

**CIRCULAR DATED 1 AUGUST 2016**

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**If you are in any doubt as to the contents herein or as to the course of action you should take, please consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.**

If you have sold or transferred all your shares in the capital of SMRT Corporation Ltd, please forward this Circular with the Notice of Extraordinary General Meeting and the attached Proxy Form immediately to the purchaser or transferee or to the bank, stockbroker or agent through which the sale or transfer was effected for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited takes no responsibility for the accuracy of any statements made, reports contained or opinions expressed in this Circular.



**SMRT CORPORATION LTD**

(Incorporated in the Republic of Singapore)  
(Company Registration Number: 200001855H)

**CIRCULAR TO SHAREHOLDERS**

**IN RELATION TO**

**THE PROPOSED SALE OF OPERATING ASSETS  
IN CONNECTION WITH THE NEW RAIL FINANCING FRAMEWORK**

Financial Advisers in relation to the proposed sale of operating assets  
in connection with the New Rail Financing Framework



**KPMG Corporate Finance Pte Ltd**  
(Company Registration No.: 198500417D)  
(Incorporated in the Republic of Singapore)

**BofA Merrill Lynch**

**Merrill Lynch (Singapore) Pte. Ltd.**  
(Company Registration No.: 198602883D)  
(Incorporated in the Republic of Singapore)

Independent Financial Adviser in relation to the proposed sale of operating assets  
in connection with the New Rail Financing Framework



**PrimePartners Corporate Finance Pte. Ltd.**

(Company Registration No.: 200207389D)  
(Incorporated in the Republic of Singapore)

**IMPORTANT DATES AND TIMES**

|                                                |   |                                                                                                            |
|------------------------------------------------|---|------------------------------------------------------------------------------------------------------------|
| Last date and time for lodgement of Proxy Form | : | 27 September 2016 at 2.30 p.m.                                                                             |
| Date and time of Extraordinary General Meeting | : | 29 September 2016 at 2.30 p.m.                                                                             |
| Place of Extraordinary General Meeting         | : | The Star Theatre, Level 5<br>The Star Performing Arts Centre<br>1 Vista Exchange Green<br>Singapore 138617 |

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## DEFINITIONS

For the purpose of this Circular, the following definitions apply throughout unless the context otherwise requires or otherwise stated:

|                                                        |   |                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Additions”</b>                                     | : | Shall have the meaning ascribed to it in paragraph 4(b)                                                                                                                                                                                                                                                                                                                         |
| <b>“Announcement”</b>                                  | : | The Company’s SGXNET announcement on 15 July 2016 in relation to the Proposed Sale                                                                                                                                                                                                                                                                                              |
| <b>“BofA Merrill Lynch”</b>                            | : | Merrill Lynch (Singapore) Pte. Ltd.                                                                                                                                                                                                                                                                                                                                             |
| <b>“BPLRT Line”</b>                                    | : | The Bukit Panjang Light Rapid Transit System                                                                                                                                                                                                                                                                                                                                    |
| <b>“CCL Line”</b>                                      | : | The Circle Line Mass Rapid Transit System                                                                                                                                                                                                                                                                                                                                       |
| <b>“CDP”</b>                                           | : | The Central Depository (Pte) Limited                                                                                                                                                                                                                                                                                                                                            |
| <b>“Circular”</b>                                      | : | This circular to the Shareholders dated 1 August 2016                                                                                                                                                                                                                                                                                                                           |
| <b>“Class A PPE”</b>                                   | : | The Sale PPE included in the FY2015 Audited Financial Statements                                                                                                                                                                                                                                                                                                                |
| <b>“Class B PPE”</b>                                   | : | The Sale PPE which fulfil the Relevant Criteria on the Completion Date, but excluding the Class A PPE                                                                                                                                                                                                                                                                           |
| <b>“Companies Act”</b>                                 | : | The Companies Act, Chapter 50 of Singapore                                                                                                                                                                                                                                                                                                                                      |
| <b>“Company”</b>                                       | : | SMRT Corporation Ltd                                                                                                                                                                                                                                                                                                                                                            |
| <b>“Company Press Release”</b>                         | : | The Company’s Press Release on 15 July 2016 entitled “SMRT Welcomes Move to New Rail Financing Framework for its Current Lines”                                                                                                                                                                                                                                                 |
| <b>“Completion Date”</b>                               | : | 30 September 2016, or such other date as may be agreed between the SMRT Trains Entities and LTA                                                                                                                                                                                                                                                                                 |
| <b>“Consideration”</b>                                 | : | The aggregate of the WIP Consideration and the PPE Consideration                                                                                                                                                                                                                                                                                                                |
| <b>“Contracts”</b>                                     | : | Shall have the meaning ascribed to it in paragraph 2.2                                                                                                                                                                                                                                                                                                                          |
| <b>“CRFF”</b>                                          | : | Shall have the meaning ascribed to it in paragraph 3.3                                                                                                                                                                                                                                                                                                                          |
| <b>“Deeds of Surrender and Termination Agreements”</b> | : | The Deeds of Surrender executed by SMRT Trains and SMRT Light Rail respectively in favour of LTA relating to the surrender of the Existing Licences, and the Termination Agreements between LTA on the one hand and SMRT Trains and SMRT Light Rail respectively on the other relating to the termination of certain agreements entered into between the parties under the CRFF |

|                                                     |   |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <b>“Directors”</b>                                  | : | The directors of the Company as at the date of this Circular, and each a <b>“Director”</b>                                                                                                                                                                                                                                                                                                                                              |
| <b>“EBIT”</b>                                       | : | Earnings (before interest and tax)                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>“Effective Date”</b>                             | : | Shall have the meaning ascribed to it in paragraph 3.10                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>“EGM”</b>                                        | : | The extraordinary general meeting of the Company, notice of which is set out on pages 59 and 60 of this Circular                                                                                                                                                                                                                                                                                                                        |
| <b>“EPS”</b>                                        | : | Earnings per Share                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>“Estimated Completion<br/>WIP Consideration”</b> | : | Shall have the meaning ascribed to it in paragraph 5.2                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Estimated PPE<br/>Consideration”</b>            | : | Shall have the meaning ascribed to it in paragraph 5.2                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Existing Licences”</b>                          | : | Shall mean the Licence and Operating Agreements entered into by, and licence granted to, SMRT Trains and SMRT Light Rail to operate the Lines, as listed in paragraphs 3.1 and 3.2                                                                                                                                                                                                                                                      |
| <b>“Extensions”</b>                                 | : | Shall have the meaning ascribed to it in paragraph 4(b)                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>“FRS”</b>                                        | : | The Singapore Financial Reporting Standards as prescribed by the Accounting Standards Council, as may be amended from time to time by the Accounting Standards Council                                                                                                                                                                                                                                                                  |
| <b>“FY”</b>                                         | : | The financial year of the Company from 1 April to 31 March. A reference to <b>“FY”</b> followed immediately by a reference to a calendar year shall mean the financial year of the Company starting on 1 April of the immediately preceding calendar year and ending on 31 March of the relevant calendar year. By way of illustration, <b>“FY2015”</b> shall mean the financial year of the Company from 1 April 2014 to 31 March 2015 |
| <b>“FY16 PPE”</b>                                   | : | The Sale PPE which is included in the FY2016 Audited Financial Statements. For the avoidance of doubt, the FY16 PPE includes the Class A PPE                                                                                                                                                                                                                                                                                            |
| <b>“FY16 WIP”</b>                                   | : | The Sale WIP which is included in the FY2016 Audited Financial Statements                                                                                                                                                                                                                                                                                                                                                               |
| <b>“FY2015 Audited<br/>Financial Statements”</b>    | : | The audited financial statements for FY2015 of SMRT Trains or SMRT Light Rail, as the case may be                                                                                                                                                                                                                                                                                                                                       |
| <b>“FY2016 Audited<br/>Financial Statements”</b>    | : | The audited financial statements for FY2016 of SMRT Trains or SMRT Light Rail, as the case may be                                                                                                                                                                                                                                                                                                                                       |

|                                          |   |                                                                                                                                                                                                                                                              |
|------------------------------------------|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“FY2017 2Q Management Accounts”</b>   | : | The unaudited financial statements for the half year ending 30 September 2016 (i.e. from 1 April 2016 to 30 September 2016), of SMRT Trains or SMRT Light Rail, as the case may be                                                                           |
| <b>“Group”</b>                           | : | The Company and its subsidiaries                                                                                                                                                                                                                             |
| <b>“IFA Letter”</b>                      | : | The letter from PPCF to the Directors dated 15 July 2016, a copy of which is annexed in Appendix I to this Circular                                                                                                                                          |
| <b>“KPIs”</b>                            | : | Key Performance Indicators for the operating assets of the Lines                                                                                                                                                                                             |
| <b>“KPMG CF”</b>                         | : | KPMG Corporate Finance Pte Ltd                                                                                                                                                                                                                               |
| <b>“Latest Practicable Date”</b>         | : | The latest practicable date prior to the printing of this Circular, being 15 July 2016                                                                                                                                                                       |
| <b>“Lease and Maintenance Agreement”</b> | : | The Lease and Maintenance Agreement between LTA and SMRT Trains relating to the lease of land and premises (together with the structures over and under such land) in order for SMRT Trains to operate the Lines                                             |
| <b>“Lines”</b>                           | : | The NSEW Line, the CCL Line and the BPLRT Line                                                                                                                                                                                                               |
| <b>“Listing Manual”</b>                  | : | The listing manual of the SGX-ST                                                                                                                                                                                                                             |
| <b>“LTA”</b>                             | : | Land Transport Authority, established under the Land Transport Authority of Singapore Act, Chapter 158A of Singapore                                                                                                                                         |
| <b>“LTA Press Release”</b>               | : | LTA’s Press Release on 15 July 2016 entitled “SMRT Trains and SMRT Light Rail to Transit to New Rail Financing Framework: More Timely Capacity Expansion, Asset Replacement and Upgrade; New Maintenance Performance Standards to Improve Train Reliability” |
| <b>“Minister”</b>                        | : | Minister for Transport                                                                                                                                                                                                                                       |
| <b>“MPS”</b>                             | : | Maintenance Performance Standards for the operating assets of the Lines                                                                                                                                                                                      |
| <b>“Net Profits”</b>                     | : | Net profits before income tax, minority interests and extraordinary items                                                                                                                                                                                    |
| <b>“Notice of EGM”</b>                   | : | Notice of the EGM which is set out on pages 59 and 60 of this Circular                                                                                                                                                                                       |
| <b>“NRFF”</b>                            | : | Shall have the meaning ascribed to it in paragraph 1.1                                                                                                                                                                                                       |
| <b>“NRFF Licence”</b>                    | : | The new licence to be granted to SMRT Trains by LTA for the operation of the Lines as described in paragraph 3.10                                                                                                                                            |

|                                   |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“NSEW Line”</b>                | : | The North-South-East-West Mass Rapid Transit System                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>“NTA”</b>                      | : | Net tangible assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>“Operating Assets”</b>         | : | Certain assets owned by the SMRT Trains Entities which are required for the operation of the Lines, as further described in paragraphs 2.1 and 2.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>“OPS”</b>                      | : | Operating Performance Standards for the Lines                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>“paragraph”</b>                | : | Refers to a paragraph of this Circular, unless otherwise specified                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>“PPCF”</b>                     | : | PrimePartners Corporate Finance Pte. Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>“PPE”</b>                      | : | Assets categorised as “Property, Plant and Equipment” in the Company’s financial statements, excluding any WIP                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>“PPE Consideration”</b>        | : | Shall have the meaning ascribed to it in paragraph 5.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>“Proposed Sale”</b>            | : | Shall have the meaning ascribed to it in paragraph 1.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>“PTC Act”</b>                  | : | The Public Transport Council Act, Chapter 259B of Singapore                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Public Transport Council”</b> | : | The Public Transport Council established under the PTC Act                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>“Relevant Criteria”</b>        | : | <p>Certain prescribed criteria set out in the Sale and Purchase Agreements in respect of the Operating Assets, being as follows:</p> <ul style="list-style-type: none"> <li>(a) if the Operating Assets constitute movable property, they are existing and comprise wholly of ascertained goods;</li> <li>(b) there are no encumbrances over or affecting the Operating Assets; and</li> <li>(c) the relevant SMRT Trains Entity is the sole legal and beneficial owner of the Operating Assets and able to transfer and vest in LTA clean legal and beneficial title free and clear of any encumbrance,</li> </ul> <p>and in addition, in relation to the Sale WIP under the sale and purchase agreement (WIP Operating Assets) between LTA and the relevant SMRT Trains Entity:</p> <ul style="list-style-type: none"> <li>(i) such Operating Assets have not been previously purchased or paid for by LTA; and</li> </ul> |

|                                         |      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         | (ii) | (subject to certain terms of the sale and purchase agreement in relation to the Sale WIP) the relevant SMRT Trains Entity has paid the relevant supplier, vendor or manufacturer of such Operating Assets the whole price and other amounts payable for or in respect of such Operating Assets in accordance with the relevant Contract                                                                                                                                    |
| <b>"RTS Act"</b>                        | :    | The Rapid Transit Systems Act, Chapter 263A of Singapore                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>"Sale and Purchase Agreements"</b>   | :    | <p>(a) The sale and purchase agreement (Operating Assets) dated 15 July 2016 between LTA and SMRT Trains;</p> <p>(b) The sale and purchase agreement (WIP Operating Assets) dated 15 July 2016 between LTA and SMRT Trains;</p> <p>(c) The sale and purchase agreement (Operating Assets) dated 15 July 2016 between LTA and SMRT Light Rail; and</p> <p>(d) The sale and purchase agreement (WIP Operating Assets) dated 15 July 2016 between LTA and SMRT Light Rail</p> |
| <b>"Sale PPE"</b>                       | :    | PPE that the SMRT Trains Entities will sell to LTA and which LTA will buy from the SMRT Trains Entities, under the Sale and Purchase Agreements                                                                                                                                                                                                                                                                                                                            |
| <b>"Sale WIP"</b>                       | :    | WIP that the SMRT Trains Entities will sell to LTA and which LTA will buy from the SMRT Trains Entities, under the Sale and Purchase Agreements                                                                                                                                                                                                                                                                                                                            |
| <b>"Securities Account"</b>             | :    | A securities account maintained by a depositor with CDP but does not include a securities sub-account                                                                                                                                                                                                                                                                                                                                                                      |
| <b>"SEP Software Licence Agreement"</b> | :    | The SEP Software Licence Agreement between LTA and SMRT Trains pursuant to which LTA will grant SMRT Trains a licence to use various automated fare collection software                                                                                                                                                                                                                                                                                                    |
| <b>"SGX-ST"</b>                         | :    | Singapore Exchange Securities Trading Limited                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>"Share"</b>                          | :    | Ordinary share in the capital of the Company                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>"Shareholders"</b>                   | :    | Registered holders for the time being of Shares, except that where the registered holder is CDP, the term <b>"Shareholders"</b> shall, where the context admits, mean the depositors whose Securities Accounts are credited with Shares                                                                                                                                                                                                                                    |
| <b>"SMRT Light Rail"</b>                | :    | SMRT Light Rail Pte. Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>"SMRT Trains"</b>                    | :    | SMRT Trains Ltd                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

|                               |   |                                                                                          |
|-------------------------------|---|------------------------------------------------------------------------------------------|
| <b>“SMRT Trains Entities”</b> | : | Shall have the meaning ascribed to it in paragraph 1.1                                   |
| <b>“Target Revenue”</b>       | : | The projected revenue figures of SMRT Trains as determined by LTA under the NRFF Licence |
| <b>“WIP”</b>                  | : | Assets under construction or work-in-progress                                            |
| <b>“WIP Consideration”</b>    | : | Shall have the meaning ascribed to it in paragraph 5.2                                   |
| <b>“S\$” and “cents”</b>      | : | Singapore dollars and cents, respectively                                                |
| <b>“%” or “per cent.”</b>     | : | Per centum or percentage                                                                 |

The terms **“depositor”** and **“Depository Register”** shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore.

The term **“controlling shareholder”** shall have the meaning ascribed to it in the Listing Manual.

The headings in this Circular are for ease of reference only.

Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing any one gender shall, where applicable, include the other genders. References to persons shall, where applicable, include firms, corporations and other entities.

Any reference in this Circular to any enactment is a reference to that statute or enactment for the time being amended or re-enacted. Any term defined under the Companies Act or the Listing Manual or any statutory modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act or the Listing Manual or any statutory modification thereof, as the case may be, unless otherwise provided. Summaries of the provisions of any laws and regulations (including the Listing Manual) contained in this Circular are of such laws and regulations (including the Listing Manual) as at the Latest Practicable Date.

Any reference to a time of day in this Circular is made by reference to Singapore time unless otherwise stated.

Any discrepancies in this Circular between the listed amounts and the totals thereof and/or the respective percentages are due to rounding.

*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 and uncertainties. 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 does not undertake any obligation to update publicly or revise any forward-looking statements.*

**SMRT CORPORATION LTD**  
(Incorporated in the Republic of Singapore)  
(Company Registration Number: 200001855H)

**Directors:**

Mr Koh Yong Guan (Chairman)  
Mr Desmond Kuek (President and Group Chief Executive Officer)  
Mr Patrick Ang (Independent Director)  
Mr Lee Seow Hiang (Independent Director)  
Mdm Moliah Hashim (Independent Director)  
Mr Bob Tan Beng Hai (Independent Director)  
Mr Peter Tan Boon Heng (Independent Director)  
Mr Tan Ek Kia (Independent Director)  
Mr Yap Chee Meng (Independent Director)  
Mr Yap Kim Wah (Independent Director)

**Registered Office:**

251 North Bridge Road  
Singapore 179102

1 August 2016

To: The Shareholders of SMRT Corporation Ltd

Dear Sir/Madam

**PROPOSED SALE OF OPERATING ASSETS IN CONNECTION WITH THE NEW RAIL FINANCING FRAMEWORK**

**1. INTRODUCTION**

**1.1 The Proposed Sale**

On 15 July 2016, the Company released the Announcement to disclose that its wholly-owned subsidiaries, SMRT Trains and SMRT Light Rail (together, the “**SMRT Trains Entities**”, and each an “**SMRT Trains Entity**”), have entered into the Sale and Purchase Agreements with LTA on the same date. On the same date, LTA and the Company released the LTA Press Release and the Company Press Release respectively.

Under and subject to the terms of the Sale and Purchase Agreements, the SMRT Trains Entities will sell and LTA will purchase the Operating Assets (the “**Proposed Sale**”). Further details relating to the salient terms of the Proposed Sale under the Sale and Purchase Agreements are set out in paragraph 5.

The Proposed Sale is contemplated in conjunction with the Company’s transition of the Existing Licences to the new rail financing framework (“**NRFF**”). As further described in paragraph 3.9, under the NRFF, SMRT Trains will operate under an asset-light model as the LTA assumes ownership of operating assets and decides on capital expenditure.

The Proposed Sale constitutes a “Major Transaction” under Chapter 10 of the Listing Manual and is therefore subject to and conditional upon the approval of the Shareholders being obtained at the EGM.

**1.2 Purpose of this Circular**

The purpose of this Circular is to explain the reasons for, and to provide Shareholders with information relating to, the Proposed Sale, and to seek the approval of Shareholders for the Proposed Sale, tabled as an ordinary resolution set out in the Notice of EGM.

## 2. INFORMATION ON THE OPERATING ASSETS

- 2.1 The Operating Assets comprise certain operating assets (including trains (rolling stock), permanent way vehicles, signaling and communication system, power supply, supervisory control system, escalators and lifts, platform screen doors, the environmental control system and automatic fare collection system) which are required for the operation of the Lines.
- 2.2 In general, two categories of Operating Assets are being sold, being (a) WIP, and (b) PPE. Only Operating Assets which fulfil the Relevant Criteria shall be sold to LTA under the Sale and Purchase Agreements, though LTA may agree to purchase Operating Assets which do not fulfil one or more of the Relevant Criteria under the sale and purchase agreement (WIP Operating Assets) between LTA and SMRT Trains or the sale and purchase agreement (WIP Operating Assets) between LTA and SMRT Light Rail. The WIP generally comprise new operating assets which the SMRT Trains Entities have agreed to purchase under certain contracts with suppliers, vendors or manufacturers of the said assets ("**Contracts**").
- 2.3 Following the disposal of the Operating Assets, the remaining assets owned by the SMRT Trains Entities will mainly comprise spares, special tools e.g. maintenance tools, and commercial assets.

