

SAPPHIRE CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 198502465W)

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

- CLEARANCE OF CIRCULAR AND UPDATES ON PROPOSED TRANSACTION

1. CLEARANCE OF CIRCULAR

- 1.1. The board of directors (the “**Board**”) of Sapphire Corporation Limited (the “**Company**”) refers to the announcement dated 2 June 2020 (“**Previous Announcement**”) and the press release made on the same date in relation to the Proposed Transaction (as defined in the Previous Announcement), and the announcement dated 3 July 2020 in relation to the responses to shareholders’ queries on the Proposed Transaction.
- 1.2. Unless otherwise expressly defined or described herein, all capitalised terms used in this announcement (“**Announcement**”) shall have the same meanings as defined in the Previous Announcement.
- 1.3. The Board wishes to announce that the SGX-ST has, in its letter dated 6 October 2020 (“**Letter**”), advised that it has no comment on the draft circular (“**Circular**”) in respect of the Proposed Transaction. The clearance of the draft Circular does not imply that the Companies Act (Cap. 50) of Singapore, or any amendments thereof, or any other statutory requirements have been complied with. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in the draft Circular.

2. WITHDRAWAL OF CONSULTATION AND VOLUNTARY UNDERTAKING

- 2.1. As mentioned in the Previous Announcement, the Company had consulted the SGX-ST on the applicability of Rule 1018(1) of the Listing Manual as to whether the Company would be considered a “cash company” (being a company in which the assets consist wholly or substantially of cash or short-dated securities as defined in Rule 1018(1) of the Listing Manual) subsequent to the Completion of the Proposed Transaction. The Company wishes to update that the Company has withdrawn its consultation from the SGX-ST. With Ranken Railway ceasing to be a subsidiary of the Company and its accounts no longer being consolidated with that of the Group’s, and there being no other principal subsidiary of the Company, the Company has voluntarily provided an undertaking to the SGX-ST that it will escrow the Net Proceeds in order for the Company not to be deemed as a cash company. The Company will also distribute an amount equivalent to 30% of the Net Proceeds to Shareholders. Please refer to paragraph 3 of this Announcement for further details.
- 2.2. The Company also wishes to inform Shareholders of updates to the intended use of proceeds from the Proposed Transaction, the relative figures under Rule 1006 of the Listing Manual, and the financial information and financial effects relating to the Proposed Transaction, as set out in paragraphs 3 to 7 of this Announcement.

3. INTENDED USE OF PROCEEDS FROM THE PROPOSED TRANSACTION

- 3.1. As disclosed in the Previous Announcement, the net proceeds from the Proposed Transaction, after deducting all costs and expenses, is estimated to be approximately RMB 257,048,000 ("**Net Proceeds**"). Since the Previous Announcement, the Company has determined that details of the percentage allocated to each use are set out below:

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

- 3.2. In order for the Company not to be deemed as a cash company under Rule 1018 of the Listing Manual, the Company has voluntarily undertaken to the SGX-ST that:
- (a) upon receipt by Chengdu KQR of the full amount of the Sale Consideration from the Investor, the Company will place the Net Proceeds into an escrow account opened with United Overseas Bank Limited (Chengdu branch) ("**Escrow Account**");
 - (b) an amount equivalent to 36.3% of the Net Proceeds ("**Dividend Allocation Sum**"), being part of the Tranche 1 Escrowed Sum, will be allocated for distribution to Shareholders by way of dividends. The Dividend Allocation Sum, less PRC withholding tax, losses at the Company level for the current financial year of distribution and expenses related to undertaking a capital reduction exercise to write off all accumulated losses of the Group, and which is estimated to amount to approximately 30.0% of the Net Proceeds, will be distributed to the Shareholders in the form of dividends. Pending such distribution, the Dividend Allocation Sum will remain in the Escrow Account;
 - (c) disbursements of up to RMB 72,048,000 ("**Company Usage Sum**"), being the balance of the Tranche 1 Escrowed Sum and representing 28% of Net Proceeds, may be drawn down from the Escrow Account subject to approval by the Audit Committee of the Company for the purposes as disclosed the Circular. Please refer to paragraph 2.1(b) of the table above for the proposed uses of the Company Usage Sum. The Company will announce the use of the Company Usage Sum as and when such proceeds are materially disbursed and whether such a use is in accordance with the stated use and in accordance with the percentage allocated in the Circular and where such proceeds are used for general working purposes, a breakdown with specific details on the use of proceeds for working capital, and any material disbursements of the Company Usage Sum in accordance with the purposes disclosed in the Circular will be subject to the prior approval of the Audit Committee;
 - (d) the remaining 35.7% of the Net Proceeds amounting to RMB 91,698,444, being the Tranche 2 Escrowed Sum, is to be held in escrow in the Escrow Account until the earlier of:
 - (i) (1) Chengdu KQR becoming a principal subsidiary of the Company as defined under the Listing Manual, that is, the audited consolidated pre-tax profits⁽¹⁾ of Chengdu KQR for a full financial year after the Completion of the Proposed Transaction shall account for 20% or more of the audited consolidated pre-tax profits of the Group (including discontinued operations that have not been disposed and excluding the non-controlling interest relating to that subsidiary and excluding any gain or loss from the disposal of Ranken Railway) for such full financial year; and (2) such pre-tax profits⁽¹⁾ of Chengdu KQR in such full financial year exceeding 20% of the pre-tax profits of the Group for FY2019 of RMB 9.1 million (collectively, the "**Financial Conditions**"), after which Company will seek SGX-ST's approval, and the receipt of SGX-ST's approval, for the Company to cease such escrow arrangement. If Completion takes place before 31 December 2020, the first full financial year's results of Chengdu KQR for the purposes of fulfilling the Financial Conditions will be FY2021;
 - (ii) the completion of the acquisition of a business which is able to satisfy the SGX-ST 's requirements for a new listing; or
 - (iii) three (3) years from the Completion Date, and

