 1 October 2015, the Company acquired the entire issued share capital of Ranken Holding Co., Limited (formerly known as Ranken Infrastructure Limited) (“**Ranken Holding**”), an investment holding company incorporated in Hong Kong. As disclosed in the Company’s circular dated 18 August 2015, the aggregate consideration for the acquisition of Ranken Holding was RMB364.875 million (approximately S\$76.8 million based on the exchange rate stated in the circular dated 18 August 2015).

Pursuant to the acquisition, the Company became the holding company of Ranken Holding and its subsidiaries, which includes Ranken Railway, of which the Company has an effective equity interest of 97.6% held via Chengdu KQR. Mr. Cheung holds direct equity interest of 0.4% and effective equity interest of 2.4% in Ranken Railway.

LETTER TO SHAREHOLDERS

Subsequent to the acquisition of Ranken Holding on 1 October 2015, the Company had subscribed for 1,000 shares in the capital of Ranken Holding for an aggregate consideration of S\$10,316,000, funded by the proceeds from the rights issue of the Company conducted in 2019, as disclosed in the Company's announcement dated 25 June 2019.

Ranken Railway was incorporated on 6 April 1998 in the PRC and is a full-fledged engineering, procurement and construction firm. It holds full Triple-A qualifications and licences for design, supervision, construction and project consultation in the urban rail sector. Ranken Railway's expertise includes civil engineering works for metro lines, urban rail transit, expressways, roads and bridges as well as water conservancy and environmental projects. Its track record includes major infrastructure projects in the PRC and South Asia.

Ranken Railway is a principal subsidiary of the Group which, excluding the Carved-out Assets, accounted for approximately 128% of the Group's audited consolidated pre-tax profits (before income tax, minority interests and extraordinary items) for FY2019 and 117% of the Group's unaudited consolidated pre-tax profits (before income tax, minority interests and extraordinary items) for HY2020.

Additional information on the financial performance and position of Ranken Railway for FY2019 and the financial period commencing from 1 January 2020 to 30 April 2020 had been announced by the Investor's parent company, Shandong ListCo, in its announcement to its shareholders on 1 June 2020 pursuant to its listing obligations on the Shenzhen Stock Exchange, and a translation of which is set out in Appendix B of this Circular. The Company wishes to highlight that such financial information relates solely to Ranken Railway and was prepared by the Company in accordance with PRC accounting standards and provided to Shandong ListCo, and announced on the Shenzhen Stock Exchange to facilitate Shandong ListCo's compliance with the requirements of the Shenzhen Stock Exchange, as notified by the Investor to the Company. The Company had not prepared the financial information of Ranken Railway in accordance with PRC accounting standards previously.

Carved-out Assets

As the Proposed Transaction excludes the Carved-out Assets, Ranken Railway will undergo an internal restructuring prior to Completion of the Proposed Transaction. Pursuant to the restructuring, the shareholdings of Ranken Railway in two (2) of its subsidiaries, being 100% of SYE and 95% of CJPS (collectively the **"Carved-out Assets"**), will be acquired by Chengdu KQR and Mr. Cheung at nil consideration via capital distribution in proportion to their respective shareholdings of Ranken Railway, i.e. 99.6% and 0.4% respectively. Chengdu KQR and Mr. Cheung will also acquire 5% of CJPS, which is currently held by Sichuan Jinlong Labor Service Co., Ltd., a 90% owned subsidiary of Ranken Railway, at fair value for an aggregate consideration of RMB94,368, in proportion to their respective shareholdings of Ranken Railway.

The fair value of CJPS was determined based on the indicative valuation conducted by Zhonglian Assets, the valuer appointed by the Investor, and is valued using the income method (discounted cash flow) based on the audited accounts of CJPS from January 2017 to August 2019, and forecast cashflows from September 2019 and other factors as set out in the valuation report of CJPS. Zhonglian Assets had valued 100% of CJPS at RMB1,887,368. This valuation was agreed between Investor and Company in the determination of the Transaction Valuation of RMB638,207,000 for Ranken Railway less the Carved-out Assets based on arm's length negotiations. The fair value of 5% of CJPS of

LETTER TO SHAREHOLDERS

RMB94,368 represents a 5.1% premium to the pro-rated final valuation of CJPS by Zhonglian Assets dated 31 January 2020 of RMB1,796,000, and a 5.3% premium to the pro-rated audited book value and NTA of CJPS of RMB1,793,000.

The consideration of RMB94,368 for 5% of CJPS will be paid in cash by Chengdu KQR and Mr. Cheung, in accordance with their proportionate holdings of Ranken Railway (i.e., Chengdu KQR paying RMB93,991 and Mr. Cheung paying RMB377).

Upon completion of the restructuring exercise, SYE and CJPS will become subsidiaries of Chengdu KQR, and Chengdu KQR and Mr. Cheung will hold respectively 99.6% and 0.4% of each SYE and CJPS. SYE and CJPS are classified under the infrastructure business of the Group.

SYE and CJPS are operating subsidiaries of the Group. SYE is in the business of leasing of warehouse and equipment and supply of materials for urbanisation projects, and CJPS is in the business of building estate management (“**BEM**”).

SYE has been conducting the business of sale of construction materials since 2016 with the sale of railway sleepers. Further, Ranken Railway has entered into a supply agreement with SYE dated 1 July 2020, whereby SYE will supply materials to Ranken Railway of an aggregate value of RMB500 million in value, with each further supply contract to be determined on a per-project basis. The revenue from the contract with Ranken Railway is expected to accrue to SYE from FY2020/2021 to FY2024/2025, subject to, *inter alia*, the order books of Ranken Railway and the financial position of SYE to supply such materials. SYE has also entered into an agreement dated 8 June 2020 with Sichuan Xinanda Transport Facilities Engineering Co., Ltd (“**Sichuan Xinanda**”), a party not related to the Group nor the Investor’s family of entities, to supply highway safety guardrails with a total contract value of RMB150 million. The revenue from the contract with Sichuan Xinanda is expected to accrue to SYE from FY2020 (and has been accruing) to FY2022/2023. Upon the fulfilment of both agreements, it is intended by the parties that new supply agreements will be entered into.

CJPS will be generating recurring income via the businesses of operating and managing the water and environmental conservation (“**WEM**”) projects for the Liveable River Bank PPP Project undertaken by Ranken Railway’s associated company, Chengdu Derun Jinlong Environmental Management Co., Ltd. (“**CDJ**”), as well as BEM rights for transit-oriented development (“**TOD**”) related projects by CJPS.

Ranken Railway is a 25% shareholder of CDJ. CDJ was incorporated to undertake the investment and financing, design, build, operate and transfer works as well as the engineering, procurement and construction works for the Liveable River Bank PPP Project, details of which had been announced by the Company on 19 November 2018, 30 December 2018 and 14 January 2019. CJPS is currently undertaking the following works for the Liveable River Bank PPP Project:

- maintenance and preparation works, personnel entry and exit, maintenance of sprinkler systems; and
- deployment and management of technical personnel in relation to maintenance of foliage.

LETTER TO SHAREHOLDERS

CJPS has also identified and is in discussions with two (2) listed integrated property developers, to jointly undertake BEM works of TOD projects (in consideration of the potential pipeline of TOD projects that Chengdu KQR will be co-investing in).

The revenue and profit before tax of SYE and CJPS for FY2019 and HY2020 are as follows:

	FY2019 (audited)			HY2020 (unaudited)		
	SYE	CJPS	Total	SYE	CJPS	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	7,580	2,575	10,155	2,824	1,316	4,140
Profit/(loss) before tax	(920)	712	(208)	590	678	1,268

Notwithstanding that Ranken Railway will cease to be a subsidiary of the Company upon Completion, 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). Such capital support does not include the outstanding equity capital to be paid up by Chengdu KQR by 25 August 2030, as stated in Section 3.1(c) “Unpaid equity capital of the Sale Shares and Subscription Shares” and 3.3 “Profit distribution” of this Circular. If Chengdu KQR does not provide such capital support, Chengdu KQR’s interest in Ranken Railway may be diluted accordingly. Currently, Chengdu KQR is not aware of any capital support required of Ranken Railway, and there are no plans to provide such capital support. In the event that such capital support is required of Chengdu KQR, the Company will disclose the same if required under the Listing Manual.

Please refer to Appendix A of this Circular for a diagrammatic representation of the group structure of the Group and Ranken Railway prior to, and after, the abovementioned internal restructuring.

2.2. Information on the Investor

The Investor is a wholly-owned subsidiary of Shandong Listco. Shandong Listco is a company incorporated in the PRC and listed on the Main Board of the Shenzhen Stock Exchange (stock code: 000498). Shandong Listco and its subsidiaries are in the business of undertaking infrastructure construction, including highways, bridges, tunnels, municipal works engineering, traffic engineering, ports and waterways.

As at 31 December 2019, Shandong Listco’s market capitalisation is approximately RMB5.24 billion, with an order book of approximately RMB22.1 billion. Based on Shandong Listco’s annual report for the 2019 financial year, the net assets attributable to its holding company amounted to approximately RMB5.5 billion, and total assets of approximately RMB32.1 billion.

The controlling shareholder of Shandong Listco is Shandong HSG, which holds 60.66% of the shares of Shandong Listco. Shandong HSG is a wholly-SOE headquartered in Jinan City, Shandong province of the PRC.

LETTER TO SHAREHOLDERS

All information in relation to the Investor was based on representations made by the Investor to the Company. The Investor has further confirmed to the Company that, and to the best of the knowledge of the Company, none of the Investor, its substantial shareholders, directors and their respective associates have any connections (including any business relationship) with the Company, its directors and substantial Shareholders, save for the Agreement and the Delegation Agreement. Please refer to Section 3.4 of this Circular for further details on the Delegation Agreement.

3. THE PROPOSED TRANSACTION

3.1. Consideration

The Consideration of RMB355,654,172 comprises the Sale Consideration of RMB280,000,000 and the Subscription Consideration of RMB75,654,172.

The Sale Consideration was derived as follows:

43.87% (representing the proportion of Sale Shares to the existing equity capital of Ranken Railway) x Transaction Valuation of RMB638,207,000 = RMB280,000,000

The Subscription Consideration was derived as follows:

Chengdu KQR's shareholding percentage of Ranken Railway after Sale of Sale Shares = 99.6% – 43.87% = 55.73%

Subscription Consideration = (55.73% – 43.87%) x Transaction Valuation of RMB638,207,000 = RMB75,654,172

The percentage of 11.86% (being 55.73% less 43.87%) is the proportionate increase in share capital to be subscribed by the Investor in order for the Investor's shareholding to be equal to that of Chengdu KQR's, being 49.82% of the enlarged equity capital of Ranken Railway.

The aggregate Consideration is the sum of the Sale Consideration and the Subscription Consideration, being RMB355,654,172.

The Consideration was arrived at after arms' length negotiations between the Investor and the Company, which were based on valuations conducted by each of the Investor and the Company.

Pursuant to Rule 1014(5) of the Listing Manual, the Company has commissioned RSM to conduct a valuation on Ranken Railway. According to the RSM Valuation Report, the valuation on Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is estimated to be between RMB640.9 million and RMB689.2 million ("**Valuation**"), and the valuation of 49.82% of Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is estimated to be between RMB319.3 million to RMB343.4 million. The valuation by RSM was carried out in accordance with the International Valuation Standards issued by the International valuation Standards Council (IVSC).

LETTER TO SHAREHOLDERS

A valuation on Ranken Railway was also undertaken by Zhonglian Assets, which was commissioned by the Investor. Zhonglian Assets is approved by the Ministry of Finance of PRC and the China Securities Regulatory Commission to engage in valuations of PRC assets. Pursuant to PRC laws and as advised by Ranken Railway's PRC legal adviser, the Investor, as a subsidiary of an SOE, is required to appoint a competent and independent valuer in respect of the acquisition of assets. The valuation by Zhonglian Assets was carried out in accordance with the Basic Rules for Asset Appraisal (资产评估基本准则 issued by the PRC Ministry of Finance pursuant to the Asset Appraisal Law of the PRC (中华人民共和国资产评估法)), and using the income method (discounted cash flow). The preliminary valuation⁽¹⁾ of Ranken Railway excluding the Carved-out Assets ("**Transaction Valuation**") pursuant to such valuation undertaken by Zhonglian Assets is RMB638,207,000, with the Carved-out Assets being valued at RMB21,793,000.

The Transaction Valuation (and correspondingly the Consideration) represents a premium of 14.55% to the NAV of Ranken Railway less the Carved-out Assets, in the accounts of the Group as at 31 December 2019.

Note:

- (1) The final valuation of Ranken Railway excluding the Carved-out Assets as at 31 August 2019, pursuant to Zhonglian Assets' valuation report dated 31 January 2020, is RMB643,414,400, with the Carved-out Assets being valued at RMB21,245,600. The final valuation of Ranken Railway is 0.71% higher than the indicative valuation while the final valuation of Ranken Railway less the Carved-out Assets is 0.82% higher than the Transaction Valuation. The Parties had agreed to use the Transaction Valuation for the purposes of determining the Consideration notwithstanding the final valuation pursuant to the valuation report.

The Consideration shall be satisfied by the Investor as follows:

(a) Sale Consideration

- (i) 20% of the Sale Consideration amounting to RMB56 million is payable by the Investor to Chengdu KQR within ten (10) business days of the effective date of the Agreement;
- (ii) 60% of the Sale Consideration amounting to RMB168 million is payable by the Investor to Chengdu KQR within ten (10) business days of the transfer of the Sale Shares to the name of the Investor; and
- (iii) the remaining 20% of the Sale Consideration amounting to RMB56 million is payable by the Investor to Chengdu KQR within ten (10) business days after the completion by the Investor-appointed auditor of an audit of the financial affairs of Ranken Railway for the Audit Period.

The Sale Consideration is payable in cash to Chengdu KQR's designated bank account. Chengdu KQR has undertaken that, should the transfer of the Sale Shares to the Investor after payment of the first tranche of the Sale Consideration set out in paragraph (a)(i) above not be completed within 20 business days from Chengdu KQR's receipt of such tranche, the Investor is entitled to terminate the Agreement. Chengdu KQR is obliged to refund the Sale Consideration received within ten (10) business days of receipt of the notice of termination, failing which interest accrues at a rate of 0.1% per day thereafter.

LETTER TO SHAREHOLDERS

The effective date of the Agreement as set out in paragraph (a)(i) above falls on the date when all of the following conditions have been satisfied:

- (1) the legal representatives or authorised representatives of each of the Investor, Chengdu KQR and Ranken Railway affixing the respective company seals to the Agreement;
- (2) the acceptance of the valuation report of Zhonglian Assets' by the Investor's state-owned assets management unit;
- (3) antitrust clearance by PRC authorities;
- (4) approval by the shareholders of each of Ranken Railway, Chengdu KQR and the Company, and Chengdu KQR's board of directors, for the Proposed Transaction; and
- (5) approval by the Investor's shareholders for the Proposed Transaction.

As at the Latest Practicable Date, save for the Shareholders' approval which is to be sought at the EGM, to the best of the Company's knowledge and based on confirmation from the Investor, all other conditions to effect the Agreement have been obtained.

(b) Subscription Consideration

The Investor is obliged to pay the Subscription Consideration of RMB75,654,172 to Ranken Railway in cash to Ranken Railway's designated bank account, within 20 business days of the completion of the registration and issuance of the Subscription Shares in the name of the Investor, of which RMB52,121,729 is recognised by Ranken Railway as paid-up capital and the remainder as equity premium.