## 3. RATIONALE FOR AND BENEFITS OF THE PROPOSED SALE AND THE TRANSITION TO THE NRFF

### *The Existing Licences*

- 3.1 SMRT Trains entered into a Licence and Operating Agreement dated 1 April 1998 with LTA which gave SMRT Trains the right to operate the NSEW Line for an initial period of 30 years from 1 April 1998 to 31 March 2028, with a possible extension for a further period of 30 years. SMRT Trains also subsequently obtained a licence from LTA to operate the CCL Line for a period of 10 years from 4 May 2009 to 3 May 2019, with a possible extension for a further period of 30 years.
- 3.2 SMRT Light Rail, a wholly-owned subsidiary of SMRT Trains, entered into a Licence and Operating Agreement dated 25 October 1999 with LTA which granted SMRT Light Rail the right to operate the BPLRT Line for an initial period of 29 years from 6 November 1999 to 31 March 2028, with a possible extension for a further period of 30 years.
- 3.3 Under the Existing Licences, which were issued under the current rail financing framework ("**CRFF**") structure, the SMRT Trains Entities operate on an asset-heavy business model. While most of the operating assets for the respective lines were initially funded by LTA, the licensed entities were required to acquire the operating assets in accordance to the dates specified in the Existing Licences<sup>1</sup>. Infrastructure assets, on the other hand, are fully funded and owned by LTA.

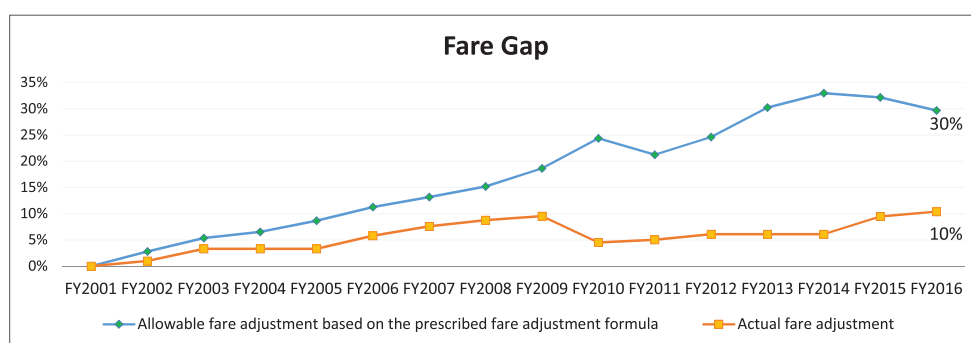
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<sup>1</sup> In respect of the NSEW Line, the licensed entity i.e. SMRT Trains acquired the operating assets in April 1998. Under the relevant Existing Licence, in respect of the CCL Line, the licensed entity i.e. SMRT Trains is obliged to acquire the operating assets on the tenth anniversary of their operation (i.e. at the earliest, in May 2019), where applicable, and in respect of the BPLRT Line, the licensed entity i.e. SMRT Light Rail is obliged to acquire the operating assets on the sixteenth anniversary of their operation (i.e. at the earliest, in October 2015; this date has since been deferred to 1 October 2016 by agreement with LTA).

- 3.4 In addition, under the CRFF, the SMRT Trains Entities are also expected to fund all additions, renewals and replacements relating to the operating assets and are also obliged to comply with changes made to the regulatory standards at their own costs during the tenure of the Existing Licences. All revenue, fare and non-fare<sup>2</sup>, generated from the respective Lines is retained by the SMRT Trains Entities for the purpose of meeting their service obligations and sustaining the Lines.

### ***Limitations and Key Challenges under the Existing Licences***

- 3.5 Heavy capital expenditure requirements related to an expanded and ageing network: Under the Existing Licences, the SMRT Trains Entities' capital commitments and depreciation charges have increased significantly over the past few years due to the expanding train fleet size to cater for higher ridership demand and the increased need for renewal and upgrade of an ageing network. These obligations are likely to continue to grow in the next five years and could reach an aggregate estimated capital expenditure spend of about S\$2.8 billion for the replacement of ageing assets in the system, takeover of CCL Line and Boon Lay Extension operating assets where applicable<sup>3</sup>, and procurement of new trains to meet service level reliability standards and to cater for an expanded network. These would collectively impose additional pressure on the SMRT Trains Entities' profitability. Assuming a useful life of 30 years was adopted for these assets, such capital expenditure would lead to additional depreciation charges of approximately S\$90 million per annum if S\$2.8 billion in operating assets were to be purchased.
- 3.6 Rising operational and maintenance-related costs to meet enhanced operating standards, with a widening fare gap: Costs relating to the maintenance and operation of the Lines have also risen as a result of the SMRT Trains Entities' commitment to ensure the reliability of the ageing rapid transit system network and provide a higher level of service to the commuting public. Additionally, in accordance with recommendations by the Public Transport Council, fares have been kept affordable for the commuting public through a series of measured fare adjustments since 2001. As a result, fares have not increased in accordance with the cumulative maximum fare allowable based on the prescribed fare adjustment formula<sup>4</sup>. The following graph sets out the actual fare adjustments implemented according to the recommendations of the Public Transport Council, and the cumulative maximum allowable fare adjustments based on the prescribed fare adjustment formula, over the period from FY2001 to FY2016:



<sup>2</sup> Non-fare revenue comprises revenue from transit advertising and rentals.

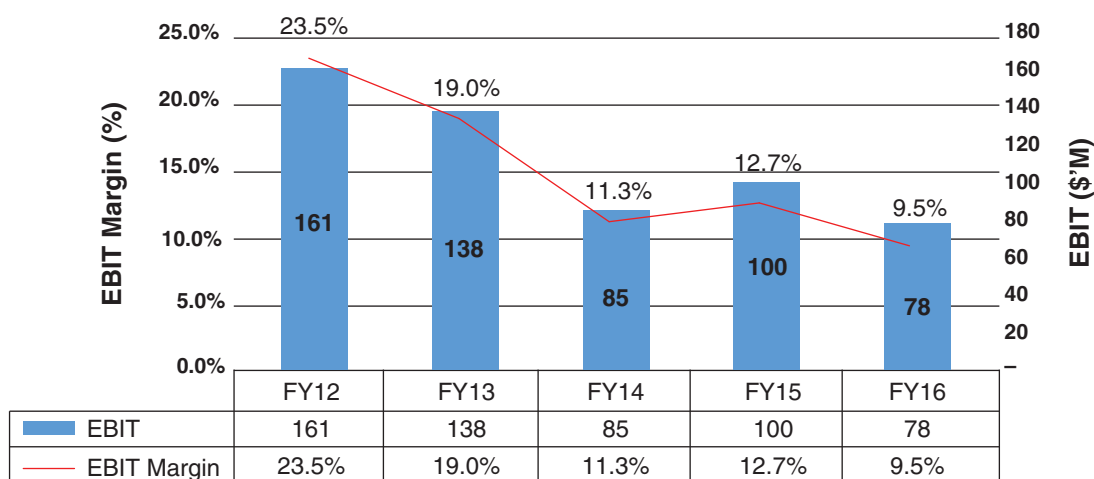
<sup>3</sup> Please refer to footnote 1 of this Circular.

<sup>4</sup> The fare adjustment formula is presently set out in the Third Schedule to the PTC Act, as amended from time to time. The current fare adjustment formula is based on the formula as published in the 2013 Fare Review Mechanism Committee Report and accepted by the Singapore government.

- 3.7 Consistent decline in profitability for the SMRT Trains Entities: This fare gap and rising operating expenses together with the increased capital commitments and hefty depreciation charges as discussed in paragraphs 3.5 and 3.6, have resulted in the decline in profitability of the SMRT Trains Entities that has adversely impacted their ability to sustainably finance the renewal and replacement of operating assets while keeping up with the provision of enhanced service levels to the commuting public.

The following graph shows the declining EBIT and EBIT margin of the rail business (fare and non-fare) of the SMRT Trains Entities on a *proforma* basis over the period from FY2012 to FY2016 under the CRFF:

**Pro forma of Historical SMRT Trains and SMRT Light Rail rail business  
(fare and non-fare)**



**Note:** the property tax savings relating to prior years have been excluded from FY2016 figures above and attributed back to the respective financial years

This trend of declining profitability is expected to persist under the CRFF as the additional capital expenditures and increased depreciation will continue to have an adverse financial impact on the earnings of the rail business. Please refer to the sensitivity analysis in Table A of Appendix II to this Circular. It can be observed from the sensitivity analysis in Table A that deviations in operating expenses and fare revenue can lead to fluctuations in margins of between -12.2% and 12.4%.

- 3.8 Although the Existing Licences have not expired, given the limitations and key challenges of the Existing Licences as described above, the Company and LTA have been in discussions since 2011 on the possibility of an early transition of the Existing Licences, which were issued under the CRFF, to the new licensing arrangement under the NRFF as described in this Circular.

#### ***The NRFF***

- 3.9 The Government announced the NRFF in 2008 to facilitate the future expansion of the rapid transit system network in a financially sustainable manner and to inject greater contestability into the rail industry. The NRFF was first implemented in 2011 for the Downtown Line (DTL) mass rapid transit system. Key features of licences granted to operators of mass rapid transit systems under the NRFF include the following:

- (a) a licence period of about 15 years;

- (b) capital investments in operating assets will be made by LTA rather than the operator. LTA will own the operating assets and thereby retain the ability and flexibility to make decisions on capital investments, undertake integrated and holistic long-term planning for the rapid transit system network, and effect the timely purchase of more assets, such as trains, to enhance carrying capacity, all in the interests of the commuting public;
- (c) the collection of a licence charge by LTA from the operators for the right to operate and maintain the rail lines, and derive revenue from them; and
- (d) the licence charge paid to LTA will be set aside in the railway sinking fund established under the Land Transport Authority Act, Chapter 158A of Singapore, which is managed and administered by LTA and is established to finance the addition, replacement and upgrades of operating assets and such other purposes set out in the said Act.

### ***NRFF Licence***

- 3.10 Subject to Shareholders' approval being obtained for the Proposed Sale at the EGM and upon completion of the Proposed Sale and transition of the Existing Licences to the NRFF, LTA will own all the operating assets of the Lines, and will, upon the surrender of the Existing Licences, grant to SMRT Trains<sup>5</sup> a single new licence (the "**NRFF Licence**"), commencing on 1 October 2016 (or such other date agreed between SMRT Trains and LTA) (the "**Effective Date**"), to operate the Lines for an initial term of 15 years. If SMRT Trains applies for an extension of the term in accordance with the terms of the NRFF Licence, the term may be extended at LTA's discretion for a further period of five years on such terms and conditions as LTA may determine and SMRT Trains may accept.

The Company has reviewed the terms of the draft NRFF Licence offered by LTA. The structure and terms of the NRFF Licence as described in this Circular are based on the draft NRFF Licence that has been offered by LTA to SMRT Trains. In brief, the NRFF Licence being offered to SMRT Trains, besides the characteristics set out in paragraphs 3.9(a) to (d), will have a licence charge which consists of a revenue share charge and other variable charges, and risk sharing mechanisms to calibrate the earnings of SMRT Trains and the licence charge payable to LTA.

### ***Key Benefits of transitioning to the NRFF***

- 3.11 As mentioned above<sup>6</sup>, under the CRFF, the continuing heavy capital expenditure obligations related to the purchases of operating assets for the Lines, including new operating assets and all additions, renewals and replacements, reside with the SMRT Train Entities. With an ageing network and heightened operating standards, operating costs have increased significantly and are expected to increase further if the SMRT Trains Entities do not transition to the NRFF, resulting in negative earnings impact and greater fluctuations in earnings for the SMRT Trains Entities. Under the NRFF, on the other hand, as all operating assets of the Lines will be owned by LTA, the depreciation charges and the capital expenditure relating to purchases of operating assets will no longer be borne by the Group. Relieved of its heavy capital expenditure obligations (which could reach an aggregate estimated capital expenditure spend of about S\$2.8 billion over the next five years including

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<sup>5</sup> SMRT Light Rail will be amalgamated with SMRT Trains, with SMRT Trains remaining as the surviving entity on completion of the amalgamation. The Proposed Sale will not affect the other businesses and assets of the Group, apart from the business and assets of the SMRT Trains Entities.

<sup>6</sup> In paragraphs 3.3, 3.4, 3.5 and 3.6.

the procurement of new trains and take-over of CCL Line and Boon Lay Extension operating assets where applicable), SMRT Trains will be better positioned to operate and maintain its rail services.

#### ***Licence charge under the NRFF***

- 3.12 Under the NRFF Licence, fare and non-fare revenue generated by SMRT Trains will be composited and be applied towards meeting SMRT Trains' operating and maintenance obligations under the NRFF Licence. SMRT Trains will pay LTA a licence charge for the right to use the operating assets and operate the Lines. The licence charge is structured to enable SMRT Trains to share with LTA the risks (and rewards) associated with uncertainties in relation to revenue from fare collection and fluctuations in operating costs. It is calibrated to take into account deviations from the Target Revenue as well as the overall earnings of SMRT Trains. Under the licence charge structure of the NRFF Licence, SMRT Trains expects to be better protected against risks relating to fluctuations in fares, ridership and operating costs. In order to ensure the long-term sustainability of the rapid transit system network, LTA is expected to undertake and share some of the operating risks with SMRT Trains, while ensuring that SMRT Trains remains incentivised to be cost-efficient and committed to meeting its service obligations.

#### ***EBIT margin under the NRFF Licence***

- 3.13 LTA has stated in the LTA Press Release that the licence charge under the NRFF Licence, which comprises fixed and variable components, has been structured by LTA to allow SMRT Trains to achieve a composite (fare and non-fare) EBIT margin of about 5%, which is similar to the margins of comparable asset-light rail operators in other jurisdictions. However, **Shareholders should note that there is no certainty that SMRT Trains will earn an EBIT margin of about 5%** under the NRFF Licence. The licence charge structure provides a revenue shortfall sharing, and a profit sharing mechanism based on a tiered EBIT cap starting at 5% and an EBIT collar at 3.5%. The calculation is sequential, with the application of the revenue collar first, followed by the profit cap and collar. Any EBIT deviations beyond the cap and collar would be shared with LTA on an asymmetrical basis, with LTA's sharing of downside risks limited to the licence charge payable for the financial year. The eventual profitability of SMRT Trains will be dependent on several factors. A summary of some of the key risk factors that are likely to, will or may affect the actual EBIT margin of SMRT Trains is set out in paragraph 4. For illustrative purposes, we have provided in Table B of Appendix II to this Circular a sensitivity analysis of the impact of fluctuations in fare revenue and operating expenses to the EBIT margin of SMRT Trains, based on its financial performance in FY2016. As an illustration:

- assuming the total fare revenue of SMRT Trains remains the same as the total fare revenue of SMRT Trains for FY2016, and operating expenses (i.e. net of other operating income) of SMRT Trains were to vary between -10% and +10%, SMRT Trains' EBIT margin for FY2016 would range between 5.7% and 2.3% respectively;
- assuming that the operating expenses (i.e. net of other operating income) of SMRT Trains continues to grow at the historical compounded annual growth rate (CAGR) for the last five financial years (i.e. FY2012 to FY2016) of 8.1%, and total fare revenue of SMRT Trains were to vary between 0% and -2%, SMRT Trains' EBIT margin for FY2016 would range between 3.1% and 2.3% respectively.

In addition, to illustrate the impact on SMRT Trains if SMRT Trains were to remain under the CRFF and incur the additional depreciation charges for the capital expenditure obligations of about S\$2.8 billion (see paragraph 3.11) under the CRFF, we have provided in Table A

of Appendix II to this Circular, a sensitivity analysis of the impact of fluctuations in fare revenue and costs (including the depreciation charges) to the EBIT margin for FY2016 of SMRT Trains for illustrative purposes.

### ***Revenue Collar***

As ridership and fares are largely beyond the control of SMRT Trains, the licence charge structure has a revenue shortfall sharing mechanism (collar) that serves to mitigate the downside revenue impact to SMRT Trains beyond a certain threshold by adjusting the licence charge payable to LTA. If the actual revenue falls short of the Target Revenue<sup>7</sup>, the shortfall between 2% and 6% will be shared equally (50% each) between SMRT Trains and LTA. LTA will bear 75% of any incremental revenue shortfall beyond 6%.

It is important to note that LTA's sharing of risks built into the licence charge formula is limited by the amount of the licence charge that SMRT Trains is required to pay to LTA. If, based on the formula, the licence charge payable is zero, LTA is not obliged to subsidise and bear a further share of the operating costs, except in the case where it has agreed to extend a grant (see paragraph 3.15).

### ***Profit Cap and Collar***

If SMRT Trains is able to generate profits above a certain threshold (EBIT margin in excess of 5%), LTA will share the upside via an asymmetrical tiered sharing arrangement (cap) incorporated in the licence charge, with a prescribed percentage of up to a maximum of 95% of the incremental EBIT margin exceeding 5%. Conversely, the risk-sharing features of the cap and collar also calibrate the licence charge payable to LTA (collar). When the overall EBIT margin falls below 3.5%, 50% of the shortfall will be borne by LTA. As mentioned in the immediately preceding sub-paragraph, LTA's sharing of these downside risks is limited to the quantum of the licence charge payable for the financial year.

### ***Licence charge summary***

In summary, the Company envisages that the licence charge structure under the NRFF will provide a more stable earnings stream for SMRT Trains in the future as compared to its earnings stream under the CRFF. Under the CRFF, the heavy capital expenditure obligations reside with the SMRT Trains Entities and with an ageing network, this has increased significantly and is expected to increase further if the SMRT Trains Entities do not transition to the NRFF, resulting in negative earnings impact and greater fluctuations in earnings for SMRT Trains.

### ***Review of licence charge***

Under the NRFF Licence, LTA may from time to time carry out a review of the licence charge, having regard to the relative viability of operating and maintaining each Line in the network of rapid transit systems and such other matters as LTA considers fit. SMRT Trains may submit written requests to LTA to undertake such review if it believes there are good reasons to do so, such as when the EBIT margin has fallen below a certain threshold, there are exogenous cost increases to SMRT Trains which are beyond the control of SMRT Trains and LTA, or there is a lag in fares relative to the maximum fare allowable under the fare adjustment formula affecting the sustainability of SMRT Trains. Any review of the licence charge is subject to LTA's discretion.

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<sup>7</sup> In order to meet the Target Revenue, the Company is of the view that fares must keep pace with the fare adjustment formula (see paragraph 3.6).

In the event that the licence charge framework is assessed by the Company to be financially unsustainable for SMRT Trains in the course of the next two years after the Effective Date, SMRT Trains will apply to LTA for a review of the licence charge.

### ***Summary of expected impact on EBIT margin of SMRT Trains***

- 3.14 In summary, SMRT Trains' profitability is expected to be more stable under the NRFF as the licence charge structure and the in-built risk-sharing features moderate the income fluctuations that SMRT Trains is exposed to under the CRFF. While the comparable EBIT margin of SMRT Trains under the NRFF would be lower (see paragraph 3.13) than the historical EBIT margins under the CRFF as shown in the graph in paragraph 3.7, the Company expects its future EBIT margins under the CRFF to come under significant pressure and be severely impacted by the increased depreciation charges (as expressed in paragraphs 3.5 and 3.11) which would result from the escalating capital expenditures.

### ***Grant from LTA***

- 3.15 LTA may, at its discretion, make grants to SMRT Trains in response to grant requests from SMRT Trains, which may be made if SMRT Trains suffers a net reduction in operating revenue or net increase in operating costs as a result of certain specified events, such as modifications of OPS, MPS, KPIs or codes of practice on or after the Effective Date, and reduction of rentable space from the amount made available as at the Effective Date for purposes of generating non-fare revenue.

However, SMRT Trains is similarly obliged, if it has a corresponding net reduction in operating costs or net increase in operating revenue, to inform LTA, in which case LTA may at its discretion adjust any grants made or require that SMRT Trains pay the amount of reduction or increase to LTA.