- (e) in the event that the SGX-ST has not approved the cessation of the escrow arrangement mentioned in paragraph (d) above before the expiry of three (3) years from the Completion Date, the Company shall distribute the Tranche 2 Escrowed Sum to its Shareholders by way of dividends after a capital reduction exercise (which may not be required) to write off all accumulated losses of the Group after FY2020 (if any).

Note:

- (1) The pre-tax profits of Chengdu KQR shall exclude non-recurrent income and expenses, as well as income and expenses generated by activities outside the ordinary course of business.
- 3.3. Notwithstanding paragraph 3.2(d) above, the SGX-ST will reject the Company's application to withdraw the Tranche 2 Escrowed Sum if the Company's latest audited full year consolidated accounts are subject to an adverse opinion, a qualified opinion, a disclaimer of opinion or the Company's auditors have stated that a material uncertainty related to going concern exists.
- 3.4. The proportion of the distribution of the Dividend Allocation Sum would depend on, among others, the amount of profits of the Company for the relevant financial year out of which the Company may pay out dividends. The proposed distributions are expected to be completed in FY2021 or FY2022 due to exchange control restrictions in the PRC and the time taken to complete a capital reduction exercise. The distribution of the Dividend Allocation Sum in the form of dividends to Shareholders is subject to Board and Shareholders' approval, in the manner set out in the Constitution and the Companies Act.
- 3.5. Based on the estimated PRC withholding tax (amounting to 10% of the Dividend Allocation Sum and estimated to be RMB 9.3 million, being 3.63% of the Net Proceeds) and the Company's losses as at 31 December 2021 and expenses related to undertaking a capital reduction exercise (amounting to RMB 6.9 million, being 2.67% of the Net Proceeds), the Company estimates that the amount distributable to Shareholders is RMB 77.1 million, or approximately 30.0% of the Net Proceeds.
- 3.6. As the proceeds from the Proposed Transaction will be received within the PRC, the Company will place the Net Proceeds into the Escrow Account opened with United Overseas Bank Limited (Chengdu branch), as was the arrangement for the proceeds from the rights issue of the Company completed in 2019, subject to approval by the Audit Committee of the Company.
- 3.7. In the event that the Company fulfils the Financial Conditions and the SGX-ST approves the release of the Tranche 2 Escrowed Sum, the Company intends to allocate the Tranche 2 Escrowed Sum in the following manner:

Use of Tranche 2 Escrowed Sum	Percentage Allocation
(a) Investments into, and financing, urbanisation, infrastructure and WEM projects and TOD projects, as and when opportunities arise	22.8% to 31.9%
(b) Purchase of construction equipment by SYE for its business, being the leasing of warehouse and equipment and supply of materials for urbanisation projects	0.3% to 9.4%
(c) Expansion of the BEM business of CJPS, including investments into other companies undertaking the BEM business or by increasing the headcount of CJPS	1.1% to 14.7%