(c) Unpaid equity capital of the Sale Shares and Subscription Shares

The Sale Shares and Subscription Shares include unpaid equity capital of RMB70,332,264 and RMB19,003,318 respectively, in total RMB89,335,582. Such unpaid equity capital does not form part of the Sale Consideration and the Subscription Consideration, and is due to be paid up by the Investor by 25 August 2030, in tandem with the other shareholders of Ranken Railway as described in Section 3.3 "Profit distribution" below. Chengdu KQR has the same amount of outstanding equity capital of RMB89,335,582 as well post-Completion.

3.2. **Conditions Precedent**

Completion of the Proposed Transaction is conditional on the fulfilment and/or waiver of the following conditions ("**Conditions Precedent**") within 180 days from the date of signing of the Agreement:

- (a) the Agreement and all other documents required for the Proposed Transaction becoming effective;

LETTER TO SHAREHOLDERS

- (b) the waiver of all pre-emption rights by the original shareholders of Ranken Railway (that is, Chengdu KQR and Mr. Cheung) to the Sale Shares and the Subscription Shares;
- (c) the approval in writing by the pledgeholders⁽¹⁾ of Ranken Railway's shares for the Proposed Transaction, and their cooperation with the relevant procedures to be carried out to effect the Proposed Transaction;
- (d) all approvals required by the Investor, Chengdu KQR and Ranken Railway being obtained, including but not limited to the approval by the Shareholders in general meeting and SGX-ST; and
- (e) all representations and warranties of Chengdu KQR being legal, true and not misleading from the date of the signing of the Agreement up to the Completion Date, and all obligations to be fulfilled by Chengdu KQR prior to the Completion Date being fulfilled in all material respects.

As at the Latest Practicable Date, save for the Condition Precedent set out in paragraph (c) above having been fulfilled, to the best of the Company's knowledge and based on confirmation from the Investor, the other Conditions Precedent have not been satisfied.

Note:

- (1) As at the date of the Agreement, 200 million of the existing 600 million shares of Ranken Railway held by Chengdu KQR had been pledged to two (2) guarantee companies in the PRC as security for (a) a bank loan; and (b) project guarantees provided by Ranken Railway. As at the Latest Practicable Date, one (1) of the pledges remains outstanding. Further information on the outstanding pledge is set out in Appendix B of this Circular.

3.3. Salient terms of the Proposed Transaction

The salient terms of the Agreement and the Proposed Transaction are set out as follows:

Reimbursement of losses during Audit Period

Pursuant to the Agreement, Chengdu KQR agrees to reimburse Ranken Railway for any losses incurred by Ranken Railway during the Audit Period, based on the audited financial statements of Ranken Railway as prepared and audited in accordance with PRC accounting standards, save for any losses arising out of force majeure events or due to the Carved-out Assets. Such reimbursement will be made in cash or at the Investor's election, deducted from the third and final tranche of the Sale Consideration payable in accordance with Section 3.1(a)(iii) above. Chengdu KQR will reimburse Ranken Railway for the entire sum of such losses notwithstanding that Chengdu KQR holds 99.6% of the equity interest in Ranken Railway prior to Completion and 49.82% of the equity interest in Ranken Railway after Completion, as these losses would have been incurred prior to Completion during the Audit Period.

The losses incurred by Ranken Railway during the Audit Period may arise in the event that the profit after tax ("**PAT**") of Ranken Railway (excluding the Carved-Out Assets) during the Audit Period according to PRC accounting standards as audited by the Investor's appointed auditor is negative (losses). If the PAT is negative, Chengdu KQR will need to reimburse Ranken Railway for such losses (excluding the losses incurred due to force majeure events or due to the Carved-out Assets).

LETTER TO SHAREHOLDERS

There is no cap on the amount of reimbursement under the Agreement, and the Company does not expect there to be material reimbursement by Chengdu KQR, if any. The unaudited PAT of Ranken Railway (excluding the Carved-out Assets) as prepared by the Company in accordance with PRC accounting standards is positive from 1 September 2019 up until 30 June 2020. Further, the unaudited financial statements from 1 January 2020 to 30 April 2020 which reflect the positive unaudited PAT of Ranken Railway (excluding the Carved-Out Assets) has also been announced by Shandong ListCo on the Shenzhen Stock Exchange to facilitate Shandong ListCo's compliance with the requirements of the Shenzhen Stock Exchange, as informed by the Investor to the Company.

The Board had agreed to provide such reimbursement given that the Consideration was mutually agreed upon based on the financial affairs of Ranken Railway as of 31 August 2019. If Ranken Railway were to incur losses during the Audit Period, this would most likely reduce the NAV of Ranken Railway, and result in a lower valuation of Ranken Railway if another valuation is to be conducted as of Completion Date. In addition, any potential losses to be reimbursed would exclude the losses arising from force majeure events during the Audit Period, and possibly excluding any COVID-19-related losses.

The Board, having considered the aforementioned factors and taking into account all commercial terms of the Proposed Transaction and the financial position of Ranken Railway at the point in time of signing the Agreement, and with the Investor's having required this undertaking from Chengdu KQR in the Agreement, has agreed to reimburse the entire amount of the losses, despite the Investor's interest of only 49.82% of Ranken Railway post-Completion.

The Board does not expect any losses incurred by Ranken Railway during the Audit Period to be significant. Ranken Railway is already in a profitable position for the period from 1 September 2019 to 30 June 2020, and barring any unforeseen circumstances, the Board does not expect Ranken Railway to incur any significant losses during the period from 1 July 2020 to the Completion Date.

Guarantee of accounts receivables

As at 31 August 2019, Ranken Railway has uncollected receivables amounting to approximately RMB968,033,647. Should Ranken Railway fail to collect such receivables within five (5) years from the date on which such receivables are due to Ranken Railway, Ranken Railway shall be entitled to offset such amount against the dividends payable to Chengdu KQR, and Chengdu KQR shall be liable to reimburse any excess receivables which remain outstanding after the set-off, and upon such reimbursement, the uncollected receivables will be assigned to Chengdu KQR.

The receivables' aging for Ranken Railways as at 31 August 2019 were as follows:

	Current (not past due)	Less than one year past due	More than one year past due	Total receivables
As at 31 August 2019 (RMB'000)	965,018	1,527	12,518	979,063
Impairment loss (RMB'000)				(11,029)
Net (RMB'000)				968,034

LETTER TO SHAREHOLDERS

These receivables do not include intra-group receivables.

The guaranteed receivables amounting to RMB968,033,647 is net of loss allowance of RMB11,029,384, with gross value of RMB979,063,031. The Company has provided for an additional loss allowance of RMB4,906,000 as a contingent liability for the guarantee of accounts receivables. Please refer to Section 8 and Appendix D of this Circular for further details.

The Board does not expect that uncollected receivables will not exceed the sum of the impairment loss and additional loss allowance. If there are material adjustments to the impairment loss and additional loss allowance due to unforeseen circumstances, the Company will make the relevant disclosures.

Governance and management

Post-Completion, the composition of the governance and management functions of Ranken Railway shall be as follows:

- (a) the board shall comprise five (5) directors, of whom Chengdu KQR is entitled to nominate two (2) and the Investor, three (3). The directors shall be appointed onto the board by the shareholders of Ranken Railway;
- (b) the supervisory committee shall comprise three (3) supervisors, of whom Chengdu KQR and the Investor are each entitled to nominate one (1), and the supervisors shall be appointed onto the committee by the shareholders of Ranken Railway. The remaining supervisor shall be a representative appointed by the workers' union;
- (c) the initial term of the directors shall be three (3) years. In such initial term, the chairman of the board of directors shall be a director nominated by Chengdu KQR, while the GM shall be a director nominated by the Investor. After the initial term, should the chairman of the board be a director nominated by the Investor, the GM shall be nominated by Chengdu KQR, and *vice versa*;
- (d) the legal representative (who is also the GM for the initial term) and Chief Accountant shall be nominated by the Investor and appointed by the board of Ranken Railway. After the initial term, should the chairman of the board be a director nominated by the Investor, the chairman will be the legal representative of Ranken Railway. The CEO (who is the vice-GM) and other members of the senior management team shall be nominated by Chengdu KQR. The GM is responsible for the strategic planning, supervision, management and guidance while the CEO is responsible for management of the staff, market operations and corporate management; and
- (e) one (1) of the nominee directors of the Investor will also hold the position of one (1) of the Deputy General Managers.

The governance and management functions of Ranken Railway are set out in the Agreement and the Articles of Association of Ranken Railway to be adopted upon Completion.

LETTER TO SHAREHOLDERS

Profit distribution

Ranken Railway undertakes that for the first three (3) years post-Completion, the cash dividends payable shall be no less than 50% of the distributable profits. Subsequent to the first three (3) years, Ranken Railway undertakes that the cash dividends payable shall be no less than 30% of the distributable profits. Chengdu KQR and the Investor shall pay up the outstanding equity capital in tandem and in the same proportions out of the remaining distributable profits of Ranken Railway after paying out the cash dividends as aforementioned, to ensure that the paid-up equity capital held by each party remains equal at all times. Regardless, the parties are to pay up any outstanding share capital obligations by 25 August 2030. Please refer to Section 3.1(c) of this Circular for the amount of outstanding share capital to be paid up by the Parties.

Right of first refusal

The Investor shall have a right of first refusal over Chengdu KQR to purchase any shares intended to be sold by the other shareholders (currently, the only other shareholder is Mr. Cheung) of Ranken Railway to a third party under equal terms, unless otherwise agreed among the Investor, Chengdu KQR and Mr. Cheung.

Tag-along right

For so long as long as the accounts of Ranken Railway remain consolidated under the Investor, should the Investor wish to sell any part of its shares in Ranken Railway to a third party ("**Tagged Shares**"), Chengdu KQR is entitled to transfer the same proportion of its shares to such third party on the same terms. The Investor shall not sell the Tagged Shares if the third party does not agree to purchase Chengdu KQR's shares as well.

Notwithstanding the above, in the event that the Investor is deemed to not have actual control over Ranken Railway due to changes in, among others, accounting policies, the Investor is entitled to request for Chengdu KQR to transfer all or part of its shareholdings to the Investor at fair value in order for the Investor to obtain control. Should the parties be unable to reach an agreement on the transfer terms within 60 working days from the date that the Investor ceases to have actual control over Ranken Railway, the Investor is entitled to transfer its shares in Ranken Railway to a third party without Chengdu KQR being able to tag-along the transfer.

The transfer terms, including the consideration at fair value, for the shares to be transferred by Chengdu KQR to the Investor, will be determined by mutual agreement, in accordance with the procedures prescribed under PRC laws and regulations with regard to state-owned assets as the Investor is an SOE. The Investor is required to carry out a valuation on the assets to be purchased, with such valuation having a validity period of one (1) year from the date of evaluation. The Investor is not allowed to transact at a consideration of less than 90% of the valuation of the assets unless approval has been obtained from the relevant governmental agency to proceed with the transaction. Should Chengdu KQR and the Investor fail to come to a mutual agreement on the transfer terms within 60 working days, Chengdu KQR is not obliged to transfer its shares in Ranken Railway to the Investor.

In the event that the Investor no longer has actual control over Ranken Railway such that the accounts of Ranken Railway are no longer consolidated under the Investor's accounts, Chengdu KQR is not entitled to any tag-along rights. Notwithstanding, pursuant to PRC company law, as advised by Ranken Railway's PRC legal adviser (being Zhong Lun Law

LETTER TO SHAREHOLDERS

Firm), Chengdu KQR and Mr Cheung have a right of first refusal to purchase any shares intended to be sold by the Investor to a third party in proportion to the paid-up capital held by Chengdu KQR and Mr Cheung, in the absence of any agreement to the contrary.

Reserved matters

Ranken Railway will also adopt a new set of Articles of Association following the Completion of the Proposed Transaction. These include provisions relating to certain reserved matters requiring either approval by shareholders holding at least two-thirds of the voting rights at a meeting of the shareholders of Ranken Railway, or approval by a majority of the board of directors of Ranken Railway. A summary of these reserved matters are set out in Appendix C to this Circular.

In the event of interested person transactions, the nominees of the Investor or Chengdu KQR (as the case may be) are required to abstain from the relevant resolution.

3.4. Delegation of voting rights

In connection with the Proposed Transaction, the Investor and Mr. Cheung have entered into the Delegation Agreement in relation to the delegation of voting rights held by Mr. Cheung of 0.4% in Ranken Railway (0.36% in Ranken Railway post-Completion) to the Investor (and to no other party). Pursuant to the Delegation Agreement, *inter alia*, to the best of the Company's knowledge and as confirmed by the Investor and Mr. Cheung, Mr. Cheung retains dividend rights and economic rights to the shares held by him in Ranken Railway, and Mr. Cheung shall not sell, transfer, pledge or encumber his shares in any way without the Investor's interest. Further details are set out as follows:

- (a) Mr. Cheung has authorised the Investor to exercise the voting rights in the equity interest held by Mr. Cheung, in accordance with the Investor's interests, which authorisation shall commence from the effective date of the Delegation Agreement and shall be terminated upon the mutual agreement of the parties or automatically terminated upon the occurrence of any of the following:
 - (i) either the Investor or Mr. Cheung ceases to be a shareholder of Ranken Railway;
 - (ii) the aggregate shareholdings of the Investor and its related companies exceeds 50% of Ranken Railway; or
 - (iii) the aggregate shareholdings of the Investor and Mr Cheung is less than the shareholding of any other shareholder of Ranken Railway (other than the Investor and Mr. Cheung), and the Investor is unable to consolidate the accounts of Ranken Railway notwithstanding the delegation of voting rights by any other shareholder to the Investor; and
- (b) this delegation is irrevocable. In the event of revocation by Mr. Cheung of such delegation of voting rights, breach by Mr. Cheung of the terms of the Delegation Agreement or the transfer by Mr. Cheung of his shares in Ranken Railway, Mr. Cheung shall sell all of his shares in Ranken Railway to the Investor.

Pursuant to the Delegation Agreement, the Investor will control 50.2% of the voting rights in Ranken Railway upon Completion.

LETTER TO SHAREHOLDERS

4. RATIONALE FOR THE PROPOSED TRANSACTION

The Company considers that the Proposed Transaction is in the interests of the Group for the following reasons:

- (a) the Consideration is attractive as it represents a premium of 14.55% to the NAV of Ranken Railway (less the Carved-out Assets) as at 31 December 2019. The Consideration is also 314% of Company's market capitalisation based on the closing price of the shares of the trading day prior to the date of the Announcement ("**Closing Price**"), notwithstanding the Company's effective interest in Ranken Railway being reduced from 97.6% to 48.82%. The Proposed Transaction thus presents a good opportunity for the Company to unlock the value of its shareholding in Ranken Railway, and correspondingly for Shareholders as well;
- (b) the Proposed Transaction has positive financial effects on the Group as described in the *pro forma* financial effects set out in Section 8 below, in particular, (i) the increase in NTA per share as at 31 December 2019 is approximately 17% from RMB cents 131.82 to RMB cents 154.30 (where retained interest in Ranken Railway is measured at fair value), and which the NTA of RMB cents 154.30 represents more than 5.6 times the Closing Price; and (ii) a gain of approximately RMB53 million (where retained interest in Ranken Railway is measured at fair value);
- (c) the Investor has been looking to expand its business operations into urban railway infrastructure and water environmental management projects which it currently does not undertake, and which are core businesses of the Group. The Company has considered that with the Investor's expressed interest in this business, there are synergies that the Investor can bring to the table as a strategic business partner;
- (d) 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;
- (e) as an indirect and partial SOE following the Proposed Transaction, Ranken Railway will be able to additionally 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. Currently, Ranken Railway faces strong competitive pressure in tendering for projects in the PRC, with most of the projects it has tendered for awarded to SOEs; and
- (f) the issuance of equity in Ranken Railway to the Investor will lower Ranken Railway's debt-to-equity ratio and allow it to raise more funds for working capital in order to take up more projects. This would also strengthen Ranken's balance sheet, and coupled with its track record of projects, the long-term goal is to bolster Ranken's ability to upgrade its various professional qualifications and certifications business licences which will allow it to take on more significant and higher value projects.