### ***Comparison Table between CRFF/Existing Licences and NRFF/NRFF Licence***

- 3.16 In summary, a comparison of the differences in structure and some salient terms of the CRFF/Existing Licences and the NRFF/NRFF Licence is set out in the table below.

|                       | <b>CRFF</b>                                                                                                                                                                                                         | <b>NRFF</b>                                                                                                                                 |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Operating model       | Asset-heavy operator.                                                                                                                                                                                               | Asset-light operator.                                                                                                                       |
| Infrastructure assets | Owned by LTA and maintained by the operator.                                                                                                                                                                        | Owned by LTA and maintained by the operator.                                                                                                |
| Operating assets      | After the initial period, the operating assets will be owned and maintained by the operator. The operator as the asset owner bears all costs associated with the ownership and maintenance of the operating assets. | LTA will retain ownership over the operating assets for the term of the licence; however, the operator will be responsible for maintenance. |
| Licence charge        | The operator does not pay a licence charge to LTA.                                                                                                                                                                  | The operator pays a licence charge to LTA, which will go into the railway sinking fund.                                                     |

|                       | CRFF                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | NRFF                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fare revenue risk     | Fare revenue risk is borne by the operator.                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>Under the NRFF Licence, the fare revenue risk will be shared between SMRT Trains and LTA. A revenue sharing mechanism (collar) has been determined based on the Target Revenue. If the actual revenue falls below the Target Revenue, the shortfall between 2% and 6% will be shared equally (50%) between SMRT Trains and LTA. LTA will bear 75% of any incremental revenue shortfall beyond 6%.</p> <p>LTA's sharing of risks built into the licence charge formula under the NRFF Licence is limited by the amount of the licence charge that SMRT Trains is required to pay to LTA.</p> |
| Fares and concessions | <p>Fares and concessions are dependent on the decisions and policies of the Public Transport Council and the Singapore government.</p> <p>As approved by the Public Transport Council, SMRT Trains has borne and continues to bear the cost of travel concessions for trains and buses for senior citizens, undergraduates, students, children and full time National Servicemen. The cost of concessions borne by SMRT Trains has increased over the years and amounted to about S\$60 million in FY2016.</p> | <p>Fares and concessions continue to be dependent on the decisions and policies of the Public Transport Council and the Singapore government.</p> <p>SMRT Trains will have to continue to bear the cost of existing concessions as well as new travel concessions, if so approved by the Public Transport Council.</p>                                                                                                                                                                                                                                                                         |

|                    | CRFF                                                                                                                                                                                                                                                                                                                                                                                                                                       | NRFF                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Profitability risk | No risk sharing.                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>Under the NRFF Licence, overall earnings will be calibrated through a profit cap and collar mechanism.</p> <ul style="list-style-type: none"> <li>• If the EBIT margin achieved falls below 3.5%, 50% of the shortfall will be borne by LTA. LTA's sharing of these downside risks will be limited to the quantum of the licence charge payable for the financial year.</li> <li>• Should the EBIT margin achieved exceed 5%, the excess will be shared with LTA via an asymmetrical tiered structure incorporated in the licence charge, with a prescribed percentage of up to a maximum of 95% of the incremental EBIT margin exceeding 5% to be shared with LTA.</li> </ul> |
| Tenure             | <p>Existing Licence for the NSEW Line: initial term of 30 years expiring in 2028 with possible renewal term of 30 years expiring in 2058.</p> <p>Existing Licence for the CCL Line: initial term of 10 years expiring in 2019, with possible renewal term of 30 years expiring in 2049.</p> <p>Existing Licence for the BPLRT Line: initial term of 29 years expiring in 2028 with possible renewal term of 30 years expiring in 2058.</p> | <p>The NRFF Licence is a single licence which covers the NSEWL Line, CCL Line and BPLRT Line. It will have an initial term of 15 years expiring in 2031, with the possibility of extension at LTA's discretion until 2036.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

#### 4. KEY RISK FACTORS ASSOCIATED WITH THE PROPOSED SALE AND TRANSITION TO NRFF

While SMRT Trains will use its best efforts to mitigate the key operating risks under the NRFF Licence, the Board would like to highlight to Shareholders for their consideration, some of the key risks faced by SMRT Trains and the Group under the NRFF Licence, that are likely to, will or may adversely affect the EBIT margin of SMRT Trains, and its ability to achieve EBIT margins similar to those of comparable asset-light rail operators in other jurisdictions (referred to in paragraph 3.14):

##### Asset-related Risks

##### *(a) Renewal and replacement of operating assets is at the discretion of LTA*

Under the NRFF Licence, notwithstanding paragraph 3.9(b), LTA reserves to itself the full discretion to make decisions relating to, *inter alia*, capital investments and the replacement and renewal of the operating assets. SMRT Trains will on an annual basis submit to LTA a rolling five-year forecast for the replacement or renewal of operating assets and

infrastructure; however, SMRT Trains is obliged to incorporate any changes required by LTA to the forecast prior to finalisation. Although SMRT Trains will monitor the condition of the operating assets closely and will propose to LTA when it considers that any operating assets or infrastructure needs to be replaced and/or renewed in accordance with the finalised forecast, and SMRT Trains will also, on an “ad-hoc” basis submit applications for renewal or replacement of certain operating assets or infrastructure meeting certain key criteria where necessary, LTA has the sole discretion not to approve the proposed replacements or renewals. SMRT Trains may after notification to LTA, appoint an independent consultant to provide its views on a replacement or renewal proposal, subject to mutual agreement with LTA on the appointment and terms of reference of the independent consultant, at a cost to be shared equally between LTA and SMRT Trains; however, LTA will make the final decision whether to replace or renew the operating asset or infrastructure. The maintainability, operability and reliability of the rapid transit system and the costs that SMRT Trains has to incur to operate and maintain it may be adversely affected by LTA’s decision, and by the timing and extent of LTA’s approval and LTA’s implementation of the relevant replacement or renewal. Besides translating into higher operating and maintenance costs for SMRT Trains, the reliability issues that may arise may in turn lead to possible financial penalties being imposed on SMRT Trains (also see paragraph 4(e)).

*(b) Latent defects or design issues in additions or extensions to the Lines, which LTA will not bear beyond the defects liability period*

LTA may add assets, depots, sub-stations, viaducts, tunnels, tracks and similar facilities and structures (“**Additions**”) or new rail lines or stations (“**Extensions**”) to the Lines, which SMRT Trains will have to operate under the NRFF Licence. Under the NRFF Licence, LTA has no responsibility to rectify defects in such Additions or Extensions which arise or appear after the expiry of the defects liability period provided in LTA’s contract with the relevant contractor. It follows that if there are such defects or design faults or flaws that are latent and appear only after the defects liability period has expired, or that are recurrent and systemic, SMRT Trains as the operator may incur additional operating costs to overcome or address such defects, faults or flaws. While the NRFF Licence provides that LTA may fund through the provision of grants to SMRT Trains certain replacement costs such as system wide or line wide replacement due to end of useful life, improvement to asset reliability or performance and/or unresolved widespread and pervasive obsolescence, mid-life refurbishment of trains, enhancement/upgrading to improve the performance or reliability of the Lines and/or cost efficiency, and upgrades and/or replacements due to systemic defects (affecting line wide and/or fleet wide operations) that SMRT Trains is unable to rectify, it is up to LTA to determine the funding to be provided (after consultation with SMRT Trains).

#### Regulatory Risks

*(c) Additional requirements under the NRFF Licence*

The addition of MPS and KPIs in the NRFF Licence effectively increases the number of stipulated standards and indicators that SMRT Trains will have to meet, from what the SMRT Trains Entities presently have to meet under the Existing Licences. Consequently, SMRT Trains will have to deploy additional resources to ensure that it meets and remains in compliance with these standards. As stated in the Company Press Release, to achieve the MPS, SMRT Trains will continue to employ or allocate at least 700 additional maintenance headcount or equivalent to approximately 20% increase, over the next three years (in addition to the 30% increase in technical workforce that SMRT Trains had made in the last three years), and will also continue to make further investments in service quality enhancements.

Financial penalties applicable at the relevant time may be imposed on SMRT Trains for non-compliance with the KPI or MPS after a grace period of two or three years (depending on the relevant KPI or MPS) after the Effective Date. Additionally, under the NRFF Licence, the Company is required to give a parent company guarantee to LTA in respect of the obligations of SMRT Trains to LTA under the NRFF Licence.

Further, in addition to the stipulated standards and indicators in the NRFF Licence that SMRT Trains will have to meet, LTA may at its sole discretion impose additional regulatory requirements on SMRT Trains during the tenure of the NRFF Licence. As mentioned in paragraph 3.15, SMRT Trains may apply to LTA for a grant if SMRT Trains suffers a net reduction in operating revenue or a net increase in operating costs as a result of certain additional regulatory requirements. SMRT Trains may also apply for a review of the licence charge structure under the NRFF Licence.

However, the grant and/or grant quantum (depending on the event triggering the grant request) and any review of the licence charge structure will be at LTA's discretion, and any application for grant is subject to the limitations as described in the second last sub-paragraph of paragraph 4(i).

In addition, the NRFF Licence imposes a stricter audit and assessment regime which has potential cost implications to SMRT Trains as some of the audits are at SMRT Trains' cost and additional resources may have to be deployed by SMRT Trains to cooperate with and/or facilitate the audits and/or to ensure compliance with the applicable standards.

(d) *NRFF Licence may be terminated prematurely and without compensation, or the Minister may make a railway administration order*

(i) SMRT Trains' authority to operate the Lines will be derived from the NRFF Licence. Although the term of the NRFF Licence will be for an initial period of 15 years from the Effective Date (or such other date agreed between SMRT Trains and LTA), pursuant to the RTS Act, the NRFF Licence may be suspended or cancelled prematurely by LTA under, *inter alia*, any of the following circumstances:

- if SMRT Trains contravenes or fails to comply with any of the conditions of the NRFF Licence, or is convicted of any offence under the RTS Act;
- if SMRT Trains fail to comply with any code of practice or direction given by LTA under the RTS Act; or
- if LTA is of the opinion that SMRT Trains has failed or is likely to fail to provide and maintain an adequate, safe and satisfactory service.

(ii) In addition, the RTS Act provides that the Minister may make a railway administration order on an application by LTA if the Minister is satisfied that one or more of the following grounds is satisfied in relation to SMRT Trains:

- there has been, is or is likely to be such a contravention by SMRT Trains of the NRFF Licence or the RTS Act that is serious enough to make it inappropriate for SMRT Trains to continue to hold the NRFF Licence;
- SMRT Trains is or is likely to be unable to pay its debts;
- the Minister considers it in the interest of the safety, security and continuity of the provision of railway passenger services relating to that rapid transit system; or

- the Minister otherwise considers it in the public interest.
- (iii) The RTS Act does not provide for any compensation to be paid to the licensee (i.e. SMRT Trains) in the event that a railway administration order is made in relation to it.

*(e) Penalty framework under RTS Act*

In the circumstances described in paragraph 4(d)(i), LTA also has the statutory power to impose a financial penalty on SMRT Trains. The RTS Act was amended in 2014 to impose a financial penalty in the maximum amount equivalent to the higher of S\$1 million or 10% of annual fare revenue (as defined in the RTS Act) for the last financial year for the relevant Line. The NRFF Licence sets out a set of mitigating and aggravating factors (these include, by way of example, factors such as service recovery and preventive measures undertaken by SMRT Trains and response time in undertaking recovery steps (mitigating factors), and repeated infringements of a similar type and nature attributable to SMRT Trains and active concealment of the breach (aggravating factors)) that may be taken into account by LTA in determining the quantum of any financial penalty.

Fare Revenue Risks

As with the Existing Licences, SMRT Trains, under the NRFF Licence, will derive its primary source of revenue from fares generated from passengers. The revenue risk sharing mechanism (collar) under the licence charge structure of the NRFF Licence, as described in paragraph 3.13, will serve to mitigate the downside revenue impact to a limited extent only.

*(f) Fare adjustment is subject to approval of the Public Transport Council, as are fare concessions*

Fare adjustments are a major factor in ensuring that SMRT Trains continues to generate sufficient revenue to meet future increases in operating costs.

The PTC Act provides for a fare adjustment formula that the Public Transport Council may apply to revise any bus or rapid transit system fare. The Public Transport Council is authorised under the PTC Act to, *inter alia*, regulate and approve the fares of public transport operators in Singapore. In considering any application for fare adjustments, the PTC Act provides that the Public Transport Council has a duty to take into account, *inter alia*, the need for operators of public transport to remain financially viable and for public interest to be safeguarded. In 2012, the Fare Review Mechanism Committee was set up to review fare concessions, the fare adjustment formula, and the fare mechanism to ensure that fares remain affordable for the various commuter groups, while safeguarding the long-term financial sustainability of the public transport system. In 2013, the Public Transport Council adopted the fare review framework recommended by the Fare Review Mechanism Committee to incorporate, *inter alia*, a roll-over mechanism where fare adjustments not implemented in a given year can be rolled over into the next fare adjustment exercise.

All fares and concessions are therefore dependent on the decisions and policies of the Public Transport Council, as well as the Singapore government. Actual fare adjustments have in practice lagged behind the maximum fare allowable under the fare adjustment formula set out in the PTC Act; please see paragraph 3.6.

If so approved by the Public Transport Council, SMRT Trains may have to continue to bear the cost of existing travel concessions for trains and buses for senior citizens, undergraduates, students, children and full time National Servicemen, as well as any new travel concessions that may be implemented from time to time. This will add to the operating expenses burden of SMRT Trains under the NRFF Licence.

*(g) No control over ridership growth*

Ridership volume is also a primary factor in determining SMRT Trains' revenue. Ridership growth is dependent on a myriad of factors that are primarily beyond the control of SMRT Trains, including government policy, population growth, the level of economic activity, land utility within the vicinity of the stations and the transportation mode patterns of the commuting public.

SMRT Trains does not have much control over developments that impact ridership volumes and there is no certainty as to whether any such developments will transpire or continue.

*(h) Reduction (or "Cannibalisation") of ridership by the introduction and operation of new lines to the rapid transit system network*

With increasing rail permeation as the authorities target to double the rail network by 2030, and the introduction and operation of new lines, the Lines, particularly those which operate parallel to or in the vicinity of such new lines, will experience cannibalisation. Should the Company fail to secure the right to operate these new lines in the future, the impact of these new lines on SMRT Trains' revenue may be material.

Operating Expenditure Risks

*(i) Increase in operating costs (or decrease in operating revenue) beyond SMRT Trains' control, and lack of or insufficient grant from LTA to cover the increase (or decrease)*

SMRT Trains' operating costs may increase due to factors beyond SMRT Trains' control. Based on the NRFF licence charge structure, as described in paragraph 3.13, the licence charge payable will be calibrated based on the earnings of SMRT Trains and will help to alleviate some of the increases in its operating costs. Increased costs may arise from, *inter alia*:

- (i) compliance with obligations imposed by LTA in the exercise of its powers and functions as the relevant authority under the RTS Act and under the Land Transport Authority of Singapore Act, Chapter 158A of Singapore, including:
  - the asset management requirements, KPIs and MPS as prescribed or enhanced by LTA from time to time;
  - safety standards and OPS as prescribed or enhanced by LTA from time to time;
  - any new codes of practice or modifications of existing codes of practice that may be imposed by LTA from time to time; or
  - any directions of LTA or any modifications to the NRFF Licence that LTA has wide powers under the RTS Act to make;
- (ii) any increased costs in maintenance and operations due to a delay in replacement, renewal and upgrading of Operating Assets that have reached or are close to the end of their useful lives, or where there are better, more cost-efficient options available.

Under the NRFF Licence, as stated in paragraphs 3.9(b) and 4(a), capital investments will be made by LTA rather than SMRT Trains, and while SMRT Trains will provide its views to LTA on the timing for replacement or renewal of Operating Assets, LTA will, in its sole discretion, decide on the timing for the actual replacement or renewal of Operating Assets;

- (iii) an ageing network, which will require more resources from SMRT Trains in order to comply with the high performance standards under the NRFF Licence that will be increasingly difficult to meet as the network ages. SMRT Trains will need to focus on delivering on existing and new multi-year programmes, including the need to deliver a higher order of rail reliability and service in line with the heightened MPS, and to reinforce its core engineering capabilities, by increasing maintenance headcount, deepening the skillset of its engineering personnel, enhancing commuter experience through further development and training of service staff to boost service quality, implementing additional condition monitoring tools to enhance rail reliability; and continuing to develop a best-in-class asset management system to recommend timely renewal of assets;
- (iv) the increased need for greater system integration and inter-operability evaluations and tests, in line with design and quality specifications, to ensure that the train passenger service network is able to seamlessly accept all concurrent multiple, large-scale capital asset replacement and renewal programs;
- (v) any increased costs arising from mandatory employee benefits or a tightening of the foreign manpower supply based on prevailing policies imposed by the Singapore government;
- (vi) future inflation affecting the cost of operating the business such as increased energy or maintenance costs; and
- (vii) any change in Singapore government fiscal or other policies that affect transport operations.

In addition, SMRT Trains' operating revenue may decrease due to factors beyond SMRT Trains' control, such as the factors listed in paragraphs 4(f), (g) and (h), modifications of the existing codes of practice issued by LTA from time to time, or reduction in the amount of rentable area (including advertising spaces and/or mediums such as walls and information panels) available for use by SMRT Trains to generate commercial or non-fare revenue.

The revenue risk sharing mechanism (collar) under the licence charge structure of the NRFF Licence, as described in paragraph 3.13, will serve to mitigate the downside revenue impact to a limited extent only.

In the cases contemplated in the letter of agreement relating to the grant arrangement between LTA and SMRT Trains, SMRT Trains may apply for a grant from LTA to cover a net increase in its operating costs or net reduction in operating revenue resulting from the above changes. However, even if an application may be made for a grant, a grant may not be forthcoming, as the grant is applicable only in the limited circumstances in which there is a net increase in operating costs or net decrease in operating revenue, SMRT Trains may not fulfill the conditions required to be met for a grant request to be made or to support a grant request to LTA, and in any case, the making and/or quantum (depending on the event triggering the grant request) of any such grant is at LTA's sole discretion. In addition, LTA may terminate the letter relating to the grant arrangement in the event that SMRT Trains commits any breach (which is not limited to material breaches) of any of its terms and fails to remedy the same within the applicable period, in which case SMRT Trains will no longer

be entitled to make a grant request when it suffers a net increase in operating costs or net reduction in operating revenue for any reason. The letter of agreement relating to the grant arrangement also provides that questions, differences or disputes which cannot be resolved between LTA and SMRT Trains may be referred to the Minister for Transport by the parties, and if the Minister decides not to assist, the Chief Executive of LTA will make a determination. In either case, the letter of agreement provides that the determination of the Minister or the Chief Executive of LTA is final and binding on SMRT Trains. The Minister's decision on the question, difference or dispute is also expressly stated as not subject to appeal or review before any court or tribunal. The foregoing will have an adverse impact on the profitability of SMRT Trains as SMRT Trains will either have to incur operating cost increases or face a reduction in revenue as a result of these changes.

While SMRT Trains may apply for a review of the licence charge structure under the NRFF Licence upon the occurrence of the events set out in the last two sub-paragraphs of paragraph 3.13, such review is subject to LTA's discretion.

*(j) Short supply of fit-for-purpose skilled labour in Singapore*

SMRT Trains is dependent on its skilled and dedicated employees to manage, operate and maintain the Lines. Without a ready pool of talent in rail operations and maintenance and, as SMRT Trains is not the sole operator of a rapid transit system in Singapore, it competes to recruit and retain such specialist employees. It may need to invest in training new talent in Singapore or upskilling existing employees, or attracting new employees with specific skill sets to meet the requirements. These will inevitably have an impact on staff costs. Only some of the downside impact will be mitigated by the profit cap and collar mechanism incorporated into the formula for the licence charge payable to LTA as described in paragraph 3.13.

Other Revenue Risks

*(k) Non-Fare Revenue is subject to ridership and market forces*

The second biggest source of revenue for SMRT Trains after fares is non-fare revenue generated by the leasing of commercial and media spaces within the network (for example, on walls, doors and screens in the stations and on trains). Such non-fare revenue is subject to commercial and other entities continuing to have interest in leasing such space from SMRT Trains at positive rates for SMRT Trains. Macro-economic factors such as Singapore's economy (which in turn is impacted by the global and regional economies) and ridership may have a material negative impact on the marketability of the commercial and media spaces that SMRT Trains has available to lease out and the rentals and fees that they can command, the ability of the lessees and licensees of such spaces to pay their rentals and fees in a timely manner or continuing their contracts with SMRT Trains thus affecting SMRT Trains' cash flow, and a change in the shopping behaviour of commuters and customers.

## Conclusion

Although the risks that may impact SMRT Trains' profitability remain significant under the NRFF, most of those risks also apply in the case of the CRFF. However, the NRFF will provide a measure of risk mitigation and earnings stability that SMRT Trains presently does not have under the CRFF. The licence charge is structured such that there is a risk sharing mechanism with LTA in-built into the licence charge formula. While, under the RTS Act, LTA has the discretion to modify the licence terms and issue or modify codes of practice, this has also been the case under the CRFF; however, under the NRFF, SMRT Trains may apply for a grant from LTA (given at LTA's discretion) to cover a net increase in its operating costs or net reduction in operating revenue that may result from some of those changes (see paragraph 4(i)). Overall, the regulatory, financial and operating risks for SMRT Trains would be reduced under the NRFF as compared to the CRFF for the reasons stated above.

## **5. SALIENT TERMS OF THE PROPOSED SALE**

The key terms of the Proposed Sale, as set out in the Sale and Purchase Agreements, are as follows:

### **5.1 Condition Precedent and Completion Deliverables**

The sale and purchase of the Operating Assets under the Sale and Purchase Agreements are conditional upon the following taking place on or before the Completion Date:

- (a) Shareholders' approval of the sale of the Operating Assets to LTA under the Sale and Purchase Agreements being obtained;
- (b) the SMRT Trains Entities having surrendered the Existing Licences to LTA in such manner as LTA may reasonably require, with effect from the Effective Date, in exchange for the issuance of the NRFF Licence by LTA to SMRT Trains with effect from the Effective Date, on terms as accepted by SMRT Trains;
- (c) the execution of the following documents in connection with the implementation of the NRFF:
  - the Sale and Purchase Agreements;
  - the letter of agreement relating to the grant arrangement between LTA and SMRT Trains;
  - the Lease and Maintenance Agreement;
  - the SEP Software Licence Agreement;
  - the Deeds of Surrender and Termination Agreements; and
- (d) the SMRT Trains Entities obtaining all the necessary corporate and shareholder approvals required for the transfer of the Operating Assets to LTA under the Sale and Purchase Agreements.