Use of Tranche 2 Escrowed Sum	Percentage Allocation
(d) General corporate purposes including general working capital, financing of new business ventures through acquisitions and/or strategic investments as and when opportunities arise, and share buy-back exercises to Shareholders	2.6% to 11.7%

4. DEPLOYMENT OF STAFF

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

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

5. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

- 5.1. The relative figures computed on the relevant bases set out in Rule 1006 of the Listing Manual in respect of the Proposed Transaction based on the audited consolidated financial statements of the Group for FY2019 and unaudited consolidated financial statements of the Group for HY2020, as follows:

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

Notes:

- (1) Based on the audited consolidated financial statements of the Group for FY2019 with the Group's NAV of RMB 590,626,000 and the audited management accounts of Ranken Railway (less the Carved-out Assets) for FY2019 with NAV of approximately RMB 557,139,000 (including goodwill of RMB 42,417,000). As a result of the Sale and the Subscription, the Proposed Transaction will result in the deconsolidation of Ranken Railway and thus a deemed full disposal of subsidiary for accounting purposes. The Group will subsequently account for Ranken Railway as an entity equity accounted for by Chengdu KQR. The recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB 293,666,000. Accordingly, the NAV of the equity interest to be disposed of was RMB 263,473,000.

Based on the unaudited consolidated financial statements of the Group for HY2020 with the Group's NAV of RMB 600,897,000 and the unaudited management accounts of Ranken Railway (less the Carved-out Assets) for HY2020 with NAV of approximately RMB 569,770,000 (including goodwill of RMB 42,417,000). As a result of the Sale and the Subscription, the Proposed Transaction will result in the deconsolidation of Ranken Railway and thus a deemed full disposal of subsidiary for accounting purposes. The Group will subsequently account for Ranken Railway as an entity equity accounted for by Chengdu KQR. The recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB 299,951,000. Accordingly, the NAV of the equity interest to be disposed of was RMB 269,819,000.

- (2) **"net profits"** means profit or loss before income tax, minority interests and extraordinary items.
- (3) Based on the audited consolidated financial statements of the Group for FY2019, the Group's pre-tax profits for FY2019 was RMB 45,335,000 and the profit attributable to Ranken Railway (less the Carved-out Assets) was approximately RMB 39,744,000. Based on the audited management accounts of Ranken Railway for FY2019, Ranken Railway's (less the Carved-out Assets) audited consolidated pre-tax profits for FY2019 was RMB 58,215,000, and accordingly accounted for approximately 84.73% of the Group's audited consolidated pre-tax profits for FY2019 taking into account a 49.82% share of Ranken Railway's profit (i.e., RMB 19,801,000) on an equity accounting basis assuming dilution had taken place on 1 January 2019.

Based on the unaudited consolidated financial statements of the Group for HY2020, the Group's pre-tax profits for HY2020 was RMB 12,379,000 and the profit attributable to Ranken Railway (less the Carved-out Assets) was approximately RMB 12,111,000. The relative figure for this Rule 1006(b) will be 67.91%, based on the aforementioned. Based on the unaudited management accounts of Ranken Railway for HY2020, Ranken Railway's (less the Carved-out Assets) audited consolidated pre-tax profits for HY2020 was RMB 14,441,000 and accordingly accounted for approximately 67.91% of the Group's audited consolidated pre-tax profits for HY2020 taking into account a 49.82% share of Ranken Railway's profit (i.e., RMB 6,034,000) on an equity accounting basis assuming dilution had taken place on 1 January 2020.

- (4) Based on 407,589,893 shares in issue as at 27 May 2020 and the weighted average price of S\$0.05625 (and at an exchange rate of S\$1 : RMB 5.0451) of the shares transacted on the same date.
- (5) Based on the Consideration of RMB 355,654,172, being the aggregate of the Sale Consideration of RMB 280,000,000 payable by the Investor to Chengdu KQR for the Sale Shares and the Subscription Consideration of RMB 75,654,172 and at an exchange rate of RMB 5.0451.

6. FINANCIAL INFORMATION

6.1. Value attributable to Ranken Railway

(a) Book value

Based on the audited consolidated financial statements of the Group for FY2019, the book value attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB 557,139,000 (including goodwill of RMB 42,417,000).

Based on the unaudited consolidated financial statements of the Group for HY2020, the book value attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB 569,770,000 (including goodwill of RMB 42,417,000).

(b) NTA

Based on the audited consolidated financial statements of the Group for FY2019, the NTA attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB 514,722,000.