LETTER TO SHAREHOLDERS

5. INTENDED USE OF PROCEEDS FROM THE PROPOSED TRANSACTION

The net proceeds from the Proposed Transaction, after deducting all costs and expenses, is estimated to be approximately RMB257,048,000 ("**Net Proceeds**").

Details of the percentage allocated to each use are set out below:

Use of Net Proceeds	Percentage Allocation
<u>Tranche 1 Escrowed Sum</u>	64.3%
(a) Dividend Allocation Sum	36.3%
(b) Company Usage Sum representing 28% of the Net Proceeds which may be drawn down for the following purposes:	28%
(i) investments into, and financing, urbanisation, infrastructure and WEM projects and TOD projects, as and when opportunities arise	Approximately 13.6%
(ii) purchase of construction equipment by SYE for its business, being the leasing of warehouse and equipment and supply of materials for urbanisation projects	Approximately 4.3%
(iii) expansion of the BEM business of CJPS, including investments into other companies undertaking the BEM business or by increasing the headcount of CJPS	Approximately 3.5%
(iv) general corporate purposes including general working capital, financing of new business ventures through acquisitions and/or strategic investments as and when opportunities arise, and share buy-back exercises to Shareholders	Approximately 6.6%
<u>Tranche 2 Escrowed Sum</u>	35.7%

In order for the Company to not be deemed as a cash company under Rule 1018 of the Listing Manual, the Company has voluntarily undertaken to the SGX-ST that:

- (A) upon receipt by Chengdu KQR of the full amount of the Sale Consideration from the Investor, the Company will place the Net Proceeds into the Escrow Account;
- (B) the Dividend Allocation Sum, being part of the Tranche 1 Escrowed Sum and an amount equivalent to 36.3% of the Net Proceeds, will be allocated for distribution to Shareholders by way of dividends. The Dividend Allocation Sum, less PRC withholding tax, losses at the Company level for the current financial year of distribution and expenses related to undertaking a capital reduction exercise to write off all accumulated losses of the Group, and which is estimated to amount to approximately 30.0% of the Net Proceeds, will be distributed to the Shareholders in the form of dividends. Pending such distribution, the Dividend Allocation Sum will remain in the Escrow Account;

LETTER TO SHAREHOLDERS

- (C) disbursements of up to RMB72,048,000 (“**Company Usage Sum**”), being the balance of the Tranche 1 Escrowed Sum less the Dividend Allocation Sum and representing 28% of Net Proceeds, may be drawn down from the Escrow Account subject to approval by the Audit Committee for the purposes as disclosed in this Circular. Please refer to paragraph (b) of the table above for the proposed uses of the Company Usage Sum. The Company will announce the use of the Company Usage Sum as and when such proceeds are materially disbursed and whether such a use is in accordance with the stated use and in accordance with the percentage allocated in the Circular and where such proceeds are used for general working purposes, a breakdown with specific details on the use of proceeds for working capital, and any material disbursements of the Company Usage Sum in accordance with the purposes disclosed in this Circular will be subject to the prior approval of the Audit Committee;
- (D) the remaining 35.7% of the Net Proceeds amounting to RMB91,698,444, being the Tranche 2 Escrowed Sum, is to be held in escrow in the Escrow Account until the earlier of:
- (i) (1) Chengdu KQR becoming a principal subsidiary of the Company as defined under the Listing Manual, that is, the audited consolidated pre-tax profits⁽¹⁾ of Chengdu KQR for a full financial year after the Completion of the Proposed Transaction shall account for 20% or more of the audited consolidated pre-tax profits of the Group (including discontinued operations that have not been disposed and excluding the non-controlling interest relating to that subsidiary and excluding any gain or loss from the disposal of Ranken Railway) for such full financial year; and (2) such pre-tax profits⁽¹⁾ of Chengdu KQR in such full financial year exceeding 20% of the pre-tax profits of the Group for FY2019 of RMB9.1 million (collectively, the “**Financial Conditions**”), after which Company will seek SGX-ST’s approval, and the receipt of SGX-ST’s approval, for the Company to cease such escrow arrangement. If Completion takes place before 31 December 2020, the first full financial year’s results of Chengdu KQR for the purposes of fulfilling the Financial Conditions will be FY2021;
 - (ii) the completion of the acquisition of a business which is able to satisfy the SGX-ST’s requirements for a new listing; or
 - (iii) three (3) years from the Completion Date; and
- (E) in the event that the SGX-ST has not approved the cessation of the escrow arrangement mentioned in paragraph (D) above before the expiry of three (3) years from the Completion Date, the Company shall distribute the Tranche 2 Escrowed Sum to its Shareholders by way of dividends after a capital reduction exercise (which may not be required) to write off all accumulated losses of the Group after FY2020 (if any).

Note:

- (1) The pre-tax profits of Chengdu KQR shall exclude non-recurrent income and expenses, as well as income and expenses generated by activities outside the ordinary course of business.

Notwithstanding paragraph (D) above, the SGX-ST will reject the Company’s application to withdraw the Tranche 2 Escrowed Sum if the Company’s latest audited full year consolidated accounts are subject to an adverse opinion, a qualified opinion, a disclaimer of opinion or the Company’s auditors have stated that a material uncertainty related to going concern exists.

LETTER TO SHAREHOLDERS

The proportion of the distribution of the Dividend Allocation Sum would depend on, among others, the amount of profits of the Company for the relevant financial year out of which the Company may pay out dividends. The proposed distributions are expected to be completed in FY2021 or FY2022 due to exchange control restrictions in the PRC and the time taken to complete a capital reduction exercise. The distribution of the Dividend Allocation Sum in the form of dividends to Shareholders is subject to Board and Shareholder approval, in the manner set out in the Constitution and the Companies Act. Based on the estimated PRC withholding tax (amounting to 10% of the Dividend Allocation Sum and estimated to be RMB9.3 million, being 3.63% of the Net Proceeds) and the Company's losses as at 31 December 2021 and expenses related to undertaking a capital reduction exercise (amounting to RMB6.9 million, being 2.67% of the Net Proceeds), the Company estimates that the amount distributable to Shareholders is RMB77.1 million, or approximately 30.0% of the Net Proceeds.

As the proceeds from the Proposed Transaction will be received within the PRC, the Company will place the Net Proceeds into an escrow account opened with United Overseas Bank Limited (Chengdu branch) ("**Escrow Account**"), as was the arrangement for the proceeds from the rights issue of the Company completed in 2019, subject to approval by the Audit Committee of the Company.

In the event that the Company fulfils the Financial Conditions and the SGX-ST approves the release of the Tranche 2 Escrowed Sum, the Company intends to allocate the Tranche 2 Escrowed Sum in the following manner:

Use of Tranche 2 Escrowed Sum	Percentage Allocation
(a) Investments into, and financing, urbanisation, infrastructure and WEM projects and TOD projects, as and when opportunities arise	22.8% to 31.9%
(b) Purchase of construction equipment by SYE for its business, being the leasing of warehouse and equipment and supply of materials for urbanisation projects	0.3% to 9.4%
(c) Expansion of the BEM business of CJPS, including investments into other companies undertaking the BEM business or by increasing the headcount of CJPS	1.1% to 14.7%
(d) General corporate purposes including general working capital, financing of new business ventures through acquisitions and/or strategic investments as and when opportunities arise, and share buy-back exercises to Shareholders	2.6% to 11.7%

LETTER TO SHAREHOLDERS

Deployment of staff

Currently, the staff employed by Ranken Railway also support the business operations of Ranken Railway's subsidiaries, including SYE and CJPS, as well as Chengdu KQR. The number of staff employed by Ranken Railway as at end June 2020 is approximately 944. Post-Proposed Transaction, SYE, CJPS and Chengdu KQR will directly employ the staff who had already been dedicated to the operations of such Group entities. Mr. Cheung, the Executive Chairman, and Ms. Wang Heng, the Executive Director and Chief Executive Officer, will also be redeployed to become chairman of the board of Chengdu KQR and GM of Chengdu KQR respectively. The manpower at Chengdu KQR, SYE and CJPS will be adjusted commensurate with the requirements of their respective business activities, when Net Proceeds are available for and are deployed to fund the growth of such businesses, and will take into account the location of the operations, the availability of talent as well as manpower costs, among other factors.

The expected staff count of the various Group entities post-Proposed Transaction are as follows:

Entity	Number of staff	Percentage of total number of staff of the Group
Ranken Railway (excluding SYE and CJPS)	900	94.6%
CJPS	26	2.7%
SYE	8	0.8%
Chengdu KQR	12	1.3%
Company (Sapphire Corporation Limited)	6	0.6%
Total	952	100.0%

LETTER TO SHAREHOLDERS

6. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

For the purposes of Chapter 10 of the Listing Manual, the relative figures computed on the relevant bases set out in Rule 1006 of the Listing Manual in respect of the Proposed Transaction based on the audited consolidated financial statements of the Group for FY2019 and unaudited consolidated financial statements of the Group for HY2020 are as follows:

Rule 1006	Bases	Relative figures (%)	
		FY2019	HY2020
(a)	The NAV of the equity interest to be disposed of, compared with the Group's NAV	44.61 ⁽¹⁾	44.90 ⁽¹⁾
(b)	The net profits ⁽²⁾ attributable to the equity interest to be disposed of, compared with the Group's net profits	84.73 ⁽³⁾	67.91 ⁽³⁾
(c)	The aggregate value of the Consideration received, compared with the Company's market capitalisation ⁽⁴⁾ based on the total number of issued shares excluding treasury shares	308 ⁽⁵⁾	
(d)	The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no securities will be issued by the Company in connection with the Proposed Transaction	
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets. If the reserves are not directly comparable, the Exchange may permit valuations to be used instead of volume or amount	Not applicable as the Proposed Transaction is not a disposal of mineral, oil or gas assets by a mineral, oil and gas company	

Notes:

- (1) Based on the audited consolidated financial statements of the Group for FY2019 with the Group's NAV of RMB590,626,000 and the audited management accounts of Ranken Railway (less the Carved-out Assets) for FY2019 with NAV of approximately RMB557,139,000 (including goodwill of RMB42,417,000). As a result of the Sale and the Subscription, the Proposed Transaction will result in the deconsolidation of Ranken Railway and thus a deemed full disposal of subsidiary for accounting purposes. The Group will subsequently account for Ranken Railway as an entity equity accounted for by Chengdu KQR. The recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB293,666,000. Accordingly, the NAV of the equity interest to be disposed of was RMB263,473,000.

LETTER TO SHAREHOLDERS

Based on the unaudited consolidated financial statements of the Group for HY2020 with the Group's NAV of RMB600,897,000 and the unaudited management accounts of Ranken Railway (less the Carved-out Assets) for HY2020 with NAV of approximately RMB569,770,000 (including goodwill of RMB42,417,000). As a result of the Sale and the Subscription, the Proposed Transaction will result in the deconsolidation of Ranken Railway and thus a deemed full disposal of subsidiary for accounting purposes. The Group will subsequently account for Ranken Railway as an entity equity accounted for by Chengdu KQR. The recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB299,951,000. Accordingly, the NAV of the equity interest to be disposed of was RMB269,819,000.

- (2) “**net profits**” means profit or loss before income tax, minority interests and extraordinary items.
- (3) Based on the audited consolidated financial statements of the Group for FY2019, the Group's pre-tax profits for FY2019 was RMB45,335,000 and the profit attributable to Ranken Railway (less the Carved-out Assets) was approximately RMB39,744,000. Based on the audited management accounts of Ranken Railway for FY2019, Ranken Railway's (less the Carved-out Assets) audited consolidated pre-tax profits for FY2019 was RMB58,215,000, and accordingly accounted for approximately 84.73% of the Group's audited consolidated pre-tax profits for FY2019 taking into account a 49.82% share of Ranken Railway's profit (i.e., RMB19,801,000) on an equity accounting basis assuming dilution had taken place on 1 January 2019.

Based on the unaudited consolidated financial statements of the Group for HY2020, the Group's pre-tax profits for HY2020 was RMB12,379,000 and the profit attributable to Ranken Railway (less the Carved-out Assets) was approximately RMB12,111,000. The relative figure for this Rule 1006(b) will be 67.91%, based on the aforementioned. Based on the unaudited management accounts of Ranken Railway for HY2020, Ranken Railway's (less the Carved-out Assets) audited consolidated pre-tax profits for HY2020 was RMB14,441,000 and accordingly accounted for approximately 67.91% of the Group's audited consolidated pre-tax profits for HY2020 taking into account a 49.82% share of Ranken Railway's profit (i.e., RMB6,034,000) on an equity accounting basis assuming dilution had taken place on 1 January 2020.

- (4) Based on 407,589,893 shares in issue as at 27 May 2020 and the weighted average price of S\$0.05625 (and at an exchange rate of S\$1 : RMB5.0451) of the shares transacted on the same date.
- (5) Based on the Consideration of RMB355,654,172, being the aggregate of the Sale Consideration of RMB280,000,000 payable by the Investor to Chengdu KQR for the Sale Shares and the Subscription Consideration of RMB75,654,172 and at an exchange rate of RMB5.0451.

As the relative figures under Rules 1006(a), (b) and (c) exceed 20%, the Proposed Transaction is regarded as a major transaction as defined under Rule 1014 of the Listing Manual and is subject to the approval of the Shareholders.

7. FINANCIAL INFORMATION

7.1. Value attributable to Ranken Railway

(a) Book value

Based on the audited consolidated financial statements of the Group for FY2019, the book value attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB557,139,000 (including goodwill of RMB42,417,000).

Based on the unaudited consolidated financial statements of the Group for HY2020, the book value attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB569,770,000 (including goodwill of RMB42,417,000).

(b) NTA

Based on the audited consolidated financial statements of the Group for FY2019, the NTA attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB514,722,000.

LETTER TO SHAREHOLDERS

Based on the unaudited consolidated financial statements of the Group for HY2020, the NTA attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB527,353,000.

(c) Latest available open market value

The open market value of Ranken Railway is not publicly available as the shares of Ranken Railway are not publicly traded. Please refer to Section 3.1 of this Circular for the Transaction Valuation and the Valuation.

(d) NAV and NTA of the Carved-out Assets

The NAV and NTA of the Carved-out Assets as at 31 December 2019 are as follows:

	CJPS	SYE	Total
NAV and NTA (RMB'000)	1,793	20,292	22,085
NAV and NTA (%) (as a percentage of the Group)	0.30	3.44	3.74

7.2. Excess of proceeds over book value and gain on disposal

In accordance with the Singapore Financial Reporting Standards (“SFRS”), the retained interest of 49.82% of Ranken Railway held by Chengdu KQR (or 48.82% effective interest held by the Group) is to be measured at fair value and subsequently accounted for in accordance with SFRS 28 – Investments in Associates and Joint Ventures.