If any of the conditions set out in paragraphs 5.1(a) to (d) is not satisfied on or before the Completion Date, the Sale and Purchase Agreements, apart from limited specified surviving clauses, shall lapse and be of no effect, and none of the parties shall have any right or obligation pursuant to or arising from each such provision, or any claim against the other party in respect of such provision.

The sale of the Sale PPE and Sale WIP by the SMRT Trains Entities to LTA will be effected by the SMRT Trains Entities executing bills of sale in favour of LTA in respect of the Sale PPE and Sale WIP.

## 5.2 Consideration for the Proposed Sale

### ***Sale PPE***

The consideration payable by LTA for the acquisition of the Sale PPE from the SMRT Trains Entities under the Sale and Purchase Agreements (the “**PPE Consideration**”) is the net book value of each of the Sale PPE as at the Completion Date<sup>8</sup>.

The SMRT Trains Entities shall, no later than 60 days after the Completion Date, provide LTA with an asset schedule listing, *inter alia*, each of the Sale PPE sold to LTA and the net book value of each of the Sale PPE as at the Completion Date as described in the immediately preceding sub-paragraph. The asset schedule shall be finalised by the SMRT Trains Entities and LTA and the PPE Consideration shall be derived therefrom.

The estimated PPE Consideration (“**Estimated PPE Consideration**”), being in aggregate approximately S\$577 million, comprises the sum of the estimated net book value of the:

- (a) Class A PPE of approximately S\$483 million; and
- (b) Class B PPE of approximately S\$94 million<sup>9</sup>.

The PPE Consideration is subject to finalisation by reference to the finalised asset schedule as described above. The PPE Consideration and the SMRT Trains Entities’ entitlement to receive and retain the same are also subject to:

- LTA’s condition survey of the Sale PPE sold to LTA against technical, functional standards and/or specifications (including any visual or physical specifications) with respect to each category of the Sale PPE, set out in a condition index formulated and/or determined by LTA after consultation with the SMRT Trains Entities, which takes into account the age (with fair wear and tear) of each of the Sale PPE; and

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<sup>8</sup> The net book value of each of the Sale PPE as at the Completion Date shall have been depreciated in accordance with FRS, and based on which, the net book value of such Sale PPE, as incorporated into or taken into account in the preparation of the FY2017 2Q Management Accounts, shall have been derived, less (in the case of the sale and purchase agreement (Operating Assets) entered into by SMRT Trains) any unamortised grants in respect of the Sale PPE (received when the relevant Sale PPE was purchased in 1998) as at the Completion Date.

<sup>9</sup> The Estimated PPE Consideration has been estimated based on the projected net book value of such Sale PPE at the Completion Date, taking into consideration their net book value as stated in the FY2016 Audited Financial Statements, where applicable, with a projected depreciation to the Completion Date applying the same basis of depreciation applied for the FY2016 Audited Financial Statements.

- repair or remedy of non-conforming Sale PPE to conform to the requirements of the condition index (taking into account the age (with fair wear and tear) and the replacement and/or renewal of such non-conforming operating asset by LTA (taking into account SMRT Trains' proposed forecast for the replacement and/or renewal of the operating assets required for the operation of the Lines prepared pursuant to the NRFF Licence)), or replacement of such non-conforming Sale PPE, in each case to LTA's reasonable satisfaction/acceptance, or payment of the net book value of the non-conforming Sale PPE, as specified in the relevant sale and purchase agreement (Operating Assets) by the relevant SMRT Trains Entity.

The PPE Consideration is payable entirely in cash in the following instalments:

- (a) approximately S\$384 million, comprising the sum of 60% of the Estimated PPE Consideration for the Class A PPE, and 100% of the Estimated PPE Consideration for the Class B PPE, shall be payable by LTA within 14 days of the Effective Date; and
- (b) the remaining PPE Consideration shall be payable by LTA based on the following payment schedule, or as and when the relevant phase of LTA's condition survey is completed, whichever is the earlier:
  - (i) 15% of the PPE Consideration for the Class A PPE on the first anniversary of the Effective Date (together with adjustment amounts to take into account the Estimated PPE Consideration previously paid (as referred to in paragraph 5.2(a)));
  - (ii) 15% of the PPE Consideration for the Class A PPE, on the second anniversary of the Effective Date; and
  - (iii) the remaining 10% of the PPE Consideration for the Class A PPE, on the third anniversary of the Effective Date,

provided that LTA shall be entitled to withhold certain payment amounts pending repair or replacement of non-conforming Sale PPE, as well as, in connection with the last payment referred to in paragraph 5.2(b)(iii), an amount equivalent to the highest of the following: 3% of the PPE Consideration for the Class A PPE, the sum of the net book value of any non-conforming Sale PPE and the net book value of any Sale PPE which has not been surveyed by LTA, and a proportion based on a prescribed formula<sup>10</sup> of the remaining unpaid PPE Consideration for the Class A PPE. The last payment (except for the net book value of any remaining non-conforming Sale PPE) shall be released by LTA on or before six months after the third anniversary of the Completion Date, even if LTA has not completed the last phase of its condition survey, save where such non-completion is caused by the relevant SMRT Trains Entity's act or omission.

### ***Sale WIP***

The consideration payable by LTA for the Sale WIP ("**WIP Consideration**") is also based on the net book value of the Sale WIP, or, where the Sale WIP has not yet been capitalised in the books of account of the SMRT Trains Entities, the price paid by the SMRT Trains Entities for the Sale WIP under the Contracts.

<sup>10</sup> The sum of the total number of non-conforming Sale PPE and the Sale PPE which have not yet been surveyed by LTA, divided by the total number of Sale PPE to be surveyed in the last phase of the condition survey, multiplied by 10% of the PPE Consideration for the Class A PPE.

The WIP Consideration is payable entirely in cash, and the quantum and timing of payment thereof is not fixed, being subject to the SMRT Trains Entities finalising with LTA a schedule of the Sale WIP (which will include the re-signaling and trains upgrades) to be transferred to LTA on a six-monthly basis up to 30 September 2017 and three-monthly basis thereafter, with the first transfer to take place on the Effective Date, as and when the Relevant Criteria are met. The SMRT Trains Entities and LTA will finalise the list of Sale WIP to be transferred to LTA on the Effective Date, in consideration of which the SMRT Trains Entities will receive the sum of approximately S\$413 million (the “**Estimated Completion WIP Consideration**”) within 14 days of the Effective Date.

The Sale and Purchase Agreements also provide for cases where not all of the Relevant Criteria are met, where LTA may, at its discretion, notwithstanding that the Relevant Criteria have not fully been met, accede to a request from the SMRT Trains Entities to purchase the Sale WIP and/or fund the SMRT Trains Entities’ payment obligations relating thereto.

The Consideration payable by LTA to the SMRT Trains Entities (and reflected in this Circular) is exclusive of any goods and services tax which may be imposed on, or charged in connection with, the sale and purchase of the Operating Assets. LTA shall bear and pay all goods and services tax imposed or levied in respect of its purchase of the Operating Assets.

***Factors taken into consideration in arriving at the Consideration***

The Consideration was arrived at between the SMRT Trains Entities and LTA, taking into account, amongst other things, (A) the acquisition of the Operating Assets of the NSEW Line by SMRT Trains from LTA in 1998 at the net book value of such Operating Assets, with five equal interest-free annual instalment payments, (B) the acquisition of subsequent additional Operating Assets in accordance with the specified dates in the Existing Licences at the net book value of such Operating Assets, and (C) each SMRT Trains Entity’s obligation under the relevant Existing Licences to transfer the operating assets of the Lines to LTA at the net book value of such operating assets upon the termination of the Existing Licence.

***Table summarising schedule of payment of PPE Consideration and WIP Consideration***

The following table summarises the timing and quantum of payment of the Consideration, and should be read together with the rest of paragraph 5, in particular, paragraph 5.2.

|                          | <b>Within 14 days from the Effective Date</b>                                                                                                                  | <b>On first anniversary of Effective Date</b>                                                                                                                                           | <b>On second anniversary of Effective Date</b>   | <b>On third anniversary of Effective Date</b>    |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| <b>PPE Consideration</b> | Approximately S\$384 million, being 60% of the Estimated PPE Consideration for the Class A PPE and 100% of the Estimated PPE Consideration for the Class B PPE | 15% of the PPE Consideration for the Class A PPE                                                                                                                                        | 15% of the PPE Consideration for the Class A PPE | 10% of the PPE Consideration for the Class A PPE |
| <b>WIP Consideration</b> | Approximately S\$413 million being the Estimated Completion WIP Consideration                                                                                  | Subsequent payments of WIP Consideration dependent on transfer of Sale WIP (to be transferred to LTA on a six-monthly basis up to 30 September 2017 and three-monthly basis thereafter) |                                                  |                                                  |

### 5.3 Condition of the Operating Assets

Subject to paragraph 5.2 and to certain warranties set out in the Sale and Purchase Agreements, the Operating Assets will be transferred on an “as is, where is” basis. Title to the Sale PPE will pass from the SMRT Trains Entities to LTA on the Effective Date. Title to the Sale WIP will be transferred to LTA on a six-monthly or three-monthly basis, as set out in paragraph 5.2. All Operating Assets will be and remain in the possession and control of SMRT Trains to be deployed for operation under the NRFF Licence.

### 5.4 Licence of certain data and treatment of licence agreements

The sale and purchase agreements (WIP Operating Assets) between LTA on the one hand and the SMRT Trains Entities respectively on the other provide for a licence to LTA of certain data files created by or on behalf of the SMRT Trains Entities in connection with the operation, support and maintenance of the Lines. Where possible, the relevant SMRT Trains Entity (or its subsidiary) will also work with LTA to effect transfers of licence arrangements (relating to works previously licensed to the SMRT Trains Entities or their subsidiaries which are furnished by the original manufacturers of the Sale PPE and Sale WIP or which are necessary for their control or operation in day-to-day operational use, and for their maintenance) and for LTA to license the works back to SMRT Trains.

## 6. **INTENDED USE OF PROCEEDS**

As at 30 September 2016, the Group’s total debt is expected to be approximately S\$762 million. The Company does not intend to use the proceeds from the Proposed Sale to pay a special dividend to Shareholders. The Company will instead exercise prudence by using a substantial part of the net proceeds from the Proposed Sale to retire part of its existing debt, a portion of which was used to fund investments in its rail operating assets, for better management of the Company’s capital structure in order to meet its business objectives. The Company also plans to invest the remaining proceeds in the strengthening and further development of its rail engineering core competencies which it sees as critical for the future growth of the Group, so as to enhance long-term shareholder value.

In addition, the Group will also be required to pay the Inland Revenue Authority of Singapore the amount of approximately S\$159 million as a tax payable on the difference between the sales proceeds and the residual capital allowances relating to the Operating Assets.

## 7. **FINANCIAL EFFECTS OF THE PROPOSED SALE AND THE NRFF**

As the Consideration is based on the net book value of the Operating Assets, there will be a negligible gain on disposal (less than 1% of the aggregate Consideration) arising as a result of the treatment under FRS of a Contract that was entered into by one of the other subsidiaries of the Company with SMRT Trains.

The net tangible asset value of the FY16 PPE and FY16 WIP\* as at 31 March 2016, based on the audited consolidated financial statements of the Group for FY2016, was S\$902.29 million.

\* *The Company has made this disclosure with reference to the FY16 PPE and FY16 WIP as these are based on the FY2016 Audited Financial Statements, being the latest available audited financial statements of the Group. The Company would like to highlight that the Sale PPE and Sale WIP and the overall quantum of the Consideration are subject to finalisation. Please refer to paragraph 5.2 for more information.*

## **EPS**

The Company considers that it is not meaningful to disclose the effect of the Proposed Sale on the EPS of the Company for FY2016, being the most recently completed financial year of the Company for which consolidated audited accounts are available, assuming that the Proposed Sale had been effected on 1 April 2015, being the first day of that financial year, as provided under Rule 1010(9) of the Listing Manual. This is because it is not meaningful to take into account the EPS impact of the Proposed Sale without factoring in the effects of the NRFF Licence (for such effects, please refer to paragraphs 3.5 to 3.15, and for the differences between the Existing Licences and the New Licence, please see the table in paragraph 3.16). It is also not meaningful to factor in both the NRFF Licence and the Proposed Sale in the EPS impact on FY2016, because the Company's rail operating expenditure and cost structure during FY2016 was vastly different, both from the Company's rail operating expenditure and cost structure from the expected operating expenditure and cost structure thereafter under the Existing Licences.

## **NTA**

Had the Proposed Sale been effected on 31 March 2016, being the last day of FY2016, the Group's NTA per Share would see a change of less than 1% as at 31 March 2016, as shown below:

| <b>NTA per Share as at 31 March 2016<br/>(audited)</b> | <b>NTA per Share as at 31 March 2016<br/>(assuming the Proposed Sale had been<br/>effected on 31 March 2016)</b> |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| 59.21 cents <sup>(1)</sup>                             | 59.44 cents <sup>(2)(3)</sup>                                                                                    |

### **Notes:**

- (1) Based on the Group's NTA as at 31 March 2016 of approximately S\$902.29 million, divided by 1,523,851,896 Shares.
- (2) Based on the Group's NTA as at 31 March 2016 (assuming the Proposed Sale had been effected on 31 March 2016) of approximately S\$905.72 million, divided by 1,523,851,896 Shares.
- (3) The Company has made this disclosure with reference to the FY16 PPE and FY16 WIP as these are based on the FY2016 Audited Financial Statements, being the latest available audited financial statements of the Group. The Company would like to highlight that the Sale PPE and Sale WIP and the overall quantum of the Consideration are subject to finalisation. Please refer to paragraph 5.2 for more information.

## **8. RELATIVE FIGURES OF THE PROPOSED SALE UNDER CHAPTER 10 OF THE LISTING MANUAL**

Under Chapter 10 of the Listing Manual (which governs acquisitions and realisations), where any of the relative figures of an asset purchase or asset sale transaction, computed on the bases in Rule 1006 of the Listing Manual exceeds 20%, that transaction is classified as a "Major Transaction" and shall be subject to shareholders' approval.

The relative figures for the Proposed Sale computed on the bases set out in Rule 1006 of the Listing Manual, based on the audited consolidated financial statements of the Group for FY2016, are set out below:

| <b>Rule 1006</b> | <b>Bases</b>                                                                                                                                                | <b>Relative Figures (%)</b> |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| (a)              | Net asset value of the FY16 PPE and FY16 WIP, compared with the Group's net asset value, as at 31 March 2016 <sup>(1)</sup>                                 | 92.93%                      |
| (b)              | Net Profits attributable to the Operating Assets compared with the Group's Net Profits, in each case for FY2016 <sup>(2)</sup>                              | Not meaningful              |
| (c)              | Aggregate value of the Consideration compared with the market capitalisation of the Company as at 14 July 2016 <sup>(3)</sup>                               | 42.11%                      |
| (d)              | Number of equity securities issued by the Company as consideration for the Proposed Sale, compared with the number of equity securities previously in issue | Not applicable              |
| (e)              | 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       | Not applicable              |

**Notes:**

- (1) Based on the net asset value of the FY16 PPE and FY16 WIP as at 31 March 2016 of approximately S\$851 million, divided by the Group's net asset value as at 31 March 2016 of approximately S\$915.90 million. The Company would like to highlight that the Sale PPE and Sale WIP are subject to finalisation. Please refer to paragraph 5.2 for more information.
- (2) Not meaningful because SMRT Trains as the operator under the NRFF Licence will continue to have possession and control of the Operating Assets even after the Proposed Sale, for purposes of the operation of the Lines, and will continue to derive revenue therefrom.
- (3) Based on the Estimated PPE Consideration and Estimated Completion WIP Consideration amounting to approximately S\$991 million, divided by the market capitalisation of the Company of approximately S\$2,351.94 million (based on the weighted average price of the Shares transacted on 14 July 2016, being the market day immediately preceding the date of the Sale and Purchase Agreements, and excluding treasury shares). Due to a technological issue, all shares (including the Shares) were halted from trading from 11:38 am till the end of the day on 14 July 2016.

Having regard to the above, the Proposed Sale constitutes a "Major Transaction" under Rule 1014 of the Listing Manual and accordingly, the Company is convening the EGM to seek the approval of Shareholders for the Proposed Sale.

## **9. INDEPENDENT FINANCIAL ADVISER AND FINANCIAL ADVISERS**

The Directors have appointed PPCF as the independent financial adviser to provide an opinion on whether the terms of the Proposed Sale are fair and reasonable. Having carefully considered the information that has been made available to it, and on the basis of the considerations set out in the IFA Letter, PPCF is of the view that the terms of the Proposed Sale are fair and reasonable.

A copy of the IFA Letter, setting out PPCF's opinion in full, is annexed in Appendix I to this Circular.

Separately, KPMG CF and BofA Merrill Lynch acted as the financial advisers to the Company in relation to the Company's transition to the NRFF.

## **10. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS**

As at the Latest Practicable Date, none of the Directors, and to the best of the Directors' knowledge, none of the controlling shareholders of the Company, has any interest, direct or indirect, other than as Shareholders, in the Proposed Sale.

## **11. DIRECTORS' SERVICE CONTRACTS**

No person is proposed to be appointed as a director of the Company or of the SMRT Trains Entities in connection with the Proposed Sale. Accordingly, no service contract is proposed to be entered into by the Company or the SMRT Trains Entities in connection with the Proposed Sale.

## **12. DIRECTORS' RECOMMENDATIONS**

Taking into consideration, *inter alia*, the challenges and unsustainability of the CRFF along with the rationale for and benefits of the Proposed Sale and transition to the NRFF as set out in paragraph 3, as well as the opinion of PPCF set out in the IFA Letter, the Directors are of the opinion that the Proposed Sale is in the interests of the Company. Accordingly, they recommend that Shareholders vote in favour of the resolution relating to the Proposed Sale (as set out in the Notice of EGM) at the EGM.

## **13. EXTRAORDINARY GENERAL MEETING**

The EGM, notice of which is set out on pages 59 and 60 of this Circular, will be convened and held on 29 September 2016 at 2.30 p.m. at The Star Theatre, Level 5, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617 for the purpose of considering and, if thought fit, passing with or without any modifications, the ordinary resolution to approve the Proposed Sale as set out in this Circular.

## **14. ACTION TO BE TAKEN BY SHAREHOLDERS**

Shareholders will find enclosed with this Circular, the Notice of the EGM and a Proxy Form.

### **14.1 Appointment of Proxies**

Shareholders who are unable to attend the EGM and who wish to appoint a proxy or proxies to attend and vote at the EGM on their behalf are requested to complete, sign and return the Proxy Form enclosed in this Circular in accordance with the instructions printed thereon as soon as possible and, in any event, so as to arrive at the office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, no later than 48 hours before the time fixed for the EGM. The sending of a Proxy Form by a Shareholder does not preclude him from attending and voting in person at the EGM if he finds that he is able to do so. In such event, the relevant Proxy Forms will be deemed to be revoked and the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the EGM.

#### **14.2 When depositor regarded as Shareholder**

A depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless his name appears on the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by CDP to the Company.

#### **15. 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 Sale, 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.

#### **16. FINANCIAL ADVISERS' RESPONSIBILITY STATEMENTS**

- 16.1 To the best of KPMG CF's knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Sale, the Company and its subsidiaries, and KPMG CF is not aware of any facts the omission of which would make any statement in this Circular misleading.
- 16.2 To the best of BofA Merrill Lynch's knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Sale, the Company and its subsidiaries, and BofA Merrill Lynch is not aware of any facts the omission of which would make any statement in this Circular misleading.

#### **17. PPCF'S CONSENT**

PPCF has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the letter dated 15 July 2016 from PPCF to the Directors (reproduced in Appendix I to this Circular) and all references thereto, in the form and context in which they appear in this Circular.

#### **18. FINANCIAL ADVISERS' CONSENTS**

KPMG CF and BofA Merrill Lynch have each given and have not withdrawn their respective written consents to the issue of this Circular with the inclusion of their respective names and all references thereto, in the form and context in which they appear in this Circular.

#### **19. DOCUMENTS FOR INSPECTION**

A copy of each of the following documents will be available for inspection at the Company's registered office at 251 North Bridge Road, Singapore 179102 by prior arrangement during normal business hours for a period of three months from the date of the Announcement:

- (a) the Sale and Purchase Agreements;
- (b) the constitution of the Company;
- (c) the annual report of the Company for FY2016; and

- (d) PPCF's, KPMG CF's and BofA Merrill Lynch's consent letters as referred to in paragraphs 17 and 18.