Based on the unaudited consolidated financial statements of the Group for HY2020, the NTA attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB 527,353,000.

(c) Latest available open market value

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

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

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

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

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

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

(a) Retained interest in Ranken Railway measured at NAV

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

- (i) the book value attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB 557,139,000;
- (ii) the recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB 293,666,000;
- (iii) estimated expenses incurred in connection with the Proposed Transaction is approximately RMB 22,952,000, with Net Proceeds of RMB 257,048,000 to be received by the Group; and

- (iv) a contingent liability for the guarantee of accounts receivable of RMB 4,906,000 to be provided in respect of the guarantee of accounts receivable described in paragraph 3.3 “Guarantee of accounts receivable” of the Previous Announcement. Please see paragraph 6.4 of this Announcement for further details of the uncollected accounts receivable and the additional loss allowance provided for by the Company as contingent liability for the guarantee of accounts receivables,

the Proposed Transaction represents a loss of approximately RMB 11,331,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB 2,271,000 is also expected to result in a net impact on earnings of a loss of RMB 9,060,000.

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

- (i) the book value attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB 569,770,000;
- (ii) the recognition of 49.82% retained interest in Ranken Railway held by Chengdu KQR after the capital injection of the Subscription Consideration measured at NAV is approximately RMB 299,951,000;
- (iii) estimated expenses incurred in connection with the Proposed Transaction is approximately RMB 22,952,000, with Net Proceeds of RMB 257,048,000 to be received by the Group; and
- (iv) a contingent liability for the guarantee of accounts receivable of RMB 4,906,000 to be provided in respect of the guarantee of accounts receivable described in paragraph 3.3 “Guarantee of accounts receivable” of the Previous Announcement and paragraph 6.4 of this Announcement,

the Proposed Transaction represents a loss of approximately RMB 17,677,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB 2,493,000 is also expected to result in a net impact on earnings of a loss of RMB 15,184,000.

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

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

- (i) the book value attributable to Ranken Railway (less the Carved-out Assets) as at 31 December 2019 is approximately RMB 557,139,000;
- (ii) the Proposed Transaction values Ranken Railway (less the Carved-out Assets) before capital injection at RMB 638,207,000 (based on the Transaction valuation) and the fair value of Ranken Railway (less the Carved-out Assets) after capital injection of the Subscription Consideration at approximately RMB 713,861,000. The recognition of 49.82% share of Ranken Railway held by Chengdu KQR at fair value is accordingly RMB 355,653,000, assuming no change to the fair value⁽¹⁾;

- (iii) estimated expenses incurred in connection with the Proposed Transaction is approximately RMB 22,952,000, with Net Proceeds of RMB 257,048,000 to be received by the Group; and
- (iv) a contingent liability for the guarantee of accounts receivable of RMB 4,906,000 to be provided in respect of the guarantee of accounts receivable described in paragraph 3.3 “Guarantee of accounts receivable” of the Previous Announcement and paragraph 6.4 of this Announcement,

the Proposed Transaction represents a gain of approximately RMB 50,656,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB 2,271,000 is also expected to result in a net impact on earnings of a gain of RMB 52,927,000.

Based on the unaudited consolidated financial statements of the Group for HY2020, the book value attributable to Ranken Railway (less the Carved-out Assets) as at 30 June 2020 is approximately RMB 569,770,000 (including goodwill of RMB 42,417,000). The Proposed Transaction would therefore represent a gain of approximately RMB 38,025,000. An additional currency translation gain to be transferred to the profit and loss account of the Group of RMB 2,493,000 is also expected to result in a net impact on earnings of a gain of RMB 40,518,000.

Note:

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

6.3. Net profit attributable to Ranken Railway

Based on the audited consolidated financial statements of the Group for FY2019, the profit attributable to Ranken Railway (less the Carved-out Assets) is approximately RMB 39,744,000. The share of profit of 49.82% of Ranken Railway (less the Carved-out Assets) held by Chengdu KQR less non-controlling interest is approximately RMB 19,405,000. Accordingly, the net decrease in impact on earnings is approximately RMB 20,339,000.

Based on the unaudited consolidated financial statements of the Group for HY2020, the profit attributable to Ranken Railway (less the Carved-out Assets) is approximately RMB 12,111,000. The share of profit of 49.82% of Ranken Railway (less the Carved-out Assets) held by Chengdu KQR less non-controlling interest is approximately RMB 5,913,000. Accordingly, the net decrease in impact on earnings is approximately RMB 6,198,000.