(a) Retained interest in Ranken Railway measured at NAV

Based on the audited consolidated financial statements of the Group for FY2019 where:

- (i) the book value attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB557,139,000;
- (ii) the recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB293,666,000;
- (iii) estimated expenses incurred in connection with the Proposed Transaction is approximately RMB22,952,000, with Net Proceeds of RMB257,048,000 to be received by the Group; and
- (iv) a contingent liability for the guarantee of accounts receivable of RMB4,906,000 to be provided in respect of the guarantee of accounts receivable detailed in Section 3.3 “Guarantee of accounts receivable” of this Circular,

the Proposed Transaction represents a loss of approximately RMB11,331,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB2,271,000 is also expected to result in a net impact on earnings of a loss of RMB9,060,000.

LETTER TO SHAREHOLDERS

Based on the unaudited consolidated financial statements of the Group for HY2020 where:

- (i) the book value attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB569,770,000;
- (ii) the recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB299,951,000;
- (iii) estimated expenses incurred in connection with the Proposed Transaction is approximately RMB22,952,000, with Net Proceeds of RMB257,048,000 to be received by the Group; and
- (iv) a contingent liability for the guarantee of accounts receivable of RMB4,906,000 to be provided in respect of the guarantee of accounts receivable detailed in Section 3.3 “Guarantee of accounts receivable” of this Circular,

the Proposed Transaction represents a loss of approximately RMB17,677,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB2,493,000 is also expected to result in a net impact on earnings of a loss of RMB15,184,000.

(b) Retained interest in Ranken Railway measured at fair value

Based on the audited consolidated financial statements of the Group for FY2019 where:

- (i) the book value attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB557,139,000;
- (ii) the Proposed Transaction values Ranken Railway (less the Carved-out Assets) before capital injection at RMB638,207,000 (based on the Transaction valuation) and the fair value of Ranken Railway (less the Carved-out Assets) after capital injection of the Subscription Consideration at approximately RMB713,861,000. The recognition of 49.82% share of Ranken Railway held by Chengdu KQR at fair value is accordingly RMB355,653,000, assuming no change to the fair value⁽¹⁾;
- (iii) estimated expenses incurred in connection with the Proposed Transaction is approximately RMB22,952,000, with Net Proceeds of RMB257,048,000 to be received by the Group; and
- (iv) a contingent liability for the guarantee of accounts receivable of RMB4,906,000 to be provided in respect of the guarantee of accounts receivable detailed in Section 3.3 “Guarantee of accounts receivable” of this Circular,

the Proposed Transaction represents a gain of approximately RMB50,656,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB2,271,000 is also expected to result in a net impact on earnings of a gain of RMB52,927,000.

LETTER TO SHAREHOLDERS

Based on the unaudited consolidated financial statements of the Group for HY2020, the book value attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB569,770,000 (including goodwill of RMB42,417,000). The Proposed Transaction would therefore represent a gain of approximately RMB38,025,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB2,493,000 is also expected to result in a net impact on earnings of a gain of RMB40,518,000.

Note:

- (1) This fair value is subject to change and might affect the gain from the Proposed Transaction, as the fair value of Ranken Railway on the Completion Date will be finalised for accounting purposes.

7.3. Net profit attributable to Ranken Railway

Based on the audited consolidated financial statements of the Group for FY2019, the profit attributable to Ranken Railway (less the Carved-out Assets) is approximately RMB39,744,000. The share of profit of 49.82% of Ranken Railway (less the Carved-out Assets) held by Chengdu KQR less non-controlling interest is approximately RMB19,405,000. Accordingly, the net decrease in impact on earnings is approximately RMB20,339,000.

Based on the unaudited consolidated financial statements of the Group for HY2020, the profit attributable to Ranken Railway (less the Carved-out Assets) is approximately RMB12,111,000. The share of profit of 49.82% of Ranken Railway (less the Carved-out Assets) held by Chengdu KQR less non-controlling interest is approximately RMB5,913,000. Accordingly, the net decrease in impact on earnings is approximately RMB6,198,000.

8. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTION

The *pro forma* financial effects of the Proposed Transaction on the Group set out below and in Appendix D are purely for illustrative purposes only and are therefore not indicative of the actual future financial position of the Group after Completion.

The *pro forma* financial effects of the Proposed Transaction have been prepared based on the audited consolidated financial statements of the Group for FY2019 and the unaudited consolidated financial statements of the Group for HY2020, and assumes that the expenses to be incurred in connection with the Proposed Transaction is approximately RMB22,952,000, comprising professional fees of approximately RMB1,000,000 and provision for capital gains tax of approximately RMB21,952,000.

In addition, a contingent liability for the guarantee of accounts receivables of RMB4,906,000 had been included in the *pro forma* financial effects of the Proposed Transaction in respect of the guarantee of accounts receivables as set out in Section 3.3 “Guarantee of accounts receivable” of this Circular.

8.1. Share capital

As the Proposed Transaction does not involve the allotment and issue of any new Shares, the Proposed Transaction will not have any impact on the share capital of the Company.

LETTER TO SHAREHOLDERS

8.2. NTA

Assuming that the Proposed Transaction had been completed on 31 December 2019, being the end of the most recently completed financial year of the Company, the effect of the Proposed Transaction on the NTA per Share based on (i) retained interest in Ranken Railway measured at NAV; and (ii) retained interest in Ranken Railway measured at fair value (based on the Transaction Value), is as follows:

	Before the Proposed Transaction	After the Proposed Transaction (retained interest in Ranken Railway measured at NAV)	After the Proposed Transaction (retained interest in Ranken Railway measured at fair value)
NTA (RMB'000)	537,303	568,172	628,919
Number of Shares	407,589,893	407,589,893	407,589,893
NTA per Share (RMB cents)	131.82	139.40	154.30

The increase in NTA includes an increase in non-controlling interest arising from the Proposed Transaction of RMB217,000 for retained interest in Ranken Railway measured in NAV, and RMB1,457,000 for retained interest in Ranken Railway measured at fair value.

Assuming that the Proposed Transaction had been completed on 30 June 2020, the effect of the Proposed Transaction on the NTA per Share based on (i) retained interest in Ranken Railway measured at NAV; and (ii) retained interest in Ranken Railway measured at fair value (based on the Transaction Value), is as follows:

	Before the Proposed Transaction	After the Proposed Transaction (retained interest in Ranken Railway measured at NAV)	After the Proposed Transaction (retained interest in Ranken Railway measured at fair value)
NTA (RMB'000)	547,253 ⁽¹⁾	571,913	626,501
Number of Shares	407,589,893	407,589,893	407,589,893
NTA per Share (RMB cents)	134.27	140.32	153.71

Note:

(1) NTA excluded intangible assets of goodwill of RMB42,417,000 which was included in assets classified as held for sale on the face of the balance sheet.

The increase in NTA includes an increase in non-controlling interest arising from the Proposed Transaction of RMB80,000 for retained interest in Ranken Railway measured in NAV, and RMB1,194,000 for retained interest in Ranken Railway measured at fair value.

LETTER TO SHAREHOLDERS

8.3. EPS

Assuming that the Proposed Transaction had been completed on 1 January 2019, being the beginning of the most recently completed financial year of the Company, the effect of the Proposed Transaction on the EPS based on (i) retained interest in Ranken Railway measured at NAV; and (ii) retained interest in Ranken Railway measured at fair value (based on the Transaction Valuation), is as follows:

	Before the Proposed Transaction	After the Proposed Transaction (retained interest in Ranken Railway measured at NAV)	After the Proposed Transaction (retained interest in Ranken Railway measured at fair value)
Earnings/(loss) after tax and minority interest (RMB'000) ⁽¹⁾	26,370	(3,029)	58,958
Weighted average number of Shares	372,972,669	372,972,669	372,972,669
Earnings/(loss) per Share (RMB cents)	7.07	(0.81)	15.81

Note:

- (1) The *pro forma* effects of the Proposed Transaction on the earnings after tax and minority interest have been computed considering (a) the disposal of Ranken Railway (less the Carved-out Assets) and accounting for 49.82% of it as an entity equity accounted for by Chengdu KQR, resulting in a reduction in earning of RMB20,339,000 (please refer to Section 7.3 above); and (b) assuming the net impact on earnings set out in Section 7.2 above.

Assuming that the Proposed Transaction had been completed on 1 January 2020, the effect of the Proposed Transaction on the EPS based on (i) retained interest in Ranken Railway measured at NAV; and (ii) retained interest in Ranken Railway measured at fair value (based on the Transaction Valuation), is as follows:

	Before the Proposed Transaction	After the Proposed Transaction (retained interest in Ranken Railway measured at NAV)	After the Proposed Transaction (retained interest in Ranken Railway measured at fair value)
Earnings/(loss) after tax and minority interest (RMB'000) ⁽¹⁾	9,980	(11,402)	44,300
Weighted average number of Shares	407,589,893	407,589,893	407,589,893
Earnings/(loss) per Share (RMB cents)	2.45	(2.79)	10.87

LETTER TO SHAREHOLDERS

Note:

- (1) The *pro forma* effects of the Proposed Transaction on the earnings after tax and minority interest have been computed considering (a) the disposal of Ranken Railway (less the Carved-out Assets) and accounting for 49.82% of it as an entity equity accounted for by Chengdu KQR, resulting in a reduction in earning of RMB6,198,000 (please refer to Section 7.3 above); and (b) assuming the net impact on earnings set out in Section 7.2 above.

8.4. Additional information

Please see Appendix D for the *pro forma* balance sheet and profit and loss statements of the Group after Completion.

9. IRREVOCABLE UNDERTAKING

- 9.1. As at the Latest Practicable Date, BFL, a controlling Shareholder of the Company, directly holds 171,495,264 Shares representing 42.08% of the total number of issued Shares of the Company.
- 9.2. As an indication of its support and commitment to the Company and the Proposed Transaction, BFL has provided an irrevocable undertaking in favour of the Company ("**Irrevocable Undertaking**"), pursuant to which BFL has irrevocably undertaken to the Company that:
- (a) it will vote in favour of the Proposed Transaction at the EGM (including any adjournment thereof; and
 - (b) as at the date of the EGM, the number of Shares held by BFL will not be less than the number of Shares held by it as at the date of the Irrevocable Undertaking and it will not sell, transfer or otherwise dispose of such Shares from the date of the Irrevocable Undertaking until the conclusion of the EGM.

10. SERVICE CONTRACTS

No person is proposed to be appointed as a Director of the Company in connection with the Proposed Transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

LETTER TO SHAREHOLDERS

11. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

11.1. Interests of the Directors and Substantial Shareholders in the Shares

Based on the Company's register of interests of Directors and register of substantial Shareholders respectively, as at the date of the Circular, the interests of the Directors and substantial Shareholders in the Shares are as follows:

	Direct Interest		Deemed Interest		Total	
	No. of Shares	(%)(⁽¹⁾)	No. of Shares	(%)(⁽¹⁾)	No. of Shares	(%)(⁽¹⁾)
Directors						
Cheung Wai Suen ⁽³⁾	–	–	–	–	–	–
Wang Heng ⁽³⁾	625,000	0.15	171,495,264	42.08	172,120,264	42.23
Oh Eng Bin	–	–	–	–	–	–
Duan Yang, Julien	–	–	–	–	–	–
Tay Eng Kiat Jackson	–	–	–	–	–	–
Substantial Shareholders (other than Directors)						
Best Feast Limited ⁽²⁾	171,495,264	42.08	–	–	171,495,264	42.08
Chengdu Wu Xing Ke Trading Limited ("Chengdu Wuxingke") ⁽²⁾	–	–	171,495,264	42.08	171,495,264	42.08
Ou Rui Limited ⁽⁴⁾	57,997,667	14.23	–	–	57,997,667	14.23
Li Xiaobo ⁽⁴⁾	–	–	57,997,667	14.23	57,997,667	14.23

Notes:

- (1) Based on the existing share capital of the Company comprising 407,589,893 Shares.
- (2) Chengdu Wuxingke holds the entire issued and paid-up share capital of Best Feast Limited and accordingly, is treated as having an interest in the Shares held by Best Feast Limited by virtue of Section 4(4) of the Securities and Futures Act.
- (3) Wang Heng holds direct and indirect (through Chengdu Zhong Qian Zhi Heng Management Limited ("Chengdu Zhongqian")) interests comprising an aggregate of 99.25% of the total shares of Chengdu Wuxingke. Based on Wang Heng's indirect interests through Chengdu Zhongqian and direct interests in Chengdu Wuxingke, Wang Heng is deemed interested in the Shares held by Best Feast Limited, a wholly-owned subsidiary of Chengdu Wuxingke by virtue of Section 7 of the Companies Act. Cheung Wai Suen holds direct interests of 0.04% of the shares of Chengdu Wuxingke and direct interests of 2.40% of the shares of Chengdu Zhongqian.
- (4) Li Xiaobo holds the entire issued and paid-up share capital of Ou Rui Limited and accordingly, is treated as having an interest in the Shares held by Ou Rui Limited by virtue of Section 4(4) of the Securities and Futures Act.

11.2. Interests of the Directors and Substantial Shareholders in the Proposed Transaction

Mr. Cheung, the Executive Chairman of the Board, holds 0.4% of the equity interests in Ranken Railway and 2.01% of the equity interests in Chengdu KQR, and is a party to the Delegation Agreement.

LETTER TO SHAREHOLDERS

Save as disclosed herein, none of the Directors nor, to the best of the Directors' knowledge, any of the controlling Shareholders, has any interest, whether direct or indirect, in the Proposed Transaction other than through their respective shareholdings in the Company (if any).

12. DIRECTORS' RECOMMENDATIONS

Mr. Cheung has abstained from making any recommendations on the Ordinary Resolution in relation to the Proposed Transaction. Mr. Cheung and his associates (if any) shall also abstain from voting at the EGM on the Ordinary Resolution in relation to the Proposed Transaction in the event that they hold Shares.

Oh Eng Bin, the Lead Independent Non-Executive Director of the Company, is a Senior Partner at the law firm of Dentons Rodyk & Davidson LLP. A legal team from Dentons Rodyk & Davidson led by another Senior Partner thereof is advising the Company as to Singapore law in relation to the Proposed Transaction.

Having considered, *inter alia*, the terms, the rationale, the benefits, and the financial effects of the Proposed Transaction, the Directors (other than Mr. Cheung) are of the view that the Proposed Transaction is in the interests of the Company and the Shareholders. Accordingly, the Directors (other than Mr. Cheung) recommend that the Shareholders vote in favour of the Ordinary Resolution in relation to the Proposed Transaction to be proposed at the EGM.

Shareholders are advised to read this Circular in its entirety, in particular the rationale for the Proposed Transaction (as the case may be) and for those who may require advice in the context of his specific investment, to consult his stockbroker, bank manager, solicitor or other professional adviser.

13. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on pages N-1 to N-2 of this Circular, will be held by electronic means on 24 October 2020 at 2.30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the Ordinary Resolution set out in the Notice of EGM.

14. ACTIONS TO BE TAKEN BY SHAREHOLDERS

Shareholders who wish to vote at the EGM should complete, sign and return the Proxy Form attached to this Circular in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at 80 Robinson Road #11-02, Singapore 068898 not less than 72 hours before the time fixed for the EGM.