Yours faithfully

For and on behalf of the Board of Directors of  
**SMRT CORPORATION LTD**

Mr Koh Yong Guan  
Chairman

APPENDIX I  
LETTER FROM PPCF TO THE DIRECTORS



LETTER OF ADVICE FROM PRIMEPARTNERS CORPORATE FINANCE PTE. LTD.  
TO THE DIRECTORS

PRIMEPARTNERS CORPORATE FINANCE PTE. LTD.  
16 Collyer Quay  
#10-00 Income at Raffles  
Singapore 049318

15 July 2016

To: The Directors of SMRT Corporation Ltd

Dear Sir/Madam

**INDEPENDENT FINANCIAL ADVICE TO THE DIRECTORS OF SMRT CORPORATION LTD ("SMRT" OR THE "COMPANY") IN RESPECT OF THE PROPOSED SALE OF OPERATING ASSETS BY SMRT TRAINS LTD AND SMRT LIGHT RAIL PTE. LTD. TO THE LAND TRANSPORT AUTHORITY OF SINGAPORE ("LTA") IN CONNECTION WITH THE NEW RAIL FINANCING FRAMEWORK (THE "PROPOSED SALE")**

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*For the purpose of this letter, capitalised terms not otherwise defined shall have the same meaning given to them in the announcement released by the Company on 15 July 2016 in relation to the Proposed Sale (the "Announcement").*

**1. INTRODUCTION**

SMRT Trains Ltd and SMRT Light Rail Pte. Ltd. (together, the "**SMRT Trains Entities**", and each an "**SMRT Trains Entity**"), the wholly-owned subsidiaries of the Company (collectively referred to as the "**Group**"), currently hold the Existing Licences with LTA which give the SMRT Trains Entities the right to operate the North-South-East-West Mass Rapid Transit System ("**NSEW Line**"), the Circle Line Mass Rapid Transit System ("**CCL Line**") and the Bukit Panjang Light Rapid Transit System ("**BPLRT Line**"). Under the Existing Licences, which were issued under the current rail financing framework ("**CRFF**") structure, the SMRT Trains Entities operate on an asset-heavy business model, where the operating assets for the respective lines were initially funded by LTA, with an obligation by the licenced entities to acquire the operating assets in accordance to the dates specified in the Existing Licences. Infrastructural assets, on the other hand, are fully funded and owned by LTA.

In 2008, LTA announced the new rail financing framework ("**NRFF**"), which mainly features a shorter licence period, ownership of operating assets by LTA and collection of a licence charge by LTA, in order to facilitate the future expansion of the rapid transit system network in a financially sustainable manner and to inject greater contestability into the rail industry. The first licence under the NRFF was subsequently awarded by the LTA in 2011 for the operation of the Downtown Line.

The Proposed Sale was contemplated in light of the transition of the Existing Licences to the NRFF which will see the SMRT Trains Entities operate under an asset-light model as the LTA assumes ownership over the operating assets and oversees capital expenditure in operating assets required moving ahead.

On 15 July 2016, LTA issued a press release (the "**LTA Press Release**") and the Company announced that the SMRT Trains Entities have entered into sale and purchase agreements with LTA on the same date (the "**Sale and Purchase Agreements**") in connection with the NRFF. Under the terms of the Sale and Purchase Agreements, the SMRT Trains Entities will sell and LTA will purchase certain operating assets (the "**Operating Assets**") owned by the SMRT Trains Entities. The Operating Assets comprise certain operating assets (including trains (rolling stock), permanent way vehicles, signalling and communication system, power supply, supervisory control system, escalators and lifts, platform screen doors, the environmental control system and automatic fare collection system) which are required for the operation of the NSEW Line, the CCL Line and the BPLRT Line (collectively, the "**Lines**"). The Proposed Sale comprises two categories of Operating Assets, being (a) assets under construction or work-in-progress ("**WIP**"), and (b) property, plant and equipment, excluding WIP ("**PPE**"). The WIP generally comprises new operating assets which the SMRT Trains Entities have agreed to purchase under certain contracts with suppliers, vendors or manufacturers of the said assets.

As the net asset value of the Group's FY16 PPE and FY16 WIP as at 31 March 2016 of approximately S\$851 million exceeds 20% of the Group's net asset value of S\$915.90 million as at 31 March 2016 and the estimated Consideration of approximately S\$991 million also represents more than 20% of the market capitalisation of the Company as at 14 July 2016, pursuant to Rule 1014 of the Listing Manual, the Proposed Sale constitutes a "Major Transaction" and is subject to and conditional upon the approval of shareholders of the Company ("**Shareholders**") at the forthcoming EGM.

Notwithstanding that the Proposed Sale is not an interested person transaction under the Listing Manual, for the purpose of good corporate governance, PrimePartners Corporate Finance Pte. Ltd. ("**PPCF**") has been appointed by the Company as the independent financial adviser to advise the directors of the Company ("**Directors**") on whether the terms of the Proposed Sale are fair and reasonable. This letter sets out, *inter alia*, our views on and evaluation of the terms of the Proposed Sale and our opinion thereon, and will form part of the circular to be issued to the Shareholders (the "**Circular**"). Please refer to the Circular for more details on the Proposed Sale.

## 2. TERMS OF REFERENCE

We have been appointed to advise the Directors on the Proposed Sale and to provide an opinion in this letter as to whether the terms of the Proposed Sale are fair and reasonable.

We are neither a party to the negotiations entered into by the Company in relation to, nor are we involved in the deliberations leading up to the Proposed Sale.

Under our terms of reference, any evaluation or comment on the rationale for, or the strategic or long-term merits or risks of the Proposed Sale or on the future prospects of the Company or the negotiation process by which the Proposed Sale is made or any other alternative methods by which the Proposed Sale may be made, shall remain the sole responsibility of the Directors. However, we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this letter.

In the course of our evaluation of the Proposed Sale, we have relied on published information relating to the Company as well as information provided and representations made by the Directors and the management of the Company (the "**Management**"). We have not independently verified such information or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information, representation or assurance. We have nevertheless made such reasonable enquiries and exercised our judgement on the reasonable use of such information as we deemed necessary and have found no reason to doubt the accuracy or reliability of the information.

We have relied upon the assurances of the Directors (including those who may have delegated detailed supervision of the Circular) that, after making all reasonable inquiries and to the best of their knowledge and belief, all facts stated and opinions expressed in the Circular (except our letter to be set out in the Circular) constitutes full and true disclosure of all material facts about the Proposed Sale, and the Directors are not aware of any facts the omission of which would make any statement in the Circular misleading. The Directors collectively and individually accept responsibility accordingly.

We were not requested or authorised to solicit, and we have not solicited, any indications of interest from any third party with respect to the Proposed Sale. We are therefore not addressing the relative merits or risks of the Proposed Sale as compared to any alternative transaction that may be available to the Company in the future. An independent valuation or appraisal of the assets which are subject to the Proposed Sale was not conducted.

Our opinion as set out in this letter is based upon market, economic, industry, monetary and other conditions in effect on, and the information provided to us as of 15 July 2016 (the "**Latest Practicable Date**"). Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to their consideration of the Proposed Sale which may be released by the Company after the Latest Practicable Date.

In rendering our opinion, we did not have regard to the specific investment objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we would advise the Directors to recommend that any individual Shareholder who may require specific advice in relation to his investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than our letter to be set out in the Circular). Accordingly, we take no responsibility for and express no views, express or implied, on the contents of the Circular (other than our letter to be set out in the Circular).

**Our opinion in respect of the Proposed Sale, as set out in paragraph 6 of this letter, should be considered in the context of the entirety of this letter and the Circular.**

### 3. INFORMATION ON THE OPERATING ASSETS

The full text of the information and further details relating to the Operating Assets are set out in paragraph 2 of the Announcement and an extract of which has been reproduced in italics below. All terms and expressions used in the extract below shall have the same meaning as those defined in the Announcement, unless otherwise defined.

- "2.1 The operating assets to be sold by the SMRT Trains Entities to LTA (the "**Operating Assets**") comprise certain operating assets (including trains (rolling stock), permanent way vehicles, signalling and communication system, power supply, supervisory control system, escalators and lifts, platform screen doors, the environmental control system and automatic fare collection system) which are required for the operation of the the North-South-East-West Mass Rapid Transit System (the "**NSEW Line**"), the Circle Line Mass Rapid Transit System (the "**CCL Line**") and the Bukit Panjang Light Rapid Transit System (the "**BPLRT Line**", and together with the NSEW Line and CCL Line, the "**Lines**").*
- 2.2 In general, two categories of Operating Assets are being sold, being (a) assets under construction or work-in-progress ("**WIP**"), and (b) assets categorised as "Property, Plant and Equipment" in the Company's financial statements, excluding any WIP ("**PPE**"). Only Operating Assets which fulfil certain prescribed criteria set out in the Sale and*

Purchase Agreements, including without limitation, that there are no encumbrances over or affecting the Operating Assets, and the relevant SMRT Trains Entity is the sole legal and beneficial owner of the Operating Assets and is able to transfer and vest in LTA clean legal and beneficial title free and clear of any encumbrance (such criteria collectively, the "**Relevant Criteria**"), shall be sold to LTA under the Sale and Purchase Agreements, though LTA may agree to purchase Operating Assets which do not fulfil one or more of the Relevant Criteria under the sale and purchase agreement (WIP Operating Assets) between LTA and SMRT Trains or the sale and purchase agreement (WIP Operating Assets) between LTA and SMRT Light Rail.

- 2.3 The WIP generally comprises new operating assets which the SMRT Trains Entities have agreed to purchase under certain contracts with suppliers, vendors or manufacturers of the said assets ("**Contracts**")."

#### 4. CONSIDERATION FOR THE PROPOSED SALE

The full text of the information relating to the consideration for the Proposed Sale is set out in paragraph 4.2 of the Announcement and an extract of the salient points has been reproduced in italics below. All terms and expressions used in the extract below shall have the same meaning as those defined in the Announcement, unless otherwise defined.

##### "4.2 Consideration for the Proposed Sale

###### **Sale PPE**

The consideration payable by LTA for the acquisition of the Sale PPE from the SMRT Trains Entities under the Sale and Purchase Agreements (the "**PPE Consideration**") is the net book value of each of the Sale PPE as at the Completion Date.<sup>1</sup>

The SMRT Trains Entities shall, no later than 60 days after the Completion Date, provide LTA with an asset schedule listing, inter alia, each of the Sale PPE sold to LTA and the net book value of each of the Sale PPE as at the Completion Date as described in the immediately preceding sub-paragraph. The asset schedule shall be finalised by the SMRT Trains Entities and LTA and the PPE Consideration shall be derived therefrom.

The estimated PPE Consideration ("**Estimated PPE Consideration**"), being in aggregate approximately S\$577 million, comprises the sum of the estimated net book value of the:

- (a) Sale PPE included in the audited financial statements ("**FY2015 Audited Financial Statements**") for the financial year ended 31 March 2015 ("**FY2015**") of SMRT Trains or SMRT Light Rail, as the case may be (the "**Class A PPE**") of approximately S\$483 million; and
- (b) Sale PPE which fulfil the Relevant Criteria on the Completion Date (excluding the Class A PPE) (the "**Class B PPE**") of approximately S\$94 million.

The PPE Consideration is subject to finalisation by reference to the finalised asset schedule as described above. The PPE Consideration and the SMRT Trains Entities' entitlement to receive and retain the same are also subject to:

<sup>1</sup> The net book values of each of the Sale PPE as at the Completion Date shall have been depreciated in accordance with the Singapore Financial Reporting Standards, and based on which the net book value of such Sale PPE, as incorporated into or taken into account in the preparation of the unaudited financial statements for the half year ending 30 September 2016 (i.e. from 1 April 2016 to 30 September 2016) of SMRT Trains or SMRT Light Rail, as the case may be, shall have been derived, less (in the case of the sale and purchase agreement (Operating Assets) entered into by SMRT Trains) any unamortised grants in respect of the Sale PPE (received when the relevant Sale PPE was purchased in 1998) as at the Completion Date.

- LTA's condition survey of the Sale PPE sold to LTA against technical and functional standards and/or specifications (including any visual or physical specifications) with respect to each category of the Sale PPE, set out in a condition index formulated and/or determined by LTA after consultation with the SMRT Trains Entities, which takes into account the age (with fair wear and tear) of each of the Sale PPE; and
- repair or remedy of non-conforming Sale PPE to conform to the requirements of the condition index (taking into account the age (with fair wear and tear) and the replacement and/or renewal of such non-conforming operating asset by LTA (taking into account SMRT Trains' proposed forecast for the replacement and/or renewal of the operating assets required for the operation of the Lines prepared pursuant to the NRFF Licence)), or replacement of such non-conforming Sale PPE, in each case to LTA's reasonable satisfaction/acceptance, or payment of the net book value of the non-conforming Sale PPE as specified in the relevant sale and purchase agreement (Operating Assets) by the relevant SMRT Trains Entity.

The PPE Consideration is payable entirely in cash in the following instalments:

- (a) approximately S\$384 million, comprising the sum of 60% of the Estimated PPE Consideration for the Class A PPE, and 100% of the Estimated PPE Consideration for the Class B PPE, shall be payable by LTA within 14 days of the Effective Date; and
- (b) the remaining PPE Consideration shall be payable by LTA based on the following payment schedule, or as and when the relevant phase of LTA's condition survey is completed, whichever is the earlier:
  - (i) 15% of the PPE Consideration for the Class A PPE on the first anniversary of the Effective Date (together with adjustment amounts to take into account the Estimated PPE Consideration previously paid (as referred to in paragraph 4.2(a));
  - (ii) 15% of the PPE Consideration for the Class A PPE, on the second anniversary of the Effective Date; and
  - (iii) the remaining 10% of the PPE Consideration for the Class A PPE, on the third anniversary of the Effective Date,

provided that LTA shall be entitled to withhold certain payment amounts pending repair or replacement of non-conforming Sale PPE, as well as, in connection with the last payment referred to in paragraph 4.2(b)(iii), an amount equivalent to the highest of the following: 3% of the PPE Consideration for the Class A PPE, the sum of the net book value of any non-conforming Sale PPE and the net book value of any Sale PPE which has not been surveyed by LTA, and a proportion based on a prescribed formula<sup>2</sup> of the remaining unpaid PPE Consideration for the Class A PPE. The last payment (except for the net book value of any remaining non-conforming Sale PPE) shall be released by LTA on or before six months after the third anniversary of the Completion Date, even if LTA has not completed the last phase of its condition survey, save where such non-completion is caused by the relevant SMRT Trains Entity's act or omission.

<sup>2</sup> The sum of the total number of non-conforming Sale PPE and the Sale PPE which have not yet been surveyed by LTA, divided by the total number of Sale PPE to be surveyed in the last phase of the condition survey, multiplied by 10% of the PPE Consideration for the Class A PPE.

### **Sale WIP**

*The consideration payable by LTA for the Sale WIP ("**WIP Consideration**") is also based on the net book value of the Sale WIP, or, where the Sale WIP has not yet been capitalised in the books of account of the SMRT Trains Entities, the price paid by the SMRT Trains Entities for the Sale WIP under the Contracts.*

*The WIP Consideration is payable entirely in cash, and the quantum and timing of payment thereof is not fixed, being subject to the SMRT Trains Entities finalising with LTA a schedule of the Sale WIP (which will include the re-signaling and trains upgrades) to be transferred to LTA on a six-monthly basis up to 30 September 2017 and three-monthly basis thereafter, with the first transfer to take place on the Effective Date, as and when the Relevant Criteria is met by the SMRT Trains Entities. The SMRT Trains Entities and LTA will finalise the list of Sale WIP to be transferred to LTA on the Effective Date, in consideration of which the SMRT Trains Entities will receive the sum of approximately S\$413 million (the "**Estimated Completion WIP Consideration**") within 14 days of the Effective Date.*

*The Sale and Purchase Agreements also provide for cases where not all of the Relevant Criteria is met, where LTA may, at its discretion, notwithstanding that the Relevant Criteria has not fully been met, accede to a request from the SMRT Trains Entities to purchase the Sale WIP and/or fund the SMRT Trains Entities' payment obligations relating thereto.*

*The aggregate of the WIP Consideration and the PPE Consideration (the "**Consideration**") payable by LTA to the SMRT Trains Entities (and reflected in this announcement) is exclusive of any goods and services tax which may be imposed on, or charged in connection with, the sale and purchase of the Operating Assets. LTA shall bear and pay all goods and services tax imposed or levied in respect of such sale.*

### **Factors taken into consideration in arriving at the Consideration**

*The Consideration was arrived at between the SMRT Trains Entities and LTA, taking into account, amongst other things, (A) the acquisition of the Operating Assets of the NSEW Line by SMRT Trains from LTA in 1998 at the net book value of such Operating Assets, with five equal interest-free annual instalment payments, (B) the acquisition of subsequent additional Operating Assets in accordance with the specified dates in the Existing Licences at the net book value of such Operating Assets, and (C) the SMRT Trains Entities' obligation under the Existing Licences to transfer the operating assets of the Lines to LTA at the net book value of such operating assets upon the termination of the Existing Licence."*

## **5. EVALUATION OF THE PROPOSED SALE**

In our evaluation of the Proposed Sale, we have considered the following factors which we consider to be pertinent and to have a significant bearing on our assessment:

- Rationale for and benefits of the Proposed Sale;
- Evaluation of the salient terms of the Proposed Sale;
- Review of the financial performance of the Group and potential impact of the NRFF Licence;
- Financial effects of the Proposed Sale; and
- Intended use of proceeds from the Proposed Sale.

## 5.1. Rationale for and benefits of the Proposed Sale

The full text of the information relating to the rationale for and benefits of the Proposed Sale and the transition to the NRFF is set out in paragraph 3 of the Announcement and an extract of selected relevant paragraphs has been reproduced in italics below. All terms and expressions used in the extract below shall have the same meaning as those defined in the Announcement, unless otherwise defined. We recommend that Shareholders read the full text of the aforementioned paragraph carefully.

### ***“Limitations and Key Challenges under the Existing Licences***

- 3.5 *Heavy capital expenditure requirements related to an expanded and ageing network:* Under the Existing Licences, the SMRT Trains Entities’ capital commitments and depreciation charges have increased significantly over the past few years due to the expanding train fleet size to cater for higher ridership demand and the increased need for renewal and upgrade of an ageing network. These obligations are likely to continue to grow in the next five years and could reach an aggregate estimated capital expenditure spend of about S\$2.8 billion for the replacement of ageing assets in the system, takeover of CCL Line and Boon Lay Extension operating assets where applicable, and procurement of new trains to meet service level reliability standards and to cater for an expanded network. These would collectively impose additional pressure on the SMRT Trains Entities’ profitability. Assuming a useful life of 30 years was adopted for these assets, such capital expenditure would lead to additional depreciation charges of approximately S\$90 million per annum if S\$2.8 billion in operating assets were to be purchased.
- 3.6 *Rising operational and maintenance-related costs to meet enhanced operating standards, with a widening fare gap:* Costs relating to the maintenance and operation of the Lines have also risen as a result of the SMRT Trains Entities’ commitment to ensure the reliability of the ageing rapid transit system network and provide a higher level of service to the commuting public. Additionally, in accordance with recommendations by the Public Transport Council established under the Public Transport Council Act, Chapter 259B of Singapore (the “PTC Act”), fares have been kept affordable for the commuting public through a series of measured fare adjustments since 2001. As a result, fares have not increased in accordance with the cumulative maximum fare allowable based on the prescribed fare adjustment formula<sup>3</sup>.
- 3.7 *Consistent decline in profitability for the SMRT Trains Entities:* This fare gap and rising operating expenses together with the increased capital commitments and hefty depreciation charges as discussed in paragraphs 3.5 and 3.6, have resulted in the decline in profitability of the SMRT Trains Entities that has adversely impacted their ability to sustainably finance the renewal and replacement of operating assets while keeping up with the provision of enhanced service levels to the commuting public. This trend of declining profitability is expected to persist under the CRFF as the additional capital expenditures and increased depreciation will continue to have an adverse financial impact on the earnings of the rail business.
- 3.8 Although the Existing Licences have not expired, given the limitations and key challenges of the Existing Licences as described above, the Company and LTA have been in discussions since 2011 on the possibility of an early transition of the Existing Licences, which were issued under the CRFF, to the new licensing arrangement under the NRFF as described in this announcement.

<sup>3</sup> The fare adjustment formula is presently set out in the Third Schedule to the PTC Act, as amended from time to time. The current fare adjustment formula is based on the formula as published in the 2013 Fare Review Mechanism Committee Report and accepted by the Singapore government.

## **The NRFF**

3.9 The Government announced the NRFF in 2008 to facilitate the future expansion of the rapid transit system network in a financially sustainable manner and to inject greater contestability into the rail industry. The NRFF was first implemented in 2011 for the Downtown Line (DTL) MRT system. Key features of licences granted to operators of mass rapid transit systems under the NRFF include the following:

- (1) a licence period of about 15 years;
- (2) capital investments in operating assets will be made by LTA rather than the operator. LTA will own the operating assets and thereby retain the ability and flexibility to make decisions on capital investments, undertake integrated and holistic long-term planning for the rapid transit system network, and effect the timely purchase of more assets, such as trains, to enhance carrying capacity, all in the interests of the commuting public;
- (3) the collection of a licence charge by LTA from the operators for the right to operate and maintain the rail line, and derive revenue from it; and
- (4) the licence charge paid to LTA will be set aside in the railway sinking fund established and managed by LTA to finance the addition, replacement and upgrades of operating assets.