6.4. Guarantee of accounts receivable and contingent liability

As at 31 August 2019, Ranken Railway has uncollected receivables amounting to approximately RMB 968,033,647. As disclosed in paragraph 3.3 “Guarantee of accounts receivable” of the Previous Announcement, should Ranken Railway fail to collect such receivables within five (5) years from the date on which such receivables are due to Ranken Railway, Ranken Railway shall be entitled to offset such amount against the dividends payable to Chengdu KQR, and Chengdu KQR shall be liable to reimburse any excess receivables which remain outstanding after the set-off, and upon such reimbursement, the uncollected receivables will be assigned to Chengdu KQR.

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

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

These receivables do not include intra-group receivables.

The guaranteed receivables amounting to RMB 968,033,647 is net of loss allowance of RMB 11,029,384, with gross value of RMB 979,063,031. The Company has provided for an additional loss allowance of RMB 4,906,000 as a contingent liability for the guarantee of accounts receivables. Please refer to paragraph 6 and Appendix 1 of this Announcement for further details.

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

7. FINANCIAL EFFECTS

- 7.1. The *pro forma* financial effects of the Proposed Transaction on the Group set out below and in Appendix 1 are purely for illustrative purposes only and are therefore not indicative of the actual future financial position of the Group after Completion.
- 7.2. The *pro forma* financial effects of the Proposed Transaction have been prepared based on the audited consolidated financial statements of the Group for FY2019 and the unaudited consolidated financial statements of the Group for HY2020, and assumes that the expenses to be incurred in connection with the Proposed Transaction is approximately RMB 22,952,000, comprising professional fees of approximately RMB 1,000,000 and provision for capital gains tax of approximately RMB 21,952,000.
- 7.3. In addition, a contingent liability for the guarantee of accounts receivables of RMB 4,906,000 had been included in the *pro forma* financial effects of the Proposed Transaction in respect of the guarantee of accounts receivables as described in paragraph 3.3 "Guarantee of accounts receivable" of the Previous Announcement.
- 7.4. Share capital

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

7.5. NTA

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

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

The increase in NTA includes an increase in non-controlling interest arising from the Proposed Transaction of RMB 217,000 for retained interest in Ranken Railway measured in NAV, and RMB 1,457,000 for retained interest in Ranken Railway measured at fair value.

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

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

Note:

- (1) NTA excluded intangible assets of goodwill of RMB 42,417,000 which was included in assets classified as held for sale on the face of the balance sheet.

The increase in NTA includes an increase in non-controlling interest arising from the Proposed Transaction of RMB 80,000 for retained interest in Ranken Railway measured in NAV, and RMB 1,194,000 for retained interest in Ranken Railway measured at fair value.

7.6. EPS

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

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

Note:

- (1) The *pro forma* effects of the Proposed Transaction on the earnings after tax and minority interest have been computed considering (a) the disposal of Ranken Railway (less the Carved-out Assts) and accounting for 49.82% of it as an entity equity accounted for by Chengdu KQR, resulting in a reduction in earning of RMB 20,339,000 (please refer to paragraph 6.3 above); and (b) assuming the net impact on earnings set out in paragraph 6.2 above.

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

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

Note:

- (1) The *pro forma* effects of the Proposed Transaction on the earnings after tax and minority interest have been computed considering (a) the disposal of Ranken Railway (less the Carved-out Assts) and accounting for 49.82% of it as an entity equity accounted for by Chengdu KQR, resulting in a reduction in earning of RMB 6,198,000 (please refer to paragraph 6.3 above); and (b) assuming the net impact on earnings set out in paragraph 6.2 above.

7.7. Additional information

Please see Appendix 1 for the *pro forma* balance sheet and profit and loss statements of the Group after Completion.

8. CIRCULAR TO BE DESPATCHED

The Company will, in due course, despatch to Shareholders the Circular containing information pertaining to the Proposed Transaction and seeking approval for the same at an EGM to be convened.

9. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution when dealing or trading in the Shares. The completion of the Proposed Transaction is subject to certain conditions. As at the date of this Announcement, there is no certainty or assurance that the Proposed Transaction will be completed or that no changes will be made to the terms thereof.