A Depositor shall not be regarded as a member of the Company entitled to vote at the EGM unless his name appears in the Depository Register as at 72 hours before the EGM.

LETTER TO SHAREHOLDERS

15. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's registered office at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542 on any weekday (public holidays excepted) for a period of three (3) months from the date of this Circular:

- (a) the Agreement;
- (b) the RSM Valuation Report;
- (c) the annual report of the Company for FY2019; and
- (d) the Constitution.

In light of the prevailing Covid-19 situation, shareholders should provide their names, contact number, proposed date and time of inspection to the Investor Relationship consultant, Mr Alex Tan at kai@waterbrooks.com.sg at least three (3) working days' in advance to make a prior appointment to attend at the registered office of the Company to inspect the documents.

16. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Transaction, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

Yours faithfully

For and on behalf of the Board of Directors of
Sapphire Corporation Limited

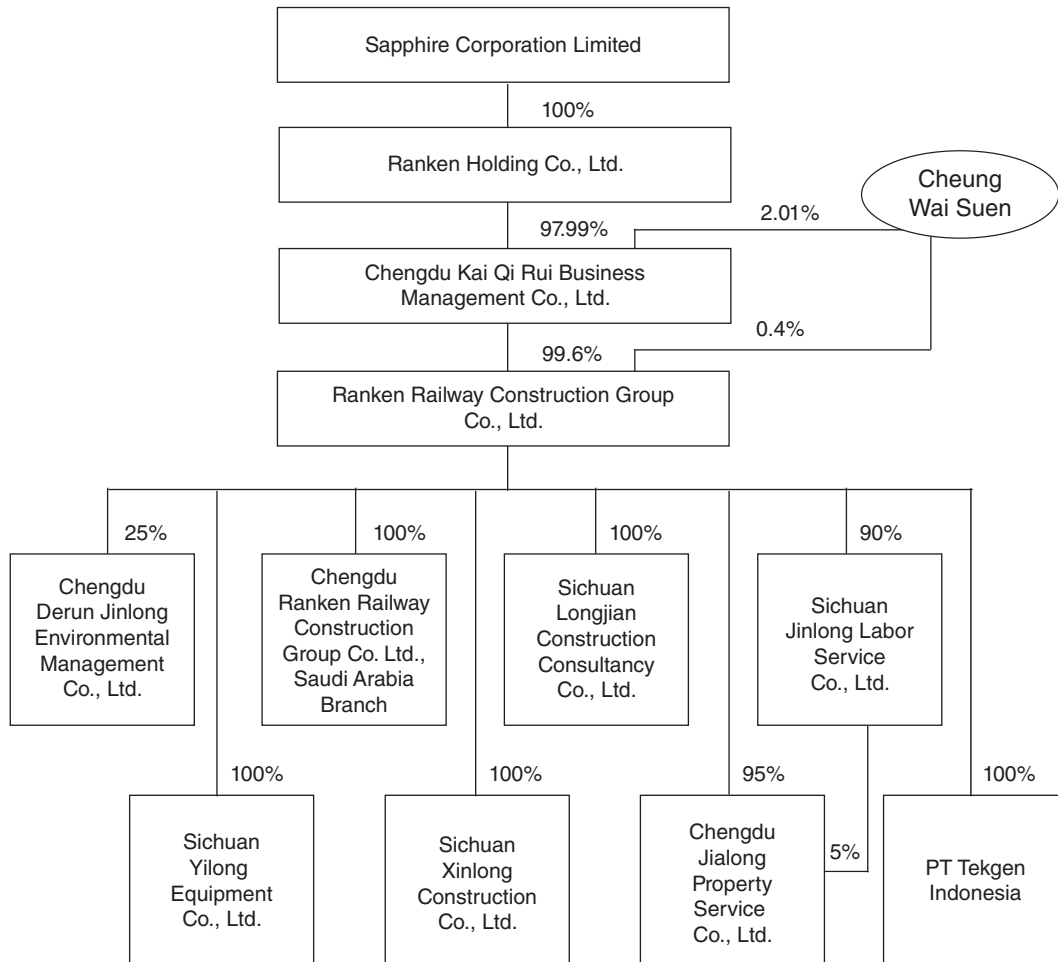
Wang Heng
Executive Director and Chief Executive Officer

LETTER TO SHAREHOLDERS

APPENDIX A

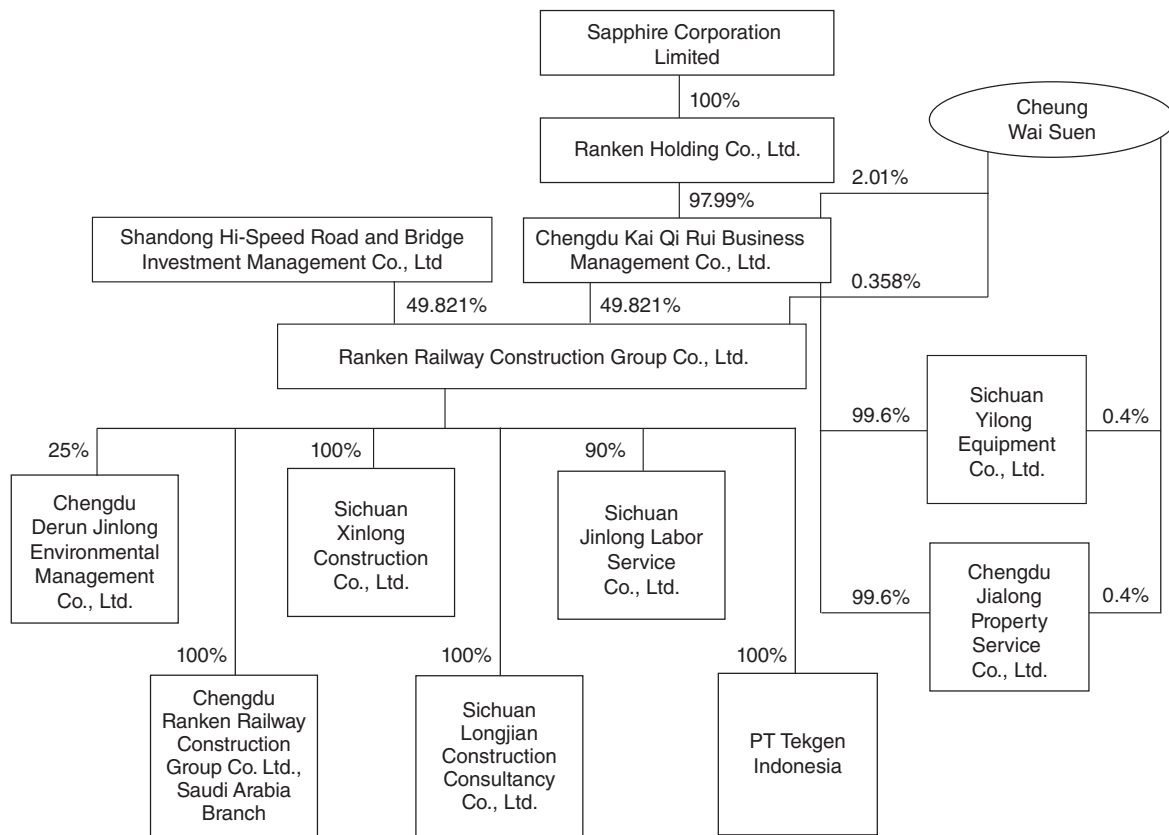
Diagrammatic representation of the Group and Ranken Railway

As at the Latest Practicable Date



LETTER TO SHAREHOLDERS

Upon completion of the Proposed Transaction



LETTER TO SHAREHOLDERS

APPENDIX B

Financial performance and position of Ranken Railway

	As at 30 April 2020 ⁽¹⁾ (RMB'000)	As at 31 December 2019 (RMB'000)
Total assets	1,831,743.9	2,163,389.2
Total liabilities	1,304,139.3	1,636,255.6
Total receivables	660,818.9	852,221.8
Net assets	527,604.6	527,133.6
	Period commencing from 1 January 2020 to 30 April 2020 ⁽²⁾ (RMB'000)	FY2019 (RMB'000)
Revenue	345,198.2	1,714,792.9
Operating Profit	786.2	45,498.4
Net profit	34.1	30,819.2
Net cash flow from operating activities	(80,914.1)	5,074.7

Notes:

- (1) As at 30 April 2020, there are no ongoing transactions between Chengdu KQR and Ranken Railway. Ranken Railway does not provide any financial assistance to any of its shareholders or other entities. As at 30 April 2020, there is an owing of RMB50,670,000 from Chengdu KQR to Ranken Railway, and an owing of RMB51,610,000 from Ranken Railway to Ranken Holding Co., Limited. These inter-company owings will be settled by within three (3) months post-Completion.
- (2) Notwithstanding that Ranken Railway was profitable for the period from 1 January 2020 to 30 April 2020, as announced by the Company in its business update on 22 May 2020 ("**Business Update Announcement**") on the financial performance of the Group for the three (3) months ended 31 March 2020 ("**1Q2020**"), the Group recorded a loss attributable to owners of the Company of RMB14.5 million in 1Q2020 as compared to a profit of RMB3.4 million in the three (3) months ended 31 March 2019. The return to profitability of Ranken Railway in April 2020 was mainly due to the resumption of all construction operations and activities of the Group. Notwithstanding, as announced in the Business Update Announcement, while the Group is cautiously optimistic that it can return to profitability in the second quarter of 2020 barring unforeseen circumstances, at this juncture it is difficult to ascertain the full financial impact of COVID-19 on the financial performance of the Group for the half year ending 30 June 2020 and the full financial year ending on 31 December 2020.

A comparison of the financial performance of Ranken Railway between PRC accounting standards and under SFRS for the period commencing from 1 January 2020 to 30 April 2020 is set out below:

	Period commencing from 1 January 2020 to 30 April 2020 ⁽²⁾ (RMB'000)	
	PRC accounting standards	SFRS
Revenue	345,198.2	344,146
Operating Profit	786.2	579
Net profit	34.1	2,349 ⁽¹⁾
Net cash flow from operating activities	(80,914.1)	(112,105) ⁽²⁾

LETTER TO SHAREHOLDERS

Notes:

- (1) The higher profit under SFRS mainly due to accrual made for bonus as at 31 December 2019 under SFRS which is paid in 2020 and thus reversed. Bonuses paid out in 2020 for the financial year ended 31 December 2019 were not accrued under PRC accounting standards, while accrual was made under SFRS. Bonuses paid in 2020 are recorded as an expense under PRC accounting standards in 2020, whereas such bonuses are offset against accrual made and not in profit and loss statement in 2020 under SFRS.
- (2) This relates to the net cash flow from operating activities of the Group under SFRS. The Company does not perform cashflow statement under SFRS solely for Ranken Railway

Further information on the guarantees provided by Ranken Railway to Chengdu Wuhou Small and Medium Enterprises Financial Guarantee Co, Ltd. (成都武侯中小企业融资担保有限责任公司) for its projects are as follows:

Guarantor	Guaranteed sum	Period of guarantee	Security
Minsheng Bank, Chengdu Branch	RMB20 million	In respect of RMB15 million, 29 September 2019 to 28 September 2020 In respect of RMB5 million, 29 November 2019 to 28 November 2020	Mortgage on basement levels 1 and 2, and first and second levels of Ranken Building and charge on receivables from Urumqi underground line 1 project No. 4
Fubon Bank, Chengdu Branch	RMB10 million	11 November 2019 to 10 November 2020	Mortgage on basement levels 1 and 2, and first and second levels of Ranken Building
China Construction Bank, Minjiang sub-branch	RMB48 million	In respect of RMB30 million, 15 August 2019 to 14 August 2020 In respect of RMB18 million, 7 August 2019 to 6 August 2021	Mortgage on 3rd to 6th floors of Ranken Building
Chengdu Rural Commercial Bank, Commercial City sub-branch	RMB19 million	18 September 2019 to 17 September 2020	Mortgage on 7th and 9th floors of Ranken Building
Chengdu Rural Commercial Bank, Huaxing sub-branch	RMB9 million	5 March 2020 to 26 February 2021	Mortgage on 7th and 9th floors of Ranken Building

LETTER TO SHAREHOLDERS

Further information on the outstanding pledge of Chengdu KQR's shares of Ranken Railway are as follows:

Pledgeholder	Guaranteed sum	Shares pledged by Chengdu KQR	Period of guarantee
Chengdu Wuhou Small and Medium Enterprises Financial Guarantee Co, Ltd. (成都武侯中小企业融资担保有限责任公司)	RMB10 million	100 million shares in Ranken Railway representing RMB100 million of the capital of Ranken Railway	14 November 2018 to 31 October 2020

LETTER TO SHAREHOLDERS

APPENDIX C

Summary of reserved matters in Ranken Railway's Articles of Association

Shareholder reserved matters

- (a) election and replacement of directors and supervisors (other than workers' union representatives), and the remuneration matters of such directors and supervisors;
- (b) review and approval of board meeting reports and supervisory committee meeting reports;
- (c) increase or reduction of the registered capital of Ranken Railway;
- (d) separation, merger, dissolution, liquidation or alteration in the type of company of Ranken Railway;
- (e) alterations to Ranken Railway's Articles of Association;
- (f) change of Ranken Railway's name, principal business activities or business scope;
- (g) approval of Ranken Railway's guarantees to third parties;
- (h) seeking or implementation of any proposals for acquisition, restructuring, disposal or other transactions resulting in the whole or the main assets or business of Ranken Railway (which account for 30% or more of Ranken Railway's annual audited operating revenue or profit) being sold or transferred to a third party; and
- (i) other matters required to be considered and approved at a general meeting of all shareholders as stipulated in the Articles.

Board reserved matters

- (i) convening of shareholders' general meetings and reporting at such general meetings;
- (ii) implementation of the resolutions of the shareholders;
- (iii) determination of Ranken Railway's development and investment plans;
- (iv) determination of Ranken Railway's business plans, strategies and investments;
- (v) study and formulate annual operating performance assessment indicators (including the amount of successful bids, operating income, total profit, etc.), and sign the business target responsibility letter with the management as the management performance, salary, and evaluation standards based on market and Ranken Railway's financial conditions;
- (vi) to consider and approve Ranken Railway's annual financial budget, final accounts, profit distribution plan, and plan for making up losses;
- (vii) the issue of corporate bonds;
- (viii) major investment in any other company or enterprise amounting to a value of RMB10,000,000 or more (including entrusted wealth management, entrusted loans, any financial or strategic investment in other entities, financial assistance, etc.) or withdrawal from or disposal of the aforementioned investments;

LETTER TO SHAREHOLDERS

- (ix) formulation of strategies to increase or decrease the registered capital of Ranken Railway, merge, split, dissolve, change the company form, establish a branch, etc.;
- (x) establishment of Ranken Railway's internal management organization;
- (xi) appointment of (a) Chief Accountant (financial controller) and General Manager (where the Chairman is a nominee of the Investor, the General Manager shall be a nominee of Chengdu KQR), as nominated by Investor, and (b) CEO and other Deputy Managers, Chief Economist, Chief Engineer and other senior management personnel, as nominated by Chengdu KQR;
- (xii) appointment of Ranken Railway's senior management personnel and determine their remuneration matters;
- (xiii) appointment and dismissal of Chairman of the board;
- (xiv) formulating and revising Ranken Railway's basic management system;
- (xv) examine and approve connected transactions between Ranken Railway and shareholders and/or shareholders' affiliates; and
- (xvi) other functions and powers stipulated in the Articles of Association of Ranken Railway or at a general meeting of shareholders.