## **NRFF Licence**

3.10 Subject to approval of the shareholders of the Company ("**Shareholders**") being obtained for the Proposed Sale at an extraordinary general meeting of the Company to be convened ("**EGM**") and upon completion of the Proposed Sale and transition of the Existing Licences to the NRFF, LTA will own all the operating assets of the Lines, and will, upon the surrender of the Existing Licences, grant to SMRT Trains<sup>4</sup> a single new licence (the "**NRFF Licence**"), commencing on 1 October 2016 (or such other date agreed between SMRT Trains and LTA) (the "**Effective Date**"), to operate the Lines for an initial term of 15 years. If SMRT Trains applies for an extension of the term in accordance with the terms of the NRFF Licence, the term may be extended at LTA's discretion for a further period of five years on such terms and conditions as LTA may determine and SMRT Trains may accept.

The Company has reviewed the terms of the draft NRFF Licence offered by LTA. The structure and terms of the NRFF Licence as described in this announcement are based on the draft NRFF Licence that has been offered by LTA to SMRT Trains. In brief, the NRFF Licence being offered to SMRT Trains, besides incorporating the characteristics set out in paragraph 3.9(a) to (d), will have a licence charge which consists of a revenue share charge and other variable charges, and risk sharing mechanisms to calibrate the earnings of SMRT Trains and the licence charge payable to LTA.

## **Key Benefits of transitioning to the NRFF**

3.11 As mentioned above<sup>5</sup>, under the CRFF, the continuing heavy capital expenditure obligations related to the purchases of operating assets for the Lines, including new operating assets and all additions, renewals and replacements, reside with the SMRT Train Entities. With an ageing network and heightened operating standards, operating costs have increased significantly and are expected to increase further if the SMRT Trains Entities do not transition to the NRFF, resulting in negative earnings impact and

<sup>4</sup> SMRT Light Rail will be amalgamated with SMRT Trains, with SMRT Trains remaining as the surviving entity on completion of the amalgamation. The Proposed Sale will not affect the other businesses and assets of the Group, apart from the business and assets of the SMRT Trains Entities.

<sup>5</sup> In paragraphs 3.3, 3.4, 3.5 and 3.6.

*greater fluctuations in earnings for the SMRT Trains Entities. Under the NRFF, on the other hand, as all operating assets of the Lines will be owned by LTA, the depreciation charges and the capital expenditure relating to purchases of operating assets will no longer be borne by the Group. Relieved of its heavy capital expenditure obligations (which could reach an aggregated estimated capital expenditure spend of about S\$2.8 billion over the next five years including the procurement of new trains and take-over of CCL Line operating assets where applicable), SMRT Trains will be better positioned to operate and maintain its rail services."*

We note that the Proposed Sale has been contemplated in light of the expected transition of the Existing Licences to the new NRFF Licence which entails the LTA assuming ownership of the Operating Assets, thereby relieving the Company of future capital expenditure obligations. Accordingly, aside from the terms of the Proposed Sale, we have also taken into consideration the financial performance of the Group and the potential impact of the new NRFF Licence on the Group in our evaluation of the Proposed Sale as further set out in paragraph 5.3 of this letter.

## 5.2. Evaluation of the salient terms of the Proposed Sale

### (a) Basis of the Consideration for the Proposed Sale

The consideration payable by LTA for the acquisition of the Sale PPE (the "**PPE Consideration**") is the net book value of each of the Sale PPE as at the Completion Date, less any unamortised grants as at the Completion Date in respect of the Sale PPE. The consideration payable by LTA for the Sale WIP (the "**WIP Consideration**") is also based on the net book value of the Sale WIP, or, where the Sale WIP has not yet been capitalised in the books of account of the SMRT Trains Entities, the price paid by the SMRT Trains Entities for the Sale WIP under the Contracts. In our evaluation on whether the net book value of the Operating Assets represent a fair and reasonable basis for the PPE Consideration and WIP Consideration (collectively referred to as the "**Consideration**"), we have considered the following points:

#### (i) Historical transactions in respect of the Operating Assets

We understand that the Consideration was arrived at between the SMRT Trains Entities and LTA, taking into account, amongst other things, the past transactions involving the Operating Assets as follow:

- the Operating Assets of the NSEW Line were originally acquired by SMRT Trains from LTA at their then prevailing net book values when SMRT Trains was granted a new NSEW licence in 1998 after running the Operating Assets of the NSEW Line for about 10 years since 1987; and
- SMRT Trains had subsequently acquired additional Operating Assets from LTA at their net book values in accordance with the specified dates in the Existing Licences.

We note that the basis for determining the Consideration is consistent with historical transactions involving the Operating Assets.

#### (ii) Contractual obligation for Operating Assets to be transferred at net book value

We further note that there is a contractual obligation for the SMRT Trains Entities to transfer the Operating Assets to LTA at the net book values less any unamortised grants of such operating assets upon the termination of the Existing Licences.

Under the terms of the Existing Licences, the Operating Assets for the Lines were initially funded by LTA, with an obligation by the SMRT Trains Entities to acquire the Operating Assets at their net book values in accordance with the dates specified in

the Existing Licences. Similarly, we understand that upon termination of the Existing Licences, the SMRT Trains Entities are contractually obliged to transfer the Operating Assets to LTA at the net book values less any unamortised grants of the Operating Assets, where depreciation on the book values of the Operating Assets is computed on a straight-line basis over the life of the asset.

**(iii) Depreciation policy in respect of the Operating Assets**

In accordance with the terms of the Existing Licences and the Singapore Financial Reporting Standards, the depreciation of property, plant and equipment of the Group is calculated on a straight-line basis over the respective estimated useful lives of the assets. The depreciation method, estimated useful lives and residual values are reviewed at each financial year end and adjusted if appropriate in accordance with the reporting standards.

Further to our enquiry with the Management, we understand that the Company's adoption of a straight-line method of depreciation in respect of the Operating Assets is similar to and consistent with that adopted by the LTA prior to the initial sale of the Operating Assets by LTA to SMRT Trains in 1998. We also understand that there has been no material change to the depreciation policy adopted by the Company and no material impairments have been made on the relevant assets since the acquisition of the Operating Assets in 1998.

In addition, we understand that the estimated useful lives of the Operating Assets have been determined mainly based on the estimates provided by the manufacturers of the Operating Assets according to the respective technical specifications and useful lifespan of the relevant assets.

Accordingly, the depreciation policy in respect of the Operating Assets has been consistently applied by LTA and the Company based on technical specifications from the manufacturers and the depreciation policy of the Operating Assets appears to be reasonably applied.

**(iv) Use of the Operating Assets remains the same after the Proposed Sale**

While the legal ownership and titles to the Operating Assets will pass from the SMRT Trains Entities to LTA pursuant to the Proposed Sale, all Operating Assets continue to remain in the possession and control of the SMRT Trains Entities to be deployed for normal day-to-day operations under the NRFF Licence.

We understand from the Management that there is no foreseeable change in the use of the Operating Assets after the Proposed Sale. Given that the day-to-day operation of the Operating Assets is expected to remain the same and continue to be under the control of SMRT Trains, the transfer of titles to LTA alone should not result in any modification to the current depreciation policy and estimated useful lives of the Operating Assets. Accordingly, the net book value of the Operating Assets as at the Completion Date would be a reflective benchmark for the Consideration in this context.

**(v) Restrictions on divestment of the Operating Assets to third parties**

We also note that under the terms of the Existing Licences, the Company is not permitted to sell the Operating Assets to any third party without the LTA's prior written approval. Given that the Operating Assets are designed to meet operating requirements specific to the respective Lines, we note that there may not be readily available buyers for these Operating Assets even if the Company was allowed by LTA to solicit potential buyers. In addition, such prospective buyers would require the appropriate operating licences in order to operate the Operating Assets.

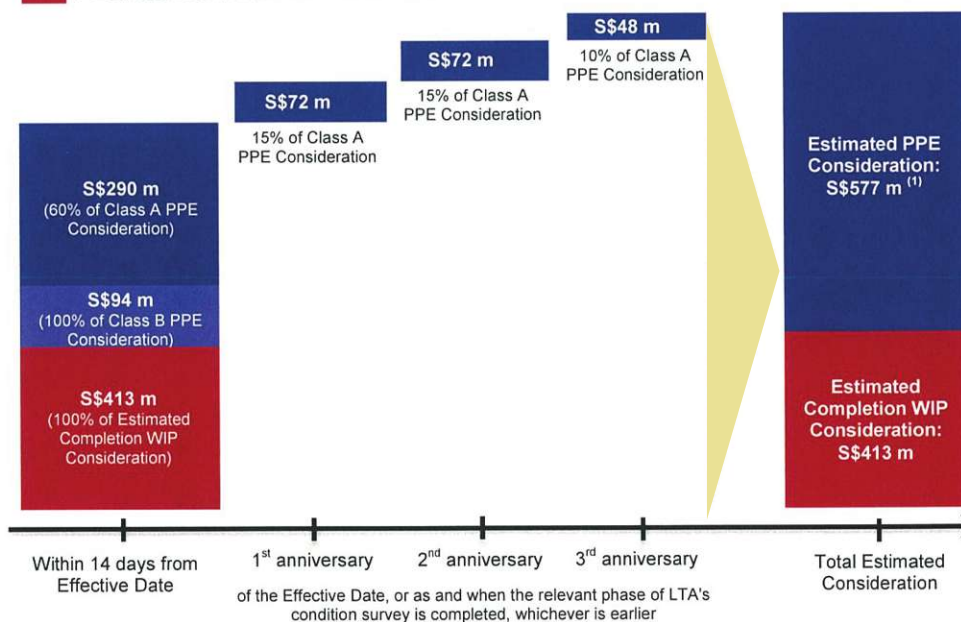
In the absence of an active market for such assets, the divestment of the Operating Assets to any third-parties would likely have to be on a piecemeal or breakup basis, and not as a fully integrated functional mass rapid transport system. This would have a corresponding negative impact on the value of such assets to a third-party, and accordingly, the actual realisable disposal value of the Operating Assets in such a scenario would likely be lower than the net book value which is the basis for the Consideration of the Proposed Sale.

**(b) Payment schedule of the Consideration**

We note that the PPE Consideration is subject to LTA's condition survey of the Sale PPE against technical and functional standards and/or specifications set out in a condition index formulated by a professional assessor appointed by LTA, after consultation with the SMRT Trains Entities. Subject to the foregoing, the Consideration would be payable entirely in cash in accordance with an instalment schedule summarised in Exhibit 1 below:

**Exhibit 1 – Payment schedule of the Consideration**

- : Estimated PPE Consideration for the Sale PPE included in the FY2015 Audited Financial Statements ("Class A PPE Consideration")
- : Estimated PPE Consideration for the remaining Sale PPE which fulfil the Relevant Criteria on the Completion Date (excluding the Class A PPE) ("Class B PPE Consideration")
- : Estimated Completion WIP Consideration



**Note:**

(1) Any discrepancies between the total sum of the amounts listed and the total thereof are due to rounding.

We note that pursuant to the Sale and Purchase Agreements, the condition survey of the Sale PPE will not be completed until after the completion of the Proposed Sale. Notwithstanding that due diligence on the Sale PPE would not have been completed prior to the consummation of the Proposed Sale, we note that 100% of the Class B PPE Consideration and 60% of the Class A PPE Consideration would be payable by LTA within 14 days from the Effective Date. Proceeds from the remaining 40% of the Class A PPE Consideration will be received over a three-year period following the Effective Date due to the outstanding condition assessment by LTA.

For illustrative purposes, should the concept of time value of money be taken into consideration, this payment instalment schedule has the notional impact of theoretically lowering the PPE Consideration by between 2.2% and 2.8% of the Estimated PPE Consideration which is calculated by applying the discount rates of 3.7%<sup>6</sup> and 4.8%<sup>6</sup> respectively to the deferred cash flows arising from the instalment schedule. However, the three-year payment structure should be viewed in the context of the factors below.

**(i) Minimizing disruption during condition assessment**

We note that all Operating Assets will remain in the possession and control of the SMRT Trains Entities while LTA conducts the condition assessment of the Operating Assets. Accordingly, we understand that the surveying schedule of up to three years is to allow LTA to conduct the condition assessment while using reasonable efforts to minimise any disruption to the regular and efficient operation and maintenance of the Lines, taking into consideration that the Operating Assets will be widely dispersed throughout the network and access for survey will be limited on the operating rail network. It also takes into account the time required to extract past maintenance records, as well as engineering review and assessment of the survey results.

**(ii) Initial acquisition from LTA was paid for in five annual instalments**

We also note that when SMRT Trains was awarded the new NSEW Licence in 1998, SMRT Trains had originally acquired the relevant Operating Assets from LTA at their then prevailing net book values amounting to approximately S\$1.2 billion, which SMRT Trains paid for in five equal interest-free annual instalments.

**(iii) LTA provided asset-related grant in respect of the Operating Assets**

Further, SMRT Trains was provided with a S\$480.0 million asset-related grant from LTA to defray the purchase cost of the Operating Assets in 1998 which effectively reduced the consideration for these assets to S\$720.0 million. We further note that based on the Management's estimate, the portion of unamortized grants relating to the Proposed Sale is expected to be approximately S\$25.1 million as at 30 September 2016.

**5.3. Review of the financial performance of the Group**

We note that the Proposed Sale has been contemplated in light of the expected transition of the Existing Licences to the new NRFF Licence and one of the main reasons for the proposed transition to NRFF is due to the key challenges under the Existing Licences which have adversely impacted the profitability of the rail business segment of the Group over recent years. Our review of the Group's financial performance below will therefore focus primarily on the results of the rail business segment.

A summary of the financial results of the Group for the financial years ended 31 March ("FY") 2012, 2013, 2014, 2015 and 2016 is set out in Exhibit 2 below. The following summary financial information should be read in conjunction with the full text of the annual reports and results announcements of the Group in respect of the relevant financial periods including the notes thereto.

<sup>6</sup> Represents SMRT's pre-tax cost of debt and weighted average cost of capital respectively, as provided by Management

| <b>Exhibit 2 – Summary financial information of the Group</b>  |                             |                             |                             |                             |                             |
|----------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>(S\$'000)</b>                                               | <b>FY2012<br/>(Audited)</b> | <b>FY2013<br/>(Audited)</b> | <b>FY2014<br/>(Audited)</b> | <b>FY2015<br/>(Audited)</b> | <b>FY2016<br/>(Audited)</b> |
| <b>Income Statement</b>                                        |                             |                             |                             |                             |                             |
| Revenue                                                        | 1,057,229                   | 1,119,469                   | 1,163,893                   | 1,235,535                   | 1,296,589                   |
| • Rail Fare                                                    | 580,019                     | 618,524                     | 634,145                     | 653,999                     | 681,021                     |
| • Bus Fare                                                     | 220,447                     | 210,796                     | 217,795                     | 238,140                     | 248,462                     |
| • Non-Fare <sup>(1)</sup>                                      | 256,763                     | 290,149                     | 311,953                     | 343,396                     | 367,106                     |
| Operating expenses <sup>(2)</sup>                              | (886,891)                   | (991,970)                   | (1,079,659)                 | (1,114,728)                 | (1,158,139)                 |
| Operating income                                               | 170,338                     | 127,499                     | 84,234                      | 120,807                     | 138,450                     |
| Operating Margin                                               | 16.1%                       | 11.4%                       | 7.2%                        | 9.8%                        | 10.7%                       |
| • Rail Fare                                                    | 90,659                      | 64,073                      | 3,403                       | 9,593                       | 7,434                       |
| Operating Margin                                               | 15.6%                       | 10.4%                       | 0.5%                        | 1.5%                        | 1.1%                        |
| • Bus Fare                                                     | (11,613)                    | (31,740)                    | (28,367)                    | (6,527)                     | 5,912                       |
| Operating Margin                                               | N.A.                        | N.A.                        | N.A.                        | N.A.                        | 2.4%                        |
| • Non-Fare <sup>(1)</sup>                                      | 92,849                      | 96,191                      | 109,446                     | 118,375                     | 129,254                     |
| Operating Margin                                               | 36.2%                       | 33.2%                       | 35.1%                       | 34.5%                       | 35.2%                       |
| • Elimination                                                  | (1,557)                     | (1,025)                     | (248)                       | (634)                       | (4,150)                     |
| Impairment <sup>(3)</sup>                                      | (21,674)                    | (17,294)                    | -                           | -                           | -                           |
| Interest and investment income                                 | 1,711                       | 2,305                       | 1,270                       | 1,587                       | 1,271                       |
| Share of results of associates and joint ventures              | 2,716                       | (381)                       | (418)                       | 989                         | 2,219                       |
| Finance costs                                                  | (6,169)                     | (7,065)                     | (10,431)                    | (12,527)                    | (12,607)                    |
| Profit before income tax                                       | 146,922                     | 105,064                     | 74,655                      | 110,856                     | 129,333                     |
| Profit after income tax attributable to equity holders of SMRT | 119,873                     | 83,338                      | 61,902                      | 91,000                      | 109,294                     |
| Net profit after tax margin (ex. non-controlling interest)     | 11.3%                       | 7.4%                        | 5.3%                        | 7.4%                        | 8.4%                        |
| <b>Financial position</b>                                      |                             |                             |                             |                             |                             |
| Total Assets                                                   | 1,755,932                   | 2,224,405                   | 2,072,512                   | 2,537,213                   | 2,720,022                   |
| Property, plant and equipment                                  | 1,346,497                   | 1,435,797                   | 1,641,769                   | 2,042,484                   | 2,130,729                   |
| % of total assets                                              | 76.7%                       | 64.5%                       | 79.2%                       | 80.5%                       | 78.3%                       |
| Cash and cash equivalents                                      | 195,330                     | 546,294                     | 155,524                     | 156,117                     | 232,229                     |
| % of total assets                                              | 11.1%                       | 24.6%                       | 7.5%                        | 6.2%                        | 8.5%                        |
| Current and non-current interest-bearing borrowings            | 150,000                     | 609,472                     | 636,410                     | 821,605                     | 821,169                     |
| Net debt/(cash)                                                | (45,330)                    | 63,178                      | 480,886                     | 665,488                     | 588,940                     |
| Equity attributable to equity holders of SMRT                  | 791,413                     | 768,248                     | 801,752                     | 859,516                     | 915,904                     |

Source: Company's annual reports and results announcements

**Notes:**

- (1) Non-fare segment of the Group includes taxi operations, rental, advertising, engineering services, other services and investment holding and support services.
- (2) Operating expenses includes depreciation and amortization expenses and is net of other operating income.
- (3) Refers to impairment of goodwill and interest in associate.

**(a) Overview of the financial performance of the Group**

We note that the Group has eight reportable segments comprising:

*Fare related segments:*

- (i) Rail operations: Provision of MRT and LRT services
- (ii) Bus operations: Provision of public bus services

*Non-fare related segments:*

- (iii) Taxi operations: Rental of taxis, provision of taxi services and sales of diesel to taxi hirers
- (iv) Rental: Leasing of commercial spaces, retail operations and property management
- (v) Advertising: Sale and management of media spaces, marketing and e-commerce
- (vi) Engineering services: Provision of consultancy, project management services, leasing of fibre optic cables and rail engineering services
- (vii) Other services: Provision of charter hire services and repair & maintenance services
- (viii) Investment holding and support services: Provision of management and other support services to Group companies and investment holding

The gross total revenue recorded by the Group between FY2012 to FY2016 increased at a compound annual growth rate of approximately 5.2% from S\$1,057.2 million in FY2012 to S\$1,296.6 million in FY2016. However, net profit attributable to equity holders of SMRT has generally decreased over the same time period and the net profit margin has similarly dropped from 11.3% in FY2012 to 8.4% in FY2016.

Based on the general trends of the operating margins for each broad business segment as set out in Exhibit 2, the declining financial performance of the Group is largely attributable to the decreasing profitability of the rail fare segment which had outpaced the growth in operating income largely from the non-fare segment. The growth in operating income from non-fare segment of approximately S\$36.4 million or 39.2% from FY2012 to FY2016 was inadequate to compensate for the decrease in operating income from rail fare segment of approximately S\$83.2 million or 91.8% over the same period. We understand that majority of the non-fare operating income is derived from rental revenue which is largely limited by the commercial space available for rent.

In addition, we note from the Company's annual report for FY2016, that the operating profit for the Group's rail operations in FY2016 included a one-off net property tax refund of S\$17.1 million (attributable to the rail business segment) relating to prior years' over assessment, without which, the rail operations would have suffered an operating loss of S\$9.6 million in FY2016.

We further note that the gross revenue from rail fares between FY2012 to FY2016 increased at a compound annual growth rate of approximately 4.1% largely due to the growth in ridership over the same period. However, rail fare revenue grew on the back of an increase in operating expenses for rail operations by approximately 8.3% in the same period which has resulted in an overall decline in operating results of the rail fare segment. The increase in operating expenses was mainly due to the increase in repair and maintenance costs, staff costs and depreciation costs arising from additional capital expenditures, in order to support the expansion of network, train fleet and growth in ridership. The operating margin of the rail fare segment fell from 15.6% in FY2012 to 1.1% in FY2016.