The Company will make the necessary announcements when there are further developments. Shareholders and potential investors are advised to read this Announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants, tax advisers or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

WANG HENG

Executive Director and Chief Executive Officer
9 October 2020

APPENDIX 1

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

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

	Group		
	Before Proposed Transaction As at 31 December 2019 RMB'000	After Proposed Transaction (based on NAV of jointly controlled company) As at 31 December 2019 RMB'000	After Proposed Transaction (based on fair value of jointly controlled company) As at 31 December 2019 RMB'000
Assets			
Property, plant and equipment	184,623	24,404	24,404
Intangible assets and goodwill	42,417	—	—
Investment properties	52,274	—	—
Subsidiaries	—	—	—
Associated company	48,726	—	—
Jointly controlled entity	—	293,666	355,653
Other investments	4	—	—
Other receivables	—	—	—
Deferred tax assets	13,586	—	—
Total non-current assets	341,630	318,070	380,057
Other investment	3,158	3,158	3,158
Inventories	34,945	—	—
Contract assets	911,679	—	—
Trade receivables	564,917	8,465	8,465
Other receivables	186,423	75,986	75,986
Cash and cash equivalents	169,345	258,892	258,892
Total current assets	1,870,467	346,501	346,501
Total assets	2,212,097	664,571	726,558
Equity			
Share capital	466,700	466,700	466,700
Reserves	113,020	101,472	162,219
Equity attributable to owners of the Company	579,720	568,172	628,919
Non-controlling interests	10,906	11,124	12,364
Total equity	590,626	579,296	641,283

	Group		
	Before Proposed Transaction	After Proposed Transaction (based on NAV of jointly controlled company)	After Proposed Transaction (based on fair value of jointly controlled company)
	As at 31 December 2019	As at 31 December 2019	As at 31 December 2019
	RMB'000	RMB'000	RMB'000
Liabilities			
Loans and borrowings	103,840	—	—
Deferred tax liabilities	6,501	—	—
Contingent liabilities	—	4,906	4,906
Total non-current liabilities	110,341	4,906	4,906
Trade payables	1,009,859	15,676	15,676
Other payables	169,061	64,540	64,540
Contract liabilities	160,351	—	—
Loans and borrowings	154,776	153	153
Current tax liabilities	17,083	—	—
Total current liabilities	1,511,130	80,369	80,369
Total liabilities	1,621,471	85,275	85,275
Total equity and liabilities	2,212,097	664,571	726,558

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

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

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

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

	Group		
	Before Proposed Transaction	After Proposed Transaction (based on NAV of jointly controlled company)	After Proposed Transaction (based on fair value of jointly controlled company)
	As at 30 June 2020	As at 30 June 2020	As at 30 June 2020
	RMB'000	RMB'000	RMB'000
Assets			
Property, plant and equipment	24,839	24,839	24,839
Intangible assets and goodwill	—	—	—
Investment properties	—	—	—
Subsidiaries	—	—	—
Associated company	—	—	—
Jointly controlled entity	—	299,951	355,653
Other investments	—	—	—
Other receivables	—	—	—
Deferred tax assets	—	—	—
Total non-current assets	24,839	324,790	380,492
Other investment	2,136	2,136	2,136
Inventories	2,052	2,052	2,052
Contract assets	—	—	—
Trade receivables	8,239	8,239	8,239
Other receivables	19,492	73,961	73,961
Assets classified as held for sale	1,863,153	—	—
Cash and cash equivalents	1,489	258,537	258,537
Total current assets	1,896,561	344,925	344,925
Total assets	1,921,400	669,715	725,417
Equity			
Share capital	466,700	466,700	466,700
Reserves	122,970	105,213	159,801
Equity attributable to owners of the Company	589,670	571,913	626,501
Non-controlling interests	11,227	11,307	12,421
Total equity	600,897	583,220	638,922

	Group		
	Before Proposed Transaction	After Proposed Transaction (based on NAV of jointly controlled company)	After Proposed Transaction (based on fair value of jointly controlled company)
	As at 30 June 2020	As at 30 June 2020	As at 30 June 2020
	RMB'000	RMB'000	RMB'000
Liabilities			
Loans and borrowings	–	–	–
Deferred tax liabilities	–	–	–
Contingent liabilities	–	4,906	4,906
Total non-current liabilities	–	4,906	4,906
Trade payables	8,624	8,624	8,624
Other payables	10,748	72,833	72,833
Contract liabilities	61	61	61
Loans and borrowings	71	71	71
Current tax liabilities	–	–	–
Liabilities classified as held for sale	1,300,999	–	–
Total current liabilities	1,320,503	81,589	81,589
Total liabilities	1,320,503	86,495	86,495
Total equity and liabilities	1,921,400	669,715	725,417

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

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