LETTER TO SHAREHOLDERS

APPENDIX D

Pro forma financial statements of the Group after Completion (as at 31 December 2019)

Details of the financial position of the Group after Completion are detailed below:

	Group		
	Before Proposed Transaction As at 31 December 2019 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) As at 31 December 2019 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) As at 31 December 2019 RMB'000
Assets			
Property, plant and equipment	184,623	24,404	24,404
Intangible assets and goodwill	42,417	–	–
Investment properties	52,274	–	–
Subsidiaries	–	–	–
Associated company	48,726	–	–
Jointly controlled entity	–	293,666	355,653
Other investments	4	–	–
Other receivables	–	–	–
Deferred tax assets	13,586	–	–
Total non-current assets	341,630	318,070	380,057
Other investment	3,158	3,158	3,158
Inventories	34,945	–	–
Contract assets	911,679	–	–
Trade receivables	564,917	8,465	8,465
Other receivables	186,423	75,986	75,986
Cash and cash equivalents	169,345	258,892	258,892
Total current assets	1,870,467	346,501	346,501
Total assets	2,212,097	664,571	726,558

LETTER TO SHAREHOLDERS

	Group		
	Before Proposed Transaction As at 31 December 2019 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) As at 31 December 2019 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) As at 31 December 2019 RMB'000
Equity			
Share capital	466,700	466,700	466,700
Reserves	113,020	101,472	162,219
Equity attributable to owners of the Company	579,720	568,172	628,919
Non-controlling interests	10,906	11,124	12,364
Total equity	590,626	579,296	641,283
Liabilities			
Loans and borrowings	103,840	—	—
Deferred tax liabilities	6,501	—	—
Contingent liabilities	—	4,906	4,906
Total non-current liabilities	110,341	4,906	4,906
Trade payables	1,009,859	15,676	15,676
Other payables	169,061	64,540	64,540
Contract liabilities	160,351	—	—
Loans and borrowings	154,776	153	153
Current tax liabilities	17,083	—	—
Total current liabilities	1,511,130	80,369	80,369
Total liabilities	1,621,471	85,275	85,275
Total equity and liabilities	2,212,097	664,571	726,558

LETTER TO SHAREHOLDERS

Details of the profit or loss after Completion are detailed below:

	Group		
	Before Proposed Transaction FY2019 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) FY2019 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) FY2019 RMB'000
Revenue	1,731,548	10,155	10,155
Cost of sales	(1,577,502)	(10,106)	(10,106)
Gross profit	154,046	49	49
Other income	13,500	5,851	5,851
Selling and distribution costs	(6,470)	—	—
Administrative expenses	(68,458)	(8,438)	(8,438)
Impairment losses on trade and other receivables and contract assets	(14,282)	(5,983)	(5,983)
(Loss)/gain from proposed transaction	—	(9,060)	52,927
Other expenses	(13,294)	(4,329)	(4,329)
Profit/(loss) from operating activities	65,042	(21,910)	40,077
Finance costs	(22,183)	(30)	(30)
Share of profit of equity-accounted investees (net of tax)	2,476	19,801	19,801
Profit/(loss) before tax	45,335	(2,139)	59,848
Tax expenses	(18,434)	(509)	(509)
Profit/(loss) for the year	26,901	(2,648)	59,339
Profit/(loss) attributable to:			
Owners of the Company	26,370	(3,029)	58,958
Non-controlling interests	531	381	381
Profit/(loss) for the year	26,901	(2,648)	59,339

LETTER TO SHAREHOLDERS

Pro forma financial statements of the Group after Completion (as at 30 June 2020)

Details of the financial position of the Group after Completion are detailed below:

	Group		
	Before Proposed Transaction As at 30 June 2020 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) As at 30 June 2020 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) As at 30 June 2020 RMB'000
Assets			
Property, plant and equipment	24,839	24,839	24,839
Intangible assets and goodwill	—	—	—
Investment properties	—	—	—
Subsidiaries	—	—	—
Associated company	—	—	—
Jointly controlled entity	—	299,951	355,653
Other investments	—	—	—
Other receivables	—	—	—
Deferred tax assets	—	—	—
Total non-current assets	24,839	324,790	380,492
Other investment	2,136	2,136	2,136
Inventories	2,052	2,052	2,052
Contract assets	—	—	—
Trade receivables	8,239	8,239	8,239
Other receivables	19,492	73,961	73,961
Assets classified as held for sale	1,863,153	—	—
Cash and cash equivalents	1,489	258,537	258,537
Total current assets	1,896,561	344,925	344,925
Total assets	1,921,400	669,715	725,417

LETTER TO SHAREHOLDERS

	Group		
	Before Proposed Transaction As at 30 June 2020 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) As at 30 June 2020 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) As at 30 June 2020 RMB'000
Equity			
Share capital	466,700	466,700	466,700
Reserves	122,970	105,213	159,801
Equity attributable to owners of the Company	589,670	571,913	626,501
Non-controlling interests	11,227	11,307	12,421
Total equity	600,897	583,220	638,922
Liabilities			
Loans and borrowings	—	—	—
Deferred tax liabilities	—	—	—
Contingent liabilities	—	4,906	4,906
Total non-current liabilities	—	4,906	4,906
Trade payables	8,624	8,624	8,624
Other payables	10,748	72,833	72,833
Contract liabilities	61	61	61
Loans and borrowings	71	71	71
Current tax liabilities	—	—	—
Liabilities classified as held for sale	1,300,999	—	—
Total current liabilities	1,320,503	81,589	81,589
Total liabilities	1,320,503	86,495	86,495
Total equity and liabilities	1,921,400	669,715	725,417

LETTER TO SHAREHOLDERS

Details of the profit or loss after Completion are detailed below:

	Group		
	Before Proposed Transaction HY2020 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) HY2020 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) HY2020 RMB'000
Revenue	640,676	4,141	4,141
Cost of sales	(592,437)	(2,167)	(2,167)
Gross profit	48,239	1,974	1,974
Other income	4,790	1,486	1,486
Selling and distribution costs	(4,911)	—	—
Administrative expenses	(23,393)	(3,374)	(3,374)
(Loss)/gain from proposed transaction	—	(15,184)	40,518
Other expenses	(4,265)	(2,138)	(2,138)
Profit/(loss) from operating activities	20,460	(17,236)	38,466
Finance costs	(9,494)	(11)	(11)
Share of profit of equity-accounted investees (net of tax)	1,413	6,034	6,034
Profit/(loss) before tax	12,379	(11,213)	44,489
Tax expenses	(2,078)	(45)	(45)
Profit/(loss) for the year	10,301	(11,258)	44,444
Profit/(loss) attributable to:			
Owners of the Company	9,980	(11,402)	44,300
Non-controlling interests	321	144	144
Profit/(loss) for the year	10,301	(11,258)	44,444



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ZHONG LUN LAW FIRM
WWW.ZHONGLUN.COM

LETTER TO SHAREHOLDERS

Beijing Office

28/31/33/36/37F, SK Tower, 6A Jianguomenwai Avenue,
Chaoyang District, Beijing 100022, P. R. China
Tel: +86 10 5957 2288
Fax: +86 10 6568 1022/1838

Shanghai Office

6/10/11/16/17F, Two IFC, 8 Century Avenue,
Pudong New Area, Shanghai 200120, P. R. China
Tel: +86 21 6061 3666
Fax: +86 21 6061 3555

Shenzhen Office

8-10/F, Tower A, Rongchao Tower, 6003 Yitian Road,
Futian District, Shenzhen, Guangdong 518026, P. R. China
Tel: +86 755 3325 6666
Fax: +86 755 3320 6888/6889

Guangzhou Office

23/F, R&F Center, 10 Huaxia Road, Zhujiang New Town,
Tianhe District, Guangzhou, Guangdong 510623, P. R. China
Tel: +86 20 2826 1688
Fax: +86 20 2826 1666

Wuhan Office

50/F, Tower I, New World International Trade Tower, 568 Jianshe
Avenue, Jiangnan District, Wuhan, Hubei 430022, P. R. China
Tel: +86 27 8555 7988
Fax: +86 27 8555 7588

Chengdu Office

6/F, East Building, La Defense, 1480 North Tianfu Avenue,
High-tech Zone, Chengdu, Sichuan 610042, P. R. China
Tel: +86 28 6208 8001
Fax: +86 28 6208 8111

Chongqing Office

5-1A, Tower D, PICC Life Insurance Tower, 3 Financial Street,
Jiangbei District, Chongqing 400023, P. R. China
Tel: +86 23 8879 8388
Fax: +86 23 8879 8300

Qingdao Office

27-28/F, Tower A, COSCO Plaza, 61B Hong Kong Middle Road,
Qingdao, Shandong 266071, P. R. China
Tel: +86 532 5572 8677/8678
Fax: +86 532 8667 7666

Hangzhou Office

22/F, Block A, China Resources Building, 1366 Qianjiang Road,
Jianggan District, Hangzhou, Zhejiang 310020, P. R. China
Tel: +86 571 5692 1222
Fax: +86 571 5692 1333

Nanjing Office

14/F, Asia Pacific Business Building, 2 Hanzhong Road, Gulou
District, Nanjing, Jiangsu 210005, P. R. China
Tel: +86 25 6951 1818
Fax: +86 25 6951 1717

Haikou Office

1801-1807, Building B, China Resources Building, the intersection of Jinmao
East Road and Mingzhu Road, Longhua District, Haikou, Hainan 570125, P. R. China
Tel: +86 898 3156 6128
Fax: +86 898 3156 6108

Tokyo Office

1/F, Sanno Grand Building, 2-14-2 Nagatacho, Chiyoda-ku, Tokyo 100-0014, Japan
Tel: +81 3 6205 8266
Fax: +81 3 6206 6755

Hong Kong Office

4/F, Jardine House, 1 Connaught Place, Central, Hong Kong, China
Tel: +852 2877 3088
Fax: +852 2525 1099

London Office

10-11 Austin Friars, London EC2N 2HG, U.K.
Tel: +44 20 7382 1567
Fax: +44 20 7382 1568

New York Office

2 Wall Street, 21/F, New York, NY 10005, USA
Tel: +1 212 380 8388
Fax: +1 212 810 1995

Los Angeles Office

4322 Wilshire Blvd, Suite 200 Los Angeles, CA 90010, USA
Tel: +1 323 930 5690
Fax: +1 323 930 5693

San Francisco Office

2479 E Bayshore Rd, Suite 215 Palo Alto, CA 94303, USA
Tel: +1 415 868 4398
Fax: +1 415 868 4399

Almaty Office

11/F, Unit 2, Building 58, Samal-2 Microdistrict, Medeu District,
Almaty 050059, Kazakhstan
Tel: +7 727 339 1880
Fax: +7 727 339 1880



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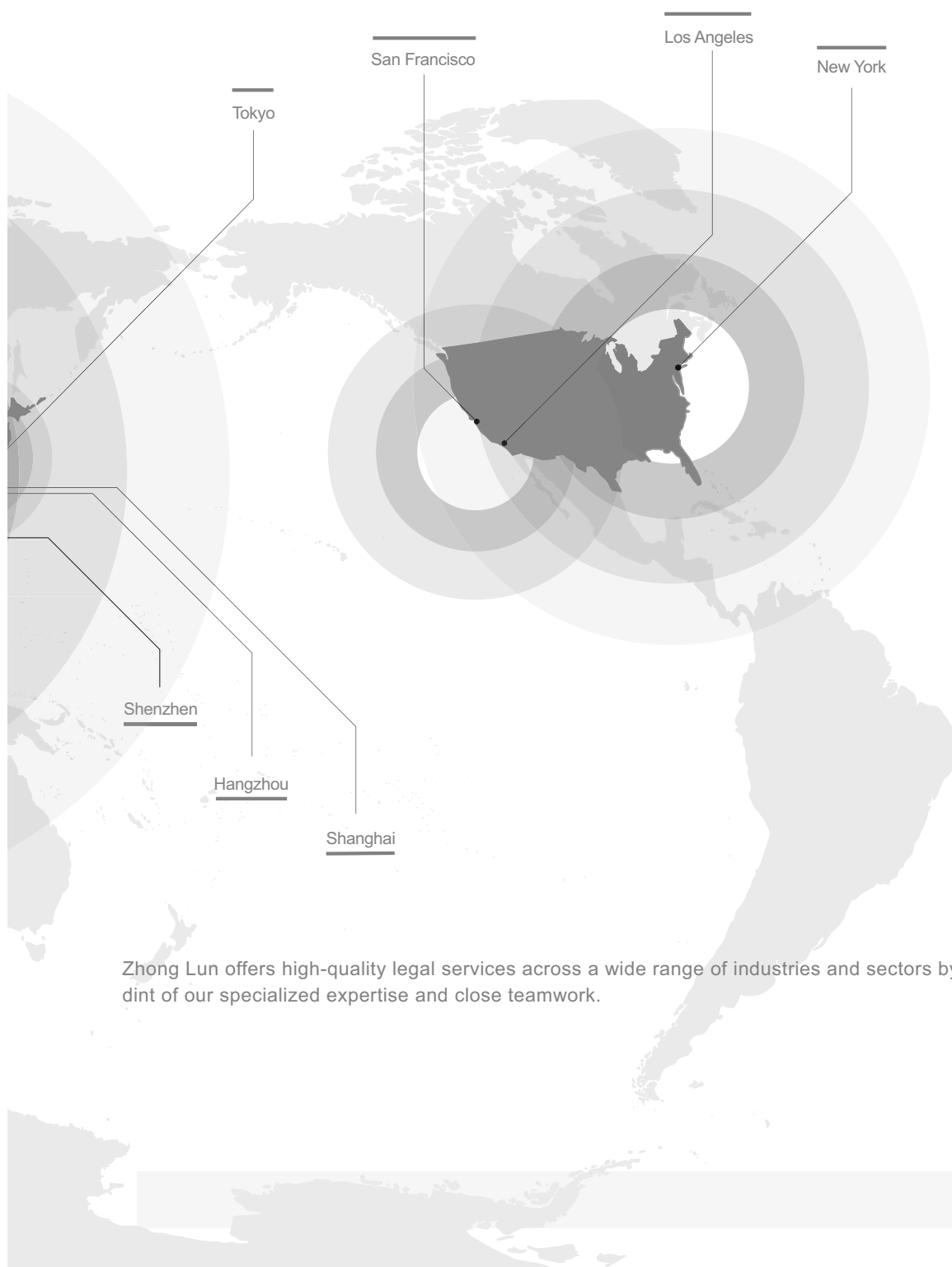
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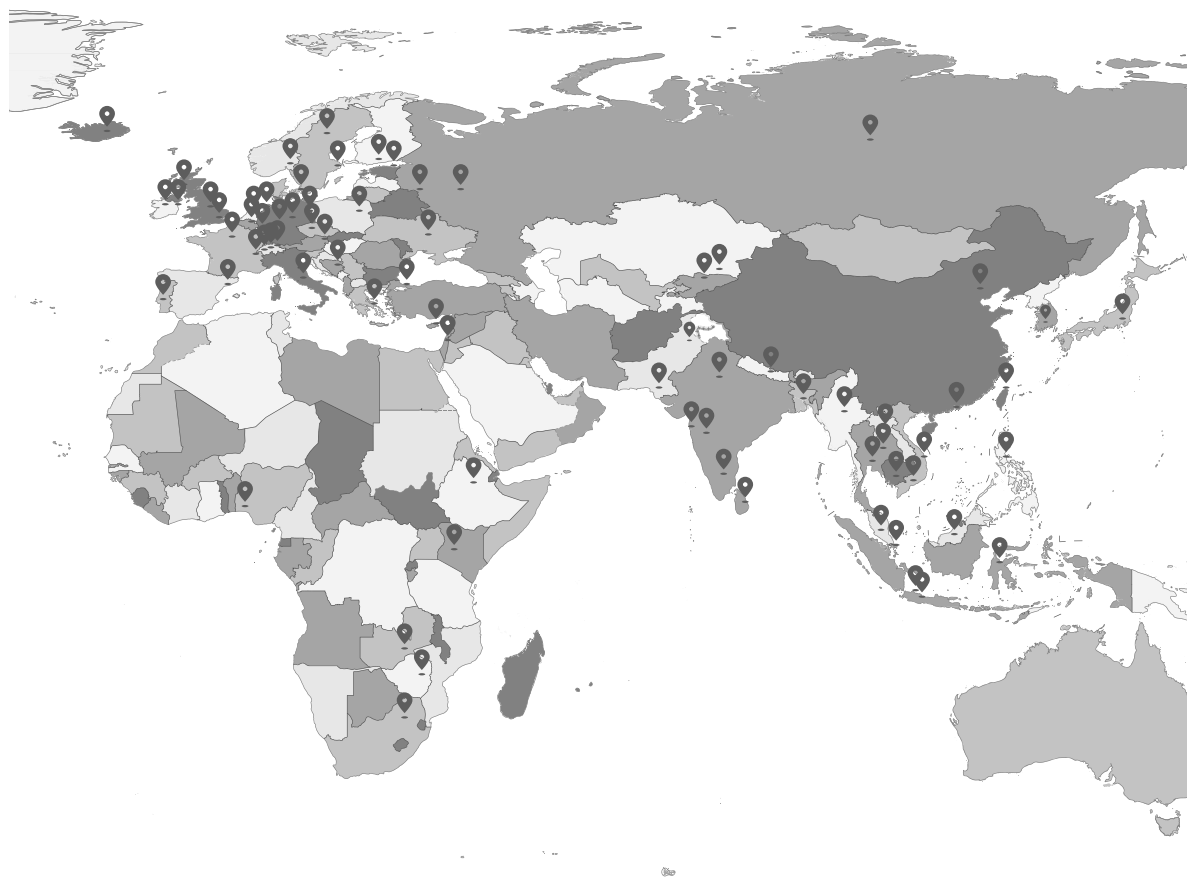
Founded in **1993**, Zhong Lun Law Firm was one of the first private law partnerships to receive approval from the Ministry of Justice. After years of rapid development and steady growth, today Zhong Lun is one of the largest full service law firms in China. With over 340 partners and over 2100 professionals working in eighteen offices in Beijing, Shanghai, Shenzhen, Guangzhou, Wuhan, Chengdu, Chongqing, Qingdao, Hangzhou, Nanjing, Haikou, Tokyo, Hong Kong, London, New York, Los Angeles, San Francisco and Almaty.