With respect to the financial position of the Company, the Company has operated under an asset-heavy model historically where contribution of property, plant and equipment to total assets of the Group increased from approximately 76.7% as at 31 March 2012 to 78.3% as at 31 March 2016. The Company had also issued certain secured and unsecured fixed rate notes under its medium term note programmes and has both secured and unsecured fixed rate loans, therefore maintaining a net debt position of approximately S\$588.9 million and a net gearing ratio of approximately 0.64 times as at 31 March 2016.

**(b) Review of the financial performance of the Rail Business Segment**

We understand that the licence charge under the NRFF Licence has been structured by LTA to allow SMRT Trains to achieve a composite EBIT margin of about 5% in respect of SMRT Train's (i) rail-related fare and (ii) rail non-fare business(es) which include rental and advertising income (collectively referred to as the "**Rail Business Segment**"). Accordingly, we have set out in Exhibit 3 below the historical pro forma composite EBIT and EBIT margin of the Rail Business Segment for illustrative purposes:

| <b>Exhibit 3 – Rail Business Segment</b> |               |               |               |               |               |
|------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>(S\$'m)</b>                           | <b>FY2012</b> | <b>FY2013</b> | <b>FY2014</b> | <b>FY2015</b> | <b>FY2016</b> |
| <b>Revenue</b>                           | <b>682.7</b>  | <b>728.6</b>  | <b>754.6</b>  | <b>783.0</b>  | <b>815.2</b>  |
| – Rail Fare                              | 580.0         | 618.5         | 634.1         | 654.0         | 681.0         |
| – Rail Non-fare                          | 102.7         | 110.0         | 120.5         | 129.0         | 134.2         |
| <b>EBIT</b>                              | <b>160.6</b>  | <b>141.8</b>  | <b>89.0</b>   | <b>111.8</b>  | <b>77.5</b>   |
| <b>EBIT Margin</b>                       | <b>23.5%</b>  | <b>19.5%</b>  | <b>11.8%</b>  | <b>14.3%</b>  | <b>9.5%</b>   |

Source: Company's Management's accounts

**Note:**

- (1) Property tax savings relating to prior years have been excluded in FY2016 and attributed back to respective years.  
(2) Any discrepancies between the total sum of the amounts listed and the total thereof are due to rounding.

We note that the EBIT and EBIT margin of the Rail Business Segment have declined substantially over the years. We further understand from the Management that, under the Existing Licences, the declining trend of the EBIT and EBIT margin of this business segment is expected to persist due to the following factors:

*(i) Expected increase in capital expenditure and depreciation charges*

As part of the terms under the CRFF, we note that the Company will be required to acquire operating assets used in the operation of the Lines in accordance with the dates specified in the Existing Licences. Additionally, the SMRT Trains Entities are expected to fund all additions, renewals and replacements relating to the operating assets during the tenure of the Existing Licences.

We understand that the Group would be obligated to acquire certain operating assets relating to station upgrades of the NSEW Line, all operating assets of the BPLRT Line from LTA as well as pay for certain new trains that have been transferred from LTA by 1 October 2016 if the transition to the NRFF does not take place. In addition, we note that the Company may (where applicable) be required to purchase the operating assets of the CCL from LTA at their respective book values in May 2019 according to the licence granted in May 2009. Prior to the Company's purchase of the operating assets, the Company is also required to set aside annually a sum amounting to the lower of S\$30 million or 75% of the post-tax surplus derived from the operation of the CCL Line in a reserve fund account, to be used for any major overhaul of equipment or machinery used in the operation of the CCL Line.

In addition to the obligations of acquiring the operating assets of the CCL Line and BPLRT Line, the Group would also be expected to invest in acquisitions of new operating assets, asset renewal and life cycle upgrades to fulfil its commitment to further strengthen performance in rail reliability and meet the maintenance performance standards set by the authorities.

We understand from the Management that under the CRFF, the Group had invested about S\$1.3 billion in rail-related capital expenditures over the past five years, which resulted in an average annual increase in depreciation costs of approximately 11.9%. If the Group continues to operate under the CRFF, the total estimated capital expenditures of SMRT Trains could reach approximately S\$2.8 billion over the next five years including the replacement of ageing assets in the system, the procurement of new trains and take-over of the operating assets of the CCL Line and Boon Lay Extension (where applicable). For illustrative purposes, assuming that the new assets

of S\$2.8 billion in value have maximum useful lives of 30 years and are purchased collectively, the annual depreciation expense is expected to increase by approximately S\$90 million for the duration of the 30-year useful lives.

Accordingly, an increase in aggregate estimated capital expenditures of approximately S\$2.8 billion over the next five years would result in higher annual depreciation charges and consequently exert greater pressure on the operating margins of the Company.

(ii) *Persisting low growth in rail fares*

The Company had noted in their FY2015 annual report that fares have been kept affordable for the commuting public through a series of measured fare adjustments since 2001, although higher fares are allowed under the fare adjustment formula. We note that actual fare levels which are regulated by the Public Transport Council, have not increased meaningfully relative to the Fare Cap (as defined below) as demonstrated in Exhibit 4 below.

**Exhibit 4 – Actual Fare Growth**



Source: Management of the Company

**Notes:**

- (1) Fare cap represents the cumulative maximum fare allowed under the fare adjustment formula presently set out in the Third Schedule to the Public Transport Council Act, as amended from time to time ("Fare Cap")
- (2) As mentioned in the Company's annual report in 2011, the lower average fare in 2010 was mainly attributable to the introduction of distance fares

As shown above, we note that while the Fare Cap as allowed under the prescribed fare adjustment formula had increased by approximately 30% from FY2001 to FY2016, actual fare had grown by only approximately 10%, in line with the Singapore government's objective of keeping public transport fare prices affordable for commuters.

As noted by the Ministry of Transport, the fare review mechanism, which considers the fare adjustment formula and roll-over mechanism, is reviewed regularly to ensure that the mechanism remains in line with the cost structure and productivity achieved in the industry. Such fare review mechanism limits any potential upside to be gained by public transport operators from any price increases in accordance to the fare adjustment formula. As noted in its 4Q2016 results announcement, the Group expects that the rail fare revenue will continue to be limited by the fare review mechanism and also expects that fare revenue will be impacted by the 1.9% fare reduction since 27 December 2015 as well as the commencement of Downtown Line 2 operations.

*(iii) Increasing staff and related costs*

We note that the Group's staff costs grew at a compound annual growth rate of approximately 12.0% from FY2012 to FY2016 and increased as a percentage of revenue from 32.2% in FY2012 to 41.3% in FY2016. This is in line with the expansion of rail operations where the Company has seen an increase in total route length from 136 kilometres in FY2012 to 138 kilometres in FY2016 as well as car-kilometres operated from 114 million kilometres to 131 million kilometres over the same period.

The Company had noted in its FY2016 annual report that there would be a need to further increase operating expenses to cater to an enlarging fleet of trains, as well as expanding rail network especially with the completion of stage six of the CCL Line in 2025 and commencement of the extension of the NSEW Line to Tuas which will consist of four new stations in FY2017.

In addition, the Company would need to increase total headcount to meet tightening regulatory standards and heightened operational demands on service, reliability, and capacity. To meet these enhanced standards, SMRT Trains has plans to increase its maintenance manpower by at least 20%, equivalent to about 700 staff, over the next three years.

*(iv) Increasing repair and maintenance costs*

In addition to the increase in headcount and staff costs, costs relating to the maintenance and operation of the Lines are also expected to escalate. We note that the Group's repair and maintenance costs grew at a compound annual growth rate of approximately 13.3% from FY2012 to FY2016 and increased as a percentage of revenue from 8.0% in FY2012 to 10.8% in FY2016.

Repair and maintenance costs are expected to increase further as a result of an enlarging rail network, increasing fleet of trains and the SMRT Trains Entities' commitment to tightening audit and regulatory requirements to ensure the reliability of the ageing rapid transit system network and provide a higher level of service to the commuting public. The expected increase in repair and maintenance works would therefore also place more pressure on the Company's financial performance and operating margins.

**(c) Declining margins of the Rail Business Segment under the CRFF**

Due to the aforesaid factors, the Group continues to face increasing operating challenges in the Rail Business Segment with the rail operations seeing its first ever operating loss in 4Q2015. In FY2016, without a one-off net property tax refund of S\$17.1 million (attributable to the rail business) relating to prior years' over-assessment, the rail business would have suffered an operating loss of S\$9.6 million.

We understand from the Management that under the Existing Licences, the Group's financial performance will be further impacted by the depressed rail fare revenue, increase in operating expenses and escalating capital commitments and depreciation charges as elaborated above. In particular, the Management estimates the additional capital expenditure of SMRT Trains could reach approximately S\$2.8 billion over the next five years which include the procurement of new trains and take-over of the operating assets of the CCL Line and Boon Lay Extension (where applicable) leading to substantial increase in depreciation charges.

We further understand that if the Group continues to operate under the CRFF, the ability of the Group to generate returns on the Operating Assets will diminish over time as a result of the fare gap and rising operating expenses together with the increasing capital commitments and hefty depreciation charges while the Group continues to provide enhanced service levels to the commuting public.

**(d) Potential impact of the NRFF Licence**

With the transition to the NRFF, the LTA will own the rail infrastructure as well as the Operating Assets which will be managed by SMRT Trains. In particular, we note that under the NRFF Licence, SMRT Trains will pay LTA a licence charge for the right to utilise the Operating Assets and operate the Lines. The licence charge is structured to enable SMRT Trains to share with LTA the risks (and rewards) associated with uncertainties in relation to revenue from fare collection and fluctuations in operating costs and allow operators to achieve EBIT margins comparable to other asset-light rail operators globally.

Based on the NRFF licence charge structure, as described in the LTA Press Release, we understand that the licence charge under the NRFF has been structured by LTA to allow SMRT Trains to achieve a composite EBIT margin of about 5% for SMRT Train's Rail Business Segment. We have compared the composite EBIT margin against broadly comparable companies that are asset-light rail operators ("**Comparable Companies**"). Brief descriptions of the Comparable Companies are set out in Exhibit 5 below.

| <b>Exhibit 5 – Brief descriptions of Comparable Companies</b> |                                                           |                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Comparable Companies</b>                                   | <b>Market capitalisation (S\$ million) <sup>(1)</sup></b> | <b>Business description</b>                                                                                                                                                                                                                                                                                 |
| National Express Group Plc (" <b>National Express</b> ")      | S\$2,968.5                                                | National Express provides mass passenger transport services. It operates bus, coach and rail services in the United Kingdom, Continental Europe, North Africa, North America and the Middle East.                                                                                                           |
| Stagecoach Group Plc (" <b>Stagecoach</b> ")                  | S\$2,126.4                                                | Stagecoach is an international transport group, with operations in the United Kingdom, United States of America and Canada. Stagecoach operates bus, coach, train and tram services.                                                                                                                        |
| Go-Ahead Group Plc (" <b>Go-Ahead</b> ")                      | S\$1,448.5                                                | Go-Ahead provides a range of public transport services. It operates buses, coaches and trains in the North East of England, Luton, Oxford and Brighton, in addition to providing a range of ground handling services, which encompasses both airline and cargo handling. Go-Ahead also owns a taxi company. |
| FirstGroup Plc (" <b>FirstGroup</b> ")                        | S\$2,221.1                                                | FirstGroup is an international passenger group which has bus and rail operations in the United Kingdom and North America. FirstGroup's operations comprise bus and passenger rail franchises, in addition to transit management, school bus operations and fleet maintenance.                               |
| Taipei Rapid Transit Corporation (" <b>Taipei Metro</b> ")    | N.A. <sup>(2)</sup>                                       | Taipei Metro provides transportation services. The Company offers local and suburban mass passenger transportation and public transport network services through bus and metro as well as tourist guide and transportation services. Taipei Metro operates in Taiwan.                                       |

Source: Bloomberg L.P. and/or annual reports of the Comparable Companies

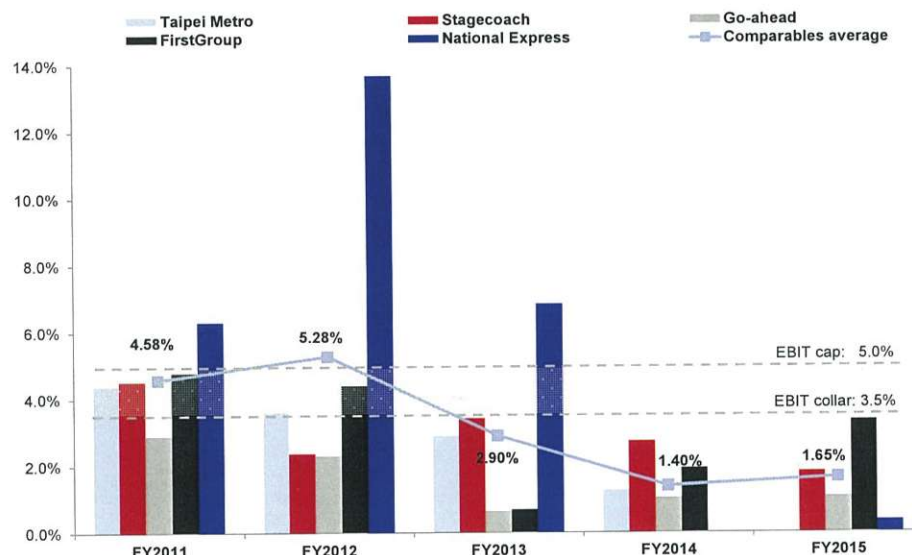
**Note:**

(1) Market capitalisation based on the respective last transacted prices on 14 July 2016.

(2) Not applicable as Taipei Metro is not a listed company on a stock exchange.

We set out in Exhibit 6 below the EBIT margins of the rail segments of the Comparable Companies as compared to the composite EBIT margin under the NRFF Licence.

**Exhibit 6 – Rail segment EBIT margins of Comparable Companies**



Source: Annual reports of Comparable Companies for the respective years, where available, and PPCF calculations

**Notes:**

- (1) The EBIT margin of Taipei Metro includes non-fare revenue from advertisement and rental of station shops, amongst others. Save for Taipei Metro, the above margins have been derived from each company's operating segment results from rail segment, as reported or restated in its annual reports.
- (2) The spike in EBIT margin for National Express in FY2012 was due to the handover of the National Express East Anglia franchise to Abellio Greater Anglia, resulting in a substantial decline in revenue and a proportionately higher reduction in operating expenses.
- (3) The Comparable Companies have different financial reporting periods and no adjustments have been made to align their financial figures to that of the Company's financial reporting period.

Based on the above, we note that the composite EBIT margin of approximately 5% under the NRFF License is generally in line with the historical average EBIT margin range of between approximately 1.40% to 5.28% of the Comparable Companies over the last five financial years and compares favourably to the Comparable Companies for the latest three financial years.

We wish to highlight that the list of Comparable Companies is not exhaustive and we recognise that there is no listed company which we may consider to be identical to the Company in terms of, *inter alia*, market capitalisation, geographical markets, composition of business activities, scale of business operations, risk profile, asset base, accounting policies, track record, future prospects, market/industry size, political risk, competitive and regulatory environment, financial positions and other relevant criteria. The Directors should note that whilst some of the identified Comparable Companies operate businesses similar to the Company, it is important to note that there may be differences between the Company and these rail operators in respect of specific rail licence terms and conditions. Therefore, the comparisons made with respect to the Comparable Companies are for illustrative purposes only.

The Directors should also note that there is no certainty that SMRT Trains will earn an EBIT margin of about 5%. The eventual profitability of SMRT Trains is dependent on various factors and a summary of the key risk factors that are likely to, will or may affect the actual EBIT margin of SMRT Trains has been set out in the Announcement. We note that Table B of the Appendix to the Announcement sets out a sensitivity analysis of the impact of fluctuations in revenue and operating costs to the EBIT margin of SMRT Trains which is extracted in italics as follows:

|                                                 |            | <b>Variation on Operating Expenses of SMRT Trains (Net Other Operating Income of SMRT Trains)</b> |            |           |            |             |
|-------------------------------------------------|------------|---------------------------------------------------------------------------------------------------|------------|-----------|------------|-------------|
|                                                 |            | <b>-10%</b>                                                                                       | <b>-5%</b> | <b>0%</b> | <b>+5%</b> | <b>+10%</b> |
| <b>Variation on Fare Revenue of SMRT Trains</b> | <b>+5%</b> | 5.9%                                                                                              | 5.7%       | 5.5%      | 5.3%       | 4.7%        |
|                                                 | <b>+2%</b> | 5.8%                                                                                              | 5.6%       | 5.4%      | 5.2%       | 3.0%        |
|                                                 | <b>0%</b>  | 5.7%                                                                                              | 5.5%       | 5.3%      | 5.0%       | 2.3%        |
|                                                 | <b>-2%</b> | 5.7%                                                                                              | 5.4%       | 5.2%      | 3.7%       | 1.6%        |
|                                                 | <b>-5%</b> | 5.0%                                                                                              | 5.0%       | 5.0%      | 3.0%       | 0.9%        |

**Key Assumptions:**

- Actual FY2016 Revenue and Operating Expenses adjusted for NRFF depreciation used for illustration purposes
- NRFF revenue collar has been computed based on FY2016 Revenue as the Target Revenue stated in the NRFF Licence
- NRFF revenue share charge of 10%

We note that the above sensitivity analysis is purely hypothetical and provided solely for illustration purposes only and there is no guarantee that the above range of EBIT Margins can be achieved. Based on the scenarios illustrated above, in order for SMRT Trains to achieve the composite EBIT margin of about 5% as stated in the LTA Press Release, we understand that (a) SMRT Trains will need to continue to improve operational productivity; (b) SMRT Trains will need to be able to meet the KPIs, OPS and MPS prescribed under the NRFF Licence; (c) LTA, while exercising its discretion, duly compensates SMRT Trains by way of grant(s) for the additional costs or reduced revenue that SMRT Trains may incur or suffer in the event of any changes made by LTA to the KPIs, OPS, MPS, codes of practice and other events; and (d) PTC will have to adjust fares in accordance with the fare adjustment formula as set out in Exhibit 4 above.

Notwithstanding that the EBIT margin of SMRT Trains under the NRFF would be lower relative to the historical EBIT margins under the CRFF as illustrated in Exhibit 3 above and there is no certainty that SMRT Trains will earn the EBIT margin of about 5% under the NRFF, Shareholders should view the foregoing in the following context and consider the benefits of transitioning to the NRFF:

- If the SMRT Trains Entities were to remain under the CRFF, the Company expects the EBIT margin to come under pressure and be severely impacted by the increased depreciation charges which will result from the rising capital expenditures as described in paragraph 5.3(b) above;
- The licence charge is structured to enable SMRT Trains to share with LTA the risks associated with uncertainties in relation to revenue from fare collection and fluctuations in operating costs, accordingly, SMRT Trains' profitability is expected to be more stable under the NRFF as the licence charge structure and the in-built risk-sharing features moderate the income fluctuations that SMRT Trains was exposed to under the CRFF; and
- As all operating assets of the Lines will be owned by LTA, the capital expenditure relating to purchases of new operating assets for the Lines will no longer be borne by the Group. SMRT Trains will be relieved of its onerous capital expenditure obligations and better positioned to operate and maintain its rail services in a financially sustainable manner.

We note that the transition to the NRFF Licence would put SMRT Trains on sounder financing footing as it would relieve SMRT Trains of its capital expenditure obligations and better protect SMRT Trains from the risks of costs continuing to increase without commensurate fare adjustments. Overall, we understand that the regulatory, financial and operating risks for SMRT Trains would be reduced under the NRFF.

#### 5.4. Financial effects of the Proposed Sale

The full text of the information relating to the financial effects of the Proposed Sale is set out in paragraph 6 of the Announcement and an extract of which has been reproduced in italics below. All terms and expressions used in the extract below shall have the same meaning as those defined in the Announcement, unless otherwise defined.

*"As the Consideration is based on the net book value of the Operating Assets, there will be a negligible gain on disposal (less than 1% of the aggregate Consideration) arising as a result of the treatment under the Singapore Financial Reporting Standards of a Contract that was entered into by one of the other subsidiaries of the Company with SMRT Trains.*

*The net tangible asset value of the Sale PPE which is included in the audited financial statements ("**FY2016 Audited Financial Statements**") for the financial year ended 31 March 2016 ("**FY2016**") of SMRT Trains or SMRT Light Rail, as the case may be (the "**FY16 PPE**") and the Sale WIP which is included in the FY2016 Audited Financial Statements (the "**FY16 WIP**")\* as at 31 March 2016, based on the audited consolidated financial statements of the Group for FY2016, was S\$902.29 million.*

- \* The Company has made this disclosure with reference to the FY16 PPE and FY16 WIP as these are based on the FY2016 Audited Financial Statements, being the latest available audited financial statements of the Group. The Company would like to highlight that the Sale PPE and Sale WIP and the overall quantum of the Consideration is still subject to finalisation. Please refer to paragraph 4.2 for more information.