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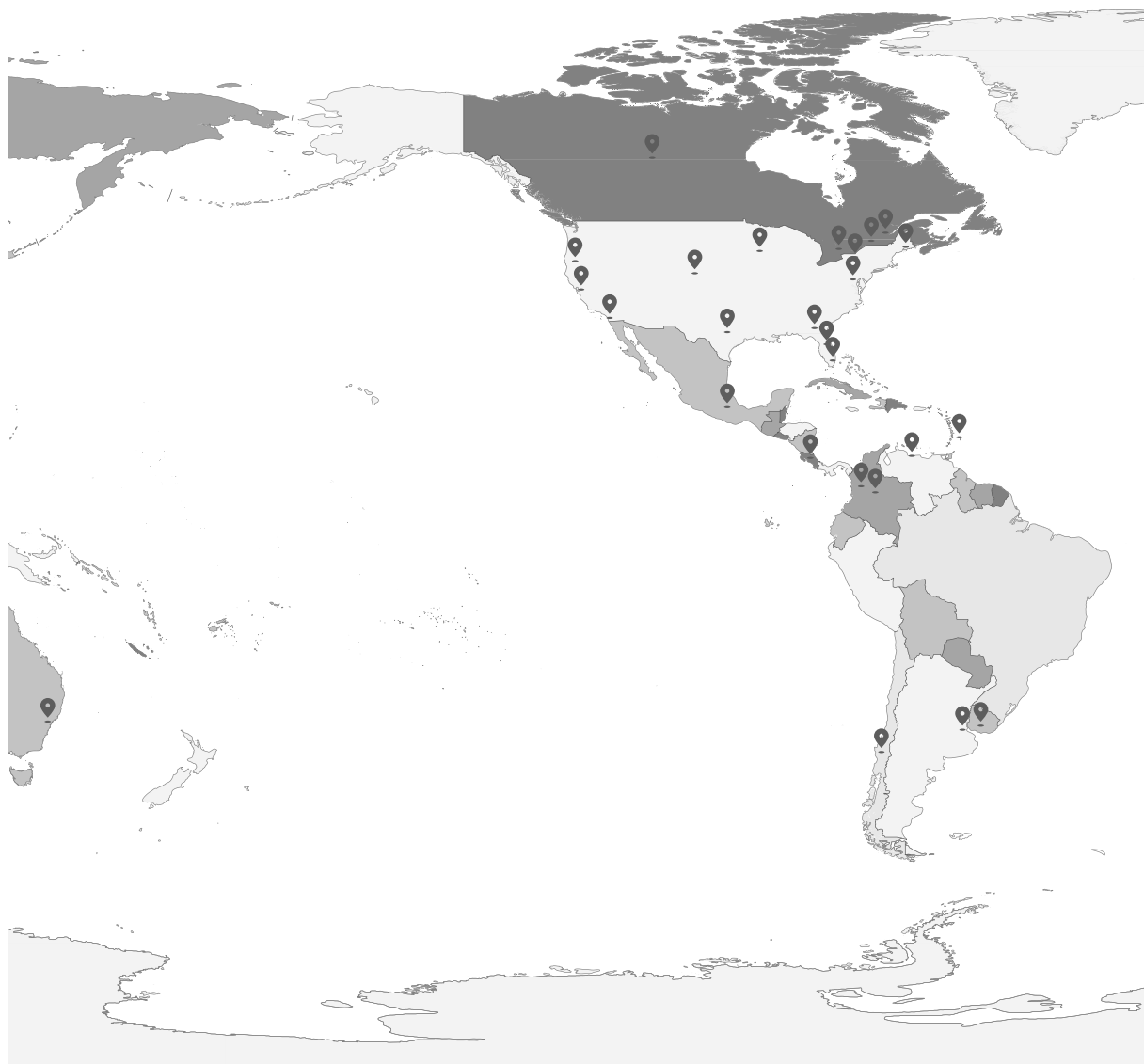
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LETTER TO SHAREHOLDERS

Chambers & Partners ★

2020

A record-breaking 30 practice areas and 66 lawyers are recommended,
with several lawyers receiving recommendations in multiple areas

2017 & 2019

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International Financial Law Review ★

2015 & 2017

National Law Firm of the Year

Asian Legal Business ★

2019

Beijing Law Firm of the Year

2015 & 2016

One of the Most 10 Powerful Law Firms in China

Benchmark Litigation ★

2019

PRC Law Firm of the Year

OU
HONG

★ The Legal 500 Asia Pacific

2020

Zhong Lun awarded recognition in all 25 practice areas

★ China Business Law Journal

2020

Golden League (Nationwide elite law firms)

Best Overall Law Firms (Hangzhou)

2019

Law Firm of the Year (China)

2013 – 2019

Law firm of the year (China)

2019

Law Firm of the Year (Beijing)

Zhong Lun's outstanding work has achieved broad recognition and its practice groups and lawyers are frequently cited and recommended in their respective markets by distinguished legal media groups such as Chambers & Partners, IFLR, The Legal 500, Benchmark Litigation, Asian Legal Business, China Law & Practice and others.

CAPITAL MARKETS/SECURITIES

A top-tier Capital Markets practice with recognized comprehensive strengths

Ranked Band 1 in Capital Markets
(Chambers Asia Pacific, 2013 - 2020)

Ranked Tier 1 in Capital Markets
(IFLR1000, 2014 - 2020)

Outstanding Firm in Capital Markets
(Asialaw Profiles, 2016 - 2020)

Zhong Lun was one of the first Chinese firms to establish a Capital Markets practice, which has long become a core strength of the firm. Over the past two decades, we have accumulated considerable expertise in a wide array of securities-related legal services. Zhong Lun has advised nearly 1,000 major Chinese companies on their onshore and offshore offerings and listings of A-shares, B-shares, H-shares, red chips, bonds, notes, etc. on the Shanghai Stock Exchange, Shenzhen Stock Exchange, SEHK, NYSE, NASDAQ, AMEX, as well as exchanges in Toronto, Singapore, Tokyo, London, Taiwan, Australia, South Korea and Frankfurt. Named "Capital Markets Firm of the Year" by China Law & Practice, Zhong Lun also garners recommendations from world-renowned industry watchers, such as Chambers Asia Pacific, IFIR1000 and The Legal 500.

According to the China Capital Markets Legal System Development Report released by the China Securities Regulatory Commission over the years, Zhong Lun always ranks among the best Chinese law firms with respect to IPOs on the Main Board Market and ChiNext Market, refinancing of listed companies, mergers and restructurings of listed companies, overseas issuance of securities, etc.



LETTER TO SHAREHOLDERS



“Timely delivery of legal opinions, as well as for being detail-oriented in performing due diligence.”

“When it came to guaranteeing efficiency, issuing procedural documents and adjusting the basic circumstances Zhong Lun displayed a high ability to co-operate.”

——Chambers Asia Pacific 2020 ”

SCOPE OF SERVICES

Equity Capital Markets

- Pre-IPO restructuring
- Pre-IPO private placement
- Domestic IPOs and listings
- Overseas IPOs and listings
- Refinancing of listed companies
- Major assets restructuring of listed companies
- Acquisition of listed companies and back-door listings
- Governance of listed companies
- Day-to-day legal support for listed companies concerning capital markets
- Formation and operations of securities investment funds

Debt Capital Markets

- Domestic bond issuance
- Overseas bond issuance
- Asset securitization
- Exchangeable bonds
- Convertible bonds
- Financial bonds
- Short-term commercial paper
- Medium-term notes
- SME private placement bonds

PRIVATE EQUITY & INVESTMENT FUNDS

Ranked Band 1 in Private Equity for several consecutive years

(Chambers Asia Pacific)

Highly Recommended in Investment Funds for several consecutive years

(Chambers Asia Pacific)

Ranked Tier 1 in Private Equity & Investment Funds

(The Legal 500 Asia Pacific, 2020)

Ranked Tier 1 in Private Equity

(IFLR1000, 2014 - 2020)

Outstanding Firm for Top China PE Investment Deals

(China Business Law Journal, 2016 - 2019)

Zhong Lun's Private Equity and Investment Funds team is widely recognized as a pioneer and market leader in the private equity ("PE") and investment funds industry, with a full range of services covering fund formation, fundraising, investment, project management and fund exit. Zhong Lun's extensive experience in PE and investment funds related deals extends to formation of not only domestic RMB funds, but also offshore USD funds. One of our strengths lies in our ability to deliver integrated legal solutions for cross-border transactions involving private equity, debt and mezzanine financing or other forms of investment. We help our clients address challenges arising from the dynamic and fast-growing capital markets. Our in-depth expertise and knowledge enable us to advise our clients wherever and whenever required.

Chambers Asia Pacific praised Zhong Lun as "an eminent player in the market" and that "They provide trustworthy expertise. They are responsive and efficient." Our equity investment and investment funds practice has been ranked in Band 1 ever since Chambers Asia Pacific established these two categories for PRC law firms. Other major foreign publications and institutions also recognize Zhong Lun as one of the best law firms in China in these areas.

LETTER TO SHAREHOLDERS



Private Equity

“Zhong Lun is good in equity investment due diligence work. They have a good sense for picking up information and the detail in the deals.”

“Zhong Lun is very responsive. If we ask them something, they can resolve it on the same day most of the time. They’re efficient.”

——Chambers Asia Pacific 2020

Investment Funds

“Zhong Lun has in-depth understanding of the laws and regulations related to the use of insurance funds, as well as transaction structures. Therefore Zhong Lun is able to structure the most appropriate trading strategy and deal structure within the scope of compliance.”

“We recognize their service attitude. Because investors are based in various countries and there is a time difference, most of the time we need to work overtime. Zhong Lun is very responsive and is always available at all times.”

——Chambers Asia Pacific 2020



SCOPE OF SERVICES

- Formation and fundraising of various investment funds, such as private equity and venture capital funds, fund of funds, and other fund investment platforms, including RMB and USD funds
- Investments by government-guiding funds, fund of funds and other investments into PE funds
- PE funds’ investments into portfolio companies
- Management of portfolio companies invested in by PE funds
- Fund exits through, among others, trade sale, other M&A deals, and capital market transactions including IPO and recapitalization
- Deal financing
- Liquidation of PE funds

CORPORATE/FOREIGN DIRECT INVESTMENT

M&A (Outbound) Law Firm of the Year

(China Business Law Journal, 2020)

Deal of the Year: Tianqi Lithium acquires part of Sociedad Química y Minera

(China Business Law Journal, 2019)

Deal of the Year: Sinomine acquires Cabot Corporation

(China Business Law Journal, 2019)

Deal of the Year: China Tianying acquires Urbaser

(China Business Law Journal, 2019)

Since its founding, Zhong Lun has been actively assisting foreign clients in their direct investment in China. The firm has provided legal services to a multitude of foreign-backed businesses concerning the setup and subsequent operations of their Chinese ventures. Our clients in this area include dozens of Global Fortune 500 companies, many well-known multinationals, leading players in various subsectors, and investment funds. We have also represented domestic companies and Chinese local governments in the establishment of numerous joint ventures.

As the business model of foreign direct investment has been shifting away from traditional green field investment towards M&A and PE financing, we have advised on a great number of foreign-invested M&A and PE financing transactions. Our large pool of corporate attorneys' requisite experience, commercial insights and close rapport with regulators at all levels of China can ensure that our clients receive practical and value-creating advice in both legal and commercial aspects.

We have accumulated rich experience in advising on investment, M&A and PE financing deals in various industries and sectors, including, among others, hotel and hospitality, urban complex (shopping malls), electronic display, automobile manufacturing, film, e-commerce, fast-moving consumer goods (FMCG), healthcare and comprehensive health.



LETTER TO SHAREHOLDERS



SCOPE OF SERVICES

FDI

- Foreign investment accessibility assessment
- Establishment of wholly owned subsidiaries and representative offices
- Negotiations on and establishment of Sino-foreign equity joint ventures and Sino-foreign contractual joint ventures
- Notification of concentration of undertakings
- Establishment of regional headquarters for multinational corporations
- Establishment of foreign-funded investment/holding companies
- Localization and compliance advice
- Consultancy on foreign exchange control
- Domestic and cross-border financing and capital restructuring of foreign invested enterprises
- Reinvestment by foreign invested enterprises
- Labor and social security counseling
- Consultancy on customs and border control
- Regulation of environmental protection
- Tax planning
- Protection of intellectual property
- Split-up, M&A, restructuring and liquidation of foreign invested enterprises

Cross-border M&A and PE Financing

- Foreign investment accessibility assessment
- Target selection and risk/feasibility assessment
- Design and improvement of deal structures
- Due diligence and business negotiations
- Valuation adjustment mechanism, protection of investors' rights and interests, and design of exit mechanisms
- Consultancy on matters concerning approvals and permits from, registration and record-filing with, and exemptions by industry regulators
- Consultancy on foreign exchange control
- Assistance in closing of transactions
- Post-M&A or -financing integration related legal services
- Notification of concentration of undertakings
- National security review

MERGERS & ACQUISITIONS

Ranked Band 1 in Corporate and M&A for several consecutive years

(Chambers Asia Pacific)

Ranked Tier 1 in M&A

(IFLR1000, 2014 - 2020)

Tier 1 Law Firm in Corporate and M&A

(The Legal 500 Asia Pacific, 2014 - 2020)

M&A (Outbound) Law Firm of the Year

(China Business Law Journal, 2020)

Outstanding Firm in Corporate and M&A

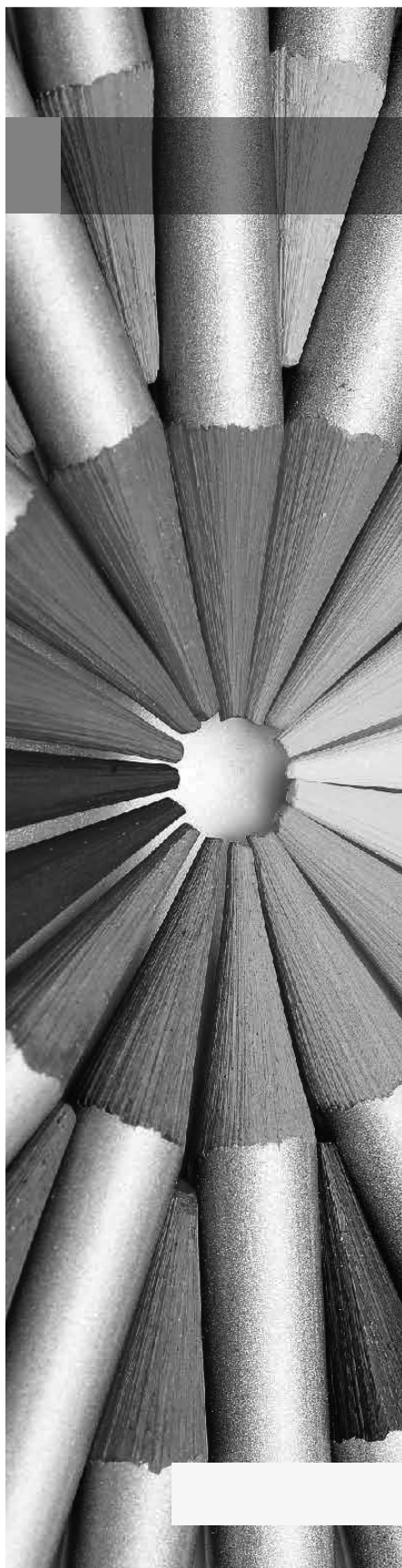
(Asialaw Profiles, 2016 - 2020)

Tier 1 in China Domestic M&A Rankings

(ALB, 2014 - 2019)

M&A is one of Zhong Lun's core practice areas and has earned Zhong Lun wide recognition as a market leader in this area for years. One example is that in each single year since 2007 when Chambers Asia Pacific released its first ranking for Chinese law firms, numerous Zhong Lun lawyers have been ranked as leading lawyers, including "Band 1" lawyers in this area. In recent years, Zhong Lun has represented scores of renowned multinational clients and listed companies around the world in a large number of high profile and complex transactions, including restructuring, M&A, cross-border transaction, and outbound investment. In these successful transactions, Zhong Lun lawyers have demonstrated their superior strength of providing integrated services and advice by drawing upon the resources of different expertise and experience within the firm, and have impressed the clients with their insightful understanding of Chinese laws and regulatory environment, comprehensive knowledge of tax, finance and business, deep understanding of client's needs, and abilities to craft solutions in all circumstances.

LETTER TO SHAREHOLDERS



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“We only have positive words for Zhong Lun’ s team members. Their assistance throughout was exceptional and they went the extra mile in providing important insights into specific legislation.”

“It’s a very experienced and knowledgeable team that is absolutely organized and prepared at each step of the way.”

—Chambers Asia Pacific 2020

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SCOPE OF SERVICES

- Advising on industry access policy
- Counseling on transaction structures, tax planning, and other transaction-related matters
- Conducting legal due diligence
- Drafting and negotiation of transaction documents
- Advising on regulatory approval issues involved in transactions
- Issuing legal opinions as required by clients or regulators
- Advising on the integration of pre-closing, transitional and post-closing stages of transactions
- Advising on antitrust filings

BANKING & FINANCE

Highly Recommended in Banking and Finance

(Chambers Asia Pacific, 2011 - 2020)

Ranked Band 1 in Banking and Finance

(IFLR1000, 2019 - 2020)

Ranked Tier 1 Law Firm in Banking and Finance

(The Legal 500 Asia Pacific, 2014 - 2020)

Highly Recommended in Banking & Finance

(Asialaw Profiles, 2016 - 2020)

As one of the first Chinese law firms to build a practice in Banking and Finance, Zhong Lun has provided comprehensive legal services to a great variety of domestic and foreign clients and accumulated ample practical experience in this sector. Our superior services have won us multiple recommendations and awards from Chambers Asia Pacific, Asian Legal Business, China Law & Practice, Corporate International, China Business Law Journal, Legal 500, IFLR1000, International Journal of Project Financing, and other renowned legal media and rating agencies.

Our clients include Chinese and international banks, financial institutions, multinational corporations, and domestic enterprises. We provide financing legal services primarily to influential banks and financial institutions, multinational corporations and local companies in China and internationally.

Among our services are conducting daily compliance review, rendering compliance advice, carrying out due diligence, structuring for financing transactions and security arrangements, drafting, reviewing and negotiating legal documents in Chinese and English, and advising on other banking and financial issues. Our professional team has rich experience and a high level of expertise in counselling on cross-border financing transactions and complex structured finance.

LETTER TO SHAREHOLDERS



“

“Zhong Lun is well co-ordinated, meaning that it can meet the complex needs of a client.”

—Chambers Asia Pacific 2020”

SCOPE OF SERVICES

- Leverage & acquisition financing
- Business financing
- Project financing
- Real estate financing
- Trade and commodity financing
- Asset-backed financing
- Aircraft and vessel financing
- Consumer finance
- Supply chain financing
- Internet finance
- Fintech
- Regulation of banking and financial markets
- Establishment and M&A of financial institutions
- Debt restructuring
- Financial dispute resolution
- Domestic and offshore bond issuance
- Financial compliance

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NOTICE OF EXTRAORDINARY GENERAL MEETING

SAPPHIRE CORPORATION LIMITED

(Company Registration Number 198502465W)
(Incorporated in the Republic of Singapore)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“**EGM**”) of the members of Sapphire Corporation Limited (the “**Company**”) will be held by electronic means on 24 October 2020, at 2.30 p.m., for the purpose of considering and, if thought fit, passing with or without amendment, the following resolution as set out below.

*All capitalised terms used in this Notice which are not defined herein shall have the meanings ascribed to them in the circular to shareholders of the Company dated 9 October 2020 (the “**Circular**”).*

ORDINARY RESOLUTION

Approval for the Proposed Transaction

That:

- (a) approval be and is hereby given for the (i) proposed sale (“**Sale**”) by the Company’s subsidiary, Chengdu Kai Qi Rui Business Management Co., Ltd. (“**Chengdu KQR**”) of 263,237,476 shares in Ranken Railway Construction Group Co., Ltd. (“**Ranken Railway**”) amounting approximately 43.87% of the existing equity capital of Ranken Railway (or equivalent to 39.22% of the enlarged equity capital of Ranken Railway post-Proposed Transaction), to Shandong Hi-Speed Road & Bridge Investment Management Co., Ltd. (“**Investor**”) for a consideration of RMB280,000,000; and (ii) proposed issue of 71,125,048 shares of Ranken Railway to the Investor (“**Subscription**” and collectively with the Sale, the “**Proposed Transaction**”) amounting to approximately 10.6% of the enlarged equity capital of Ranken Railway post-Proposed Transaction, at a Subscription consideration of RMB75,654,172, resulting in Ranken Railway ceasing to be a subsidiary of the Company and becoming an associated company of the Group as defined under the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), on the terms and subject to the conditions of the share transfer and capital increase agreement dated 28 May 2020 entered into between Chengdu KQR and the Investor (“**Agreement**”), such Proposed Transaction being a major transaction for the purposes of Chapter 10 of the Listing Manual of the SGX-ST;
- (b) the Directors of the Company and each of them be and are hereby authorised to do all acts and things including without limitation, executing all such documents and approving amendments, alterations, modifications to any such documents as may be required or desirable in connection with this Ordinary Resolution, the Proposed Transaction and/or the Agreement) as they or he may consider desirable, expedient or necessary in the interests of the Company to give effect to the Ordinary Resolution, the Proposed Transaction and the Agreement; and
- (c) any acts, matters and things done or performed, and/or documents signed, executed, sealed or delivered by a Director in connection with the Proposed Transaction be and are hereby approved, confirmed and ratified.

BY ORDER OF THE BOARD

Gwendolyn Gn Jong Yuh
Company Secretary
Singapore, 9 October 2020

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) Printed copies of this Notice of Extraordinary General Meeting (“**Notice**”) and the Circular will not be sent to members. Instead, this Notice and the Circular may be accessed at the Company’s website at <http://sapphirecorp.listedcompany.com/home.html>. This Notice and the Circular are also available on SGXNET at <https://www.sgx.com/securities/company-announcements>.
- (2) Alternative arrangements relating to attendance at the EGM via electronic means (including arrangements by which the proceedings of the EGM may be electronically accessed via live audio-visual webcast or live audio-only stream), submission of comments, queries and/or questions to the Chairman of the Meeting in advance of the EGM, addressing of substantial and relevant questions at the EGM and voting by appointing the Chairman of the Meeting as proxy at the EGM, are set out in the Company’s accompanying announcement dated 9 October 2020. This announcement may be accessed at the Company’s website at <http://sapphirecorp.listedcompany.com/home.html>. This announcement is also available on SGXNET at <https://www.sgx.com/securities/company-announcements>.
- (3) Due to the current COVID-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, the EGM will be held by way of electronic means and members will not be able to attend the EGM in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the EGM if such member wishes to exercise his/her/its voting rights at the EGM. The Proxy Form for the EGM may be accessed at the Company’s website at the URL <http://sapphirecorp.listedcompany.com/home.html> and is also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the Proxy Form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid. CPF Investors and SRS Investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 2.30 p.m. on 15 October 2020.
- (4) The Chairman of the Meeting, acting as proxy, need not be a member of the Company.
- (5) The Proxy Form must be submitted to the Company in the following manner:
 - (a) if submitted by post, be deposited at the Share Registrar’s office at 80 Robinson Road, #11-02, Singapore 068898; or
 - (b) if submitted electronically, be submitted via email in Portable Document Format (PDF) format to the Share Registrar at sg.is.proxy@sg.tricorglobal.com,

in either case, at least 72 hours before the time fixed for holding the EGM and/or any adjournment thereof. A member who wishes to submit the Proxy Form must first download, complete and sign the Proxy Form, before submitting it by post to the address provided above, or by scanning and submitting it by way of electronic means via email to the email address provided above. In view of the current COVID-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, which may make it difficult for members to submit the completed Proxy Forms by post, members are strongly encouraged to submit the completed Proxy Forms by way of electronic means via email.

Personal Data Privacy:

By submitting the Proxy Form appointing the Chairman of the Meeting as proxy to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of the appointment of the Chairman of the Meeting as proxy for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines.

SAPPHIRE CORPORATION LIMITED

(Company Registration No. 198502465W)

(Incorporated in the Republic of Singapore)

PROXY FORM

EXTRAORDINARY GENERAL MEETING

IMPORTANT

1. For investors who have used their CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") to buy shares in the capital of Sapphire Corporation Limited, this Circular is forwarded to them at the request of their CPF Approved Nominees and/or SRS Approved Nominees (as the case may be) and is sent for their information only.
2. This Proxy Form is not valid for use by such CPF Investors or SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of EGM dated 9 October 2020.
4. CPF or SRS Investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 2.30 p.m. on 15 October 2020.

I/We* _____ (Name) _____ (NRIC/Passport No.)

of _____ (Address)
being a member/members* of SAPPHIRE CORPORATION LIMITED (the "**Company**") appoint the Chairman of the Extraordinary General Meeting of the Company ("**EGM**") as my/our* proxy to vote for me/us* on my/our* behalf and, if necessary, to demand a poll, at the EGM of the Company to be held on 24 October 2020 at 2.30 p.m. and at any adjournment thereof.

I/We* direct my/our* proxy to vote for/against* the Resolution to be passed at the EGM as indicated below by way of a poll. If no specific direction as to voting is given, my/our* proxy will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the EGM.

Ordinary Resolution	No. of votes for*	No. of votes against*
To approve the Proposed Transaction		

* If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2020

Total number of Shares held in:	No. of Shares
CDP Register	
Register of Members	

Signature(s) of Member(s) or Common Seal

*Delete accordingly

IMPORTANT: PLEASE READ NOTES OVERLEAF



NOTES:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. Due to the current COVID-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, the EGM will be held by way of electronic means and members will not be able to attend the EGM in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the EGM if such member wishes to exercise his/her/its voting rights at the EGM. The Proxy Form for the EGM may be accessed at the Company's website at the URL <http://sapphirecorp.listedcompany.com/home.html> and is also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the Proxy Form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid. CPF Investors and SRS Investors who wish to appoint the Chairman of the Meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes by 2.30 p.m. on 15 October 2020.
3. The Chairman of the Meeting, acting as proxy, need not be a member of the Company.
4. The Proxy Form must be submitted to the Company in the following manner:
 - (a) if submitted by post, be deposited at the Share Registrar's office at 80 Robinson Road, #11-02, Singapore 068898; or
 - (b) if submitted electronically, be submitted via email in Portable Document Format (PDF) format to the Share Registrar at sg.is.proxy@sg.tricorglobal.com,in either case, at least 72 hours before the time fixed for holding the EGM and/or any adjournment thereof. A member who wishes to submit the Proxy Form must first download, complete and sign the Proxy Form, before submitting it by post to the address provided above, or by scanning and submitting it by way of electronic means via email to the email address provided above. In view of the current COVID-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, which may make it difficult for members to submit the completed Proxy Forms by post, members are strongly encouraged to submit the completed Proxy Forms by way of electronic means via email.
5. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the EGM, in accordance with section 179 of the Companies Act (Chapter 50) of Singapore.
6. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.
7. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by CDP to the Company.
8. Terms not defined herein have the meanings ascribed to them in the circular to the shareholders of the Company dated 9 October 2020.
9. A Depositor's name must appear on the Depository Register maintained by CDP not less than 72 hours before the time appointed for holding the EGM in order for him to be entitled to vote at the EGM.
10. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of EGM.