#### **Earnings per ordinary share in the capital of the Company ("Share")**

The Company considers that it is not meaningful to disclose the effect of the Proposed Sale on the earnings per Share ("**EPS**") for FY2016, being the most recently completed financial year of the Company for which consolidated audited accounts are available, assuming that the Proposed Sale had been effected on 1 April 2015, being the first day of that financial year, as provided under Rule 1010(9) of the Listing Manual. This is because it is not meaningful to take into account the EPS impact of the Proposed Sale without factoring in the effects of the NRFF Licence (for such effects, please refer to paragraphs 3.5 to 3.15, and for the differences between the Existing Licences and the New Licence, please see the table in paragraph 3.16). It is also not meaningful to factor in both the NRFF Licence and the Proposed Sale in the EPS impact on FY2016, because the Company's rail operating expenditure and cost structure during FY2016 was vastly different both from the Company's rail operating expenditure and cost structure and expected operating expenditure and cost structure thereafter under the Existing Licences.

#### **Net tangible asset ("NTA")**

Had the Proposed Sale been effected on 31 March 2016, being the last day of FY2016, the Group's NTA per Share would see a change of less than 1% as at 31 March 2016, as shown below:

| NTA per Share as at 31 March 2016<br>(audited) | NTA per Share as at 31 March 2016<br>(assuming the Proposed Sale had been<br>effected on 31 March 2016) |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| 59.21 cents <sup>(1)</sup>                     | 59.44 cents <sup>(2)(3)</sup>                                                                           |

#### **Notes:**

- (1) Based on the Group's NTA as at 31 March 2016 of approximately S\$902.29 million, divided by 1,523,851,896 Shares.

- (2) *Based on the Group's NTA as at 31 March 2016 (assuming the Proposed Sale had been effected on 31 March 2016) of approximately S\$905.72 million, divided by 1,523,851,896 Shares.*
- (3) *The Company has made this disclosure with reference to the FY16 PPE and FY16 WIP as these are based on the FY2016 Audited Financial Statements, being the latest available audited financial statements of the Group. The Company would like to highlight that the Sale PPE and Sale WIP and the overall quantum of the Consideration are subject to finalisation. Please refer to paragraph 4.2 for more information."*

## 5.5. Intended use of proceeds from the Proposed Sale

We note that the Group intends to use part of the net proceeds from the Proposed Sale to progressively retire relevant portions of its existing debt for better management of the Group's capital structure in order to meet its business objectives and to invest in the strengthening and further development of its rail engineering core competencies which it sees as critical for the future growth of the Group, so as to enhance long-term shareholder value.

Based on its latest audited financial position as at 31 March 2016, the Group had recorded total current and non-current interest-bearing borrowings of approximately S\$821.2 million, comprising secured and unsecured fixed rate loans as well as both secured and unsecured fixed rate notes issued by the Group under its medium term note programmes, and recorded a net debt position of approximately S\$588.9 million and a net gearing ratio of approximately 0.64 times.

In addition, we understand that the Group had claimed from certain tax allowances relating to its investment in, and ownership of, the Sale Assets and that, upon disposal of the Sale Assets to the LTA, the Group will also be required to pay the Inland Revenue Authority of Singapore as a tax payable on the difference between the sales proceeds and the residual capital allowances relating to the Operating Assets, amounting to approximately S\$159 million.

In view of the above, and taking into consideration that there will be no gain recognised on the Proposed Sale, we note that the Company does not intend to use the proceeds from the Proposed Sale to pay special dividends to Shareholders.

## 6. OPINION

In arriving at our opinion in respect of the Proposed Sale, we have deliberated on various factors which we consider to be pertinent and to have a significant bearing on our assessment of the Proposed Sale, including, *inter alia*, the following:

- (a) the rationale for and key benefits of the Proposed Sale;

### Basis for using net book value as the Consideration

- (b) the Consideration payable for the Proposed Sale on the basis of the net book values of the Operating Assets is consistent with historical transactions involving the Operating Assets;
- (c) there is a contractual obligation for the SMRT Trains Entities to transfer the Operating Assets to LTA at the net book value of such operating assets upon the termination of the Existing Licences;
- (d) the depreciation policy for the Operating Assets has been consistently applied by the Company and LTA based on technical specifications from the manufacturers and the depreciation policy of the Operating Assets appears to be reasonably applied;

- (e) given that the day-to-day operation of the Operating Assets is expected to remain the same and continue to be under the control of SMRT Trains after the Proposed Sale, the transfer of titles to LTA alone should not result in any modification to the current depreciation policy and estimated useful lives of the Operating Assets;
- (f) under the terms of the Existing Licences, the Company is not permitted to sell the Operating Assets to any third party without LTA's prior written approval and given that the Operating Assets are designed to meet operating requirements specific to the respective Lines, we note that there may not be readily available buyers for these Operating Assets;
- (g) in the absence of an active market for such assets, the divestment of the Operating Assets to any third-parties would likely have to be on a piecemeal or breakup basis, and not as a fully integrated functional mass rapid transport system. This would have a corresponding negative impact on the value of such assets to a third-party, and accordingly, the actual realisable disposal value of the Operating Assets in such a scenario would likely be lower than the net book value of the Operating Assets;

#### **Payment schedule of the Consideration**

- (h) LTA's condition survey of the Sale PPE shall be based on technical and functional standards and/or specifications set out in a condition index to be formulated by a professional assessor appointed by LTA, in consultation with the SMRT Trains Entities;
- (i) the surveying schedule of up to three years is to allow LTA to conduct the condition assessment while using reasonable efforts to minimise any disruption to the regular and efficient operation and maintenance of the Lines as the Operating Assets remain in the control of SMRT Trains;
- (j) SMRT Trains had originally acquired approximately S\$1.2 billion in Operating Assets from LTA in 1998, which SMRT Trains paid for in five equal interest-free annual instalments;
- (k) in addition, SMRT Trains had received a S\$480.0 million asset-related grant which effectively reduced the consideration for these assets to S\$720.0 million, and based on the Management's estimate, the portion of unamortized grants in respect of the Operating Assets is expected to be approximately S\$25.1 million as at 30 September 2016;

#### **Financial performance of the Group**

- (l) with respect to the historical financial performance of the Group, we note that the growth in gross revenue from rail fare operations has been outpaced by the growth in operating expenses resulting in an overall decline in operating margin of rail fare operations from 15.6% in FY2012 to 1.1% in FY2016;
- (m) the Management expects the EBIT and EBIT margin of the Rail Business Segment to be further impacted by the following factors:
  - (i) An increase in aggregate estimated capital expenditure of approximately S\$2.8 billion over the next five years and escalating depreciation charges as the Group acquires the operating assets of the Boon Lay Extension and CCL Line (where applicable) and continues to invest in acquisitions of new operating assets, asset renewal and life cycle upgrades to fulfill its commitment to further strengthen performance in rail reliability and meet the maintenance performance standards set by the relevant authorities;
  - (ii) Persisting low growth in rail fares which have been kept affordable for the commuting public;
  - (iii) Increase in staff and related costs to cater to an enlarged fleet of trains, as well as future expansion of the network; and

- (iv) Increase in repair and maintenance cost in line with the expanding rail network and train fleet as well as the SMRT Trains Entities' commitment to ensure the reliability of the ageing rapid transit system network and provide a higher level of service to the commuting public;
- (n) if the Group continues to operate under the CRFF, the ability of the Group to generate adequate returns on the Operating Assets will diminish over time as capital expenditure increases when the Group continues to provide enhanced service levels to the commuting public while financing the renewal and replacement of its operating assets;
- (o) we note that under the NRFF licence charge structure, the composite EBIT margin of about 5% is in line with the historical average EBIT margin of the Comparable Companies and in particular, compares favourably to the Comparable Companies for the last three financial years. The NRFF licence charge structure is also expected to help lower the volatility of the foreseeable earnings of the Group; and
- (p) while there is no certainty that SMRT Trains will earn the EBIT margin of about 5% as stated in the LTA Press Release, we understand that the overall regulatory, financial and operating risks for SMRT Trains would be reduced under the NRFF.

**Having regard to the considerations as set out in this letter and summarized in this section, and the information available to us as at the Latest Practicable Date, we are of the opinion that the terms of the Proposed Sale are fair and reasonable.**

This letter has been prepared for the benefit of the Directors of the Company in connection with and for the purpose of their consideration of the Proposed Sale only. The recommendation made by Directors to the Shareholders and their opinion in relation to the Proposed Sale shall remain the sole responsibility of the Directors.

Whilst a copy of this letter may be reproduced in the Circular, and in relation to the Proposed Sale, none of the Directors may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of PPCF in each specific case. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours truly,

For and on behalf of  
PrimePartners Corporate Finance Pte. Ltd.



Mark Liew  
Chief Operating Officer



Andrew Leo  
Director, Corporate Finance

## APPENDIX II

### SENSITIVITY ANALYSIS ON EBIT MARGIN FOR FY2016 FOR ILLUSTRATIVE PURPOSES

The following sensitivity analyses are purely hypothetical and provided **solely to illustrate the EBIT margins that SMRT Trains would have achieved in FY2016, were it to continue under the CRFF and bear the depreciation charges for capital expenditure obligations of S\$2.8 billion (see paragraph 3.11) (Table A), and were it to have performed within the ordinary course of its business under the NRFF (Table B).**

As mentioned in paragraphs 3.13 and 4, the EBIT margin of SMRT Trains is dependent on several factors, many of which are outside the control of SMRT Trains and/or which SMRT Trains is unable to project or predict with any certainty. These include (among others) what the PTC will decide in relation to future fare adjustments and the impact on ridership of the new lines in the network.

**It should be noted that the analyses performed in Table A and Table B below do not in any way constitute any form of profit guidance or forecast or forward statement by SMRT Trains of its future EBIT margin.**

**Shareholders should also note that the revenue share charge assumed in Table B below is not fixed for the term of the NRFF Licence.**

TABLE A

Table A illustrates the impact on EBIT margins that SMRT Trains would have achieved based on its financial performance in FY2016 if SMRT Trains were to continue under the CRFF and had to incur the additional depreciation charges for capital expenditure obligations of S\$2.8 billion (see paragraph 3.11) under the CRFF. Assuming a useful life of 30 years for these assets, such capital expenditure could lead to additional depreciation charges of up to approximately S\$90 million per annum.

Table A illustrates that should total revenue remain at the level applicable in FY2016 and operating expenses fluctuate between -10% and +10%, SMRT Trains' EBIT margin would have varied between 8.0% and -6.6%.

|                                                   |     | Variation on Operating Expenses of SMRT Trains<br>(Net of Other Operating Income (OOI) of SMRT Trains) |       |       |       |        |
|---------------------------------------------------|-----|--------------------------------------------------------------------------------------------------------|-------|-------|-------|--------|
|                                                   |     | -10%                                                                                                   | -5%   | 0%    | +5%   | +10%   |
| Variation<br>On Fare<br>Revenue of<br>SMRT Trains | +5% | 12.4%                                                                                                  | 8.9%  | 5.4%  | 1.9%  | -1.6%  |
|                                                   | +2% | 9.8%                                                                                                   | 6.2%  | 2.7%  | -0.9% | -4.5%  |
|                                                   | 0%  | 8.0%                                                                                                   | 4.4%  | 0.7%  | -3.0% | -6.6%  |
|                                                   | -2% | 6.2%                                                                                                   | 2.4%  | -1.3% | -5.1% | -8.8%  |
|                                                   | -5% | 3.2%                                                                                                   | -0.7% | -4.5% | -8.4% | -12.2% |

Key Assumptions:

- i. Actual FY2016 Revenue and Operating Expenses used for illustration purposes
- ii. Additional S\$90 million depreciation cost included in Operating Expenses, assuming that new assets of S\$2.8 billion in value have been acquired and they have useful lives of 30 years

**TABLE B**

Table B illustrates the EBIT margins that SMRT Trains would have achieved based on its financial performance in FY2016 under the terms of the NRFF Licence. Sensitivity analysis has also been performed to provide the theoretical impact on the EBIT margin if SMRT Trains were to have achieved higher or lower fare revenue or incurred higher or lower operating expenses in FY2016.

|                                                             |            | <b>Variation on Operating Expenses of SMRT Trains<br/>(Net of Other Operating Income (OOI) of SMRT Trains)</b> |            |           |            |             |
|-------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------------------|------------|-----------|------------|-------------|
|                                                             |            | <b>-10%</b>                                                                                                    | <b>-5%</b> | <b>0%</b> | <b>+5%</b> | <b>+10%</b> |
| <b>Variation<br/>On Fare<br/>Revenue of<br/>SMRT Trains</b> | <b>+5%</b> | 5.9%                                                                                                           | 5.7%       | 5.5%      | 5.3%       | 4.7%        |
|                                                             | <b>+2%</b> | 5.8%                                                                                                           | 5.6%       | 5.4%      | 5.2%       | 3.0%        |
|                                                             | <b>0%</b>  | 5.7%                                                                                                           | 5.5%       | 5.3%      | 5.0%       | 2.3%        |
|                                                             | <b>-2%</b> | 5.7%                                                                                                           | 5.4%       | 5.2%      | 3.7%       | 1.6%        |
|                                                             | <b>-5%</b> | 5.0%                                                                                                           | 5.0%       | 5.0%      | 3.0%       | 0.9%        |

Key Assumptions:

- i. Actual FY2016 Revenue and Operating Expenses adjusted for NRFF depreciation used for illustration purposes
- ii. NRFF revenue collar has been computed based on FY2016 Revenue as the Target Revenue stated in the NRFF Licence
- iii. NRFF revenue share charge of 10%

The ability to achieve an EBIT margin of about 5% is subject to the following factors: (a) SMRT Trains continuing to improve operational productivity to offset increases in operating expenses; (b) SMRT Trains meeting the KPIs, OPS and MPS prescribed under the NRFF Licence thereby not incurring any financial penalties for failure to do so; (c) LTA, while exercising its discretion, duly compensates SMRT Trains by way of grant(s) for the additional costs or reduced revenue that SMRT Trains will incur or suffer arising in the event of any changes made by LTA to the KPIs, OPS, MPS, codes of practice and other events; and (d) PTC adjusting fares in accordance with the fare adjustment formula (see paragraph 3.6).

## SMRT CORPORATION LTD

(Company Registration No.: 200001855H)  
(Incorporated in the Republic of Singapore)

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of SMRT Corporation Ltd (the “**Company**”) will be held at The Star Theatre, Level 5, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617 on 29 September 2016 at 2.30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution which will be proposed as an ordinary resolution.

*All references to the Circular in this Notice of EGM shall mean the Company’s Circular to shareholders dated 1 August 2016. All capitalised terms not otherwise defined herein shall have the meanings given to them in the Circular.*

#### **ORDINARY RESOLUTION**

**RESOLVED THAT** pursuant to Chapter 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited, approval be and is hereby given for:

- (a) the Proposed Sale (as defined in the Circular), on the terms and conditions of the Sale and Purchase Agreements (as defined in the Circular); and
- (b) the Directors or any one of them to complete and do all such acts and things (including without limitation, to finalise and authorise the acceptance of the NRFF Licence (as defined in the Circular), the surrender of the Existing Licences (as defined in the Circular), the execution of all relevant agreements and documents, and the approval of any amendments, alterations or modifications to the Sale and Purchase Agreements and such other agreements and documents) as the Directors or any of them may consider necessary, desirable or expedient in connection with the Proposed Sale.

#### **By Order of the Board of Directors**

Jacquelin Tay Gek Poh  
Company Secretary

Singapore  
1 August 2016

#### **Notes**

- 1. A member, who is entitled to attend, speak and vote at the EGM and is not a relevant intermediary (which has the meaning ascribed to it in Section 181(6) of the Companies Act, Chapter 50 of Singapore), is entitled to appoint up to two proxies to attend, speak and vote in his/her stead.
- 2. A member which is entitled to attend, speak and vote at the EGM and is a relevant intermediary may appoint more than two proxies to exercise all or any of his rights to attend, speak and vote at the EGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).
- 3. A proxy need not be a member of the Company.
- 4. Please see the Circular and the Notes to Proxy Form for more information.

### **Personal data privacy**

By submitting an instrument appointing a proxy or proxies and/or representative(s) to attend, speak and vote at the EGM and/or adjournment thereof, a member of the Company:

1. Consents to the collection, use and disclosure of the member's personal data by the Company (and or its agents) for the purpose of processing and administration by the Company (or its agents) of proxy(ies) and representative(s) appointed for the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with the applicable laws, listing rules, regulations and/or guidelines (collectively the "**Purposes**");
2. Warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and
3. Agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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**PROXY FORM**  
**EXTRAORDINARY GENERAL MEETING**  
**SMRT CORPORATION LTD**

(Company Registration No: 200001855H)  
(Incorporated in the Republic of Singapore)

**Important:**

1. This Proxy Form is not valid for use by CPF/SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
2. CPF/SRS investors should contact their respective Agent Banks if they have any queries regarding their appointment as proxies.

I/We \_\_\_\_\_ (Name) \_\_\_\_\_ (NRIC/Passport No.) of  
\_\_\_\_\_ (Address)

being a member/members of SMRT Corporation Ltd (the "Company") hereby appoint

| Name | Address | NRIC/<br>Passport No. | Number of<br>Ordinary Shares |
|------|---------|-----------------------|------------------------------|
|      |         |                       |                              |

and/or (delete as appropriate)

| Name | Address | NRIC/<br>Passport No. | Number of<br>Ordinary Shares |
|------|---------|-----------------------|------------------------------|
|      |         |                       |                              |

*For a relevant intermediary (which has the meaning ascribed to it in Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Act")), please annex, to this proxy form, the additional list(s) of proxies (as required) setting out the complete information as set out in the immediately preceding boxes above in respect of each proxy. See the Notes to the Proxy Form on the reverse for more information.*

or failing him/her, the Chairman of the Extraordinary General Meeting of the Company ("**EGM**"), as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the EGM, to be held at The Star Theatre, Level 5, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617 on 29 September 2016 at 2.30 p.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolution to be proposed at the EGM as indicated hereunder. If no specific directions as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the EGM and at any adjournment thereof.

| ORDINARY RESOLUTION                                                                                                  | No. of Votes For | No. of Votes Against |
|----------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| Approval of the Proposed Sale on the terms and subject to the conditions set out in the Sale and Purchase Agreements |                  |                      |

*If you wish to exercise all your votes "For" or "Against" the Resolution, please insert a tick (✓) within the relevant box provided. Alternatively, if you wish to exercise your votes both "For" and "Against" the Resolution, please insert the relevant number of ordinary shares in the boxes provided.*

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2016

**Total no. of ordinary shares held**

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

**IMPORTANT: PLEASE READ NOTES ON THE REVERSE**

**NOTES TO PROXY FORM:**

1. A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the EGM. A proxy need not be a member of the Company. Where such member's form of proxy appoints two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy. If no such number of shares is specified, the first named proxy shall be deemed to represent 100 per cent. of the shareholding and the second named proxy shall be deemed to be an alternate to the first named proxy.
2. A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the EGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such relevant intermediary's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy. In relation to a relevant intermediary who wishes to appoint more than two proxies, please annex, to the form of proxy, the list(s) of proxies, setting out, in respect of each proxy, the name, address, NRIC/Passport Number, class of shares and number of shares in relation to which the proxy has been appointed.
3. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing or, where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
4. A corporation which is a member may authorise by a resolution of its directors or other governing body an authorised representative or representatives in accordance with its articles of association or other constitutional document and Section 179 of the Act to attend and vote on its behalf.
5. The instrument appointing a proxy or proxies (together with the letter or power of attorney, if any, under which it is signed or a certified copy thereof), must, failing previous registration with the Company, be deposited with the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, at least 48 hours before the time appointed for the EGM.

2<sup>nd</sup> fold



Please  
Affix  
Postage  
Stamp

The Company Secretary  
**SMRT CORPORATION LTD**  
c/o Boardroom Corporate & Advisory Services Pte. Ltd.  
50 Raffles Place #32-01  
Singapore Land Tower  
Singapore 048623

3<sup>rd</sup> fold

6. A member should insert into the proxy form the total number of shares held by him. If the member has shares entered against his name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register as well as shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all the shares held by the member (in both the Register of Members and the Depository Register).
7. The submission of an instrument appointing a proxy or proxies by a member does not preclude him from attending and voting at the EGM if he so wishes. In such event, the instrument appointing a proxy or proxies will be deemed to be revoked and the Company reserves the right to refuse to admit any person or persons appointed under the instrument appointing a proxy or proxies, to the EGM.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, unexecuted or improperly executed, or illegible, or where in the Company's opinion the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies, or if the proxy form is not submitted on time and in accordance with Note 5 above. In addition, in the case of shares entered in the Depository Register, the Company shall be entitled to reject any instrument appointing a proxy or proxies if the member, being the appointor, is not shown to have shares, or the number of shares in relation to which the proxy or proxies have been appointed, entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by The Central Depository (Pte) Limited to the Company.

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