

THE PROPOSED PROVISION OF COVERED GUARANTEE TO SHANDONG HI-SPEED ROAD & BRIDGE GROUP CO., LTD. (“GUARANTOR”)

1. INTRODUCTION

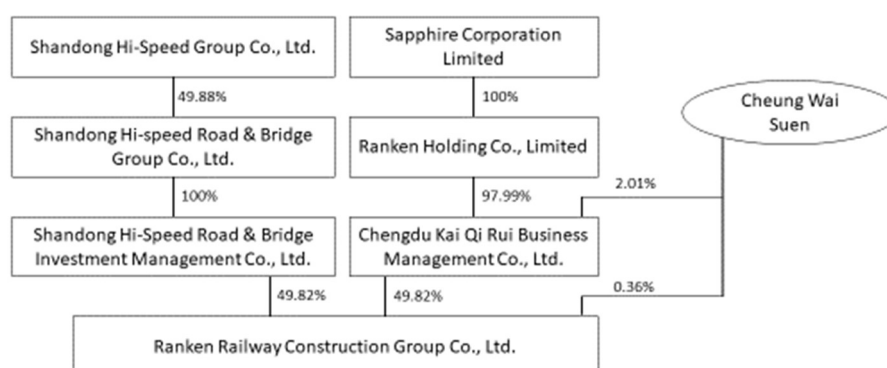
- 1.1.** The board of directors (the “**Board**”) of Sapphire Corporation Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that its 98%-owned subsidiary, Chengdu Kai Qi Rui Business Management Co., Ltd. (“**Chengdu KQR**”) and Ranken Railway Construction Group Co., Ltd. (“**Ranken Railway**”), an associated company of the Group as defined under the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (“**Listing Manual**”), have entered into a covered guarantee agreement dated 9 August 2021 (“**Agreement**”) with Shandong Hi-speed Road & Bridge Group Co., Ltd. (the “**Guarantor**”), pursuant to which Chengdu KQR shall provide a covered guarantee to the Guarantor (“**Proposed Transaction**”) on the terms of the Agreement.

2. INFORMATION ON RANKEN RAILWAY AND THE GUARANTOR

2.1. Information on Ranken Railway

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

On 27 October 2020 and on completion of the Company’s sale of equity interests in and material dilution of effective equity interest in Ranken Railway (“**Past Transactions**”), Ranken Railway ceased to be a subsidiary of the Company and became an associated company of the Group as defined under the Listing Manual. On completion of the Past Transactions, the equity holding structure of Ranken Railway is as follow:



The Company is the holding company of Ranken Holding Co. Limited and its subsidiaries and associated companies, which includes Ranken Railway, of which the Company has equity interest in Ranken Railway held through its 97.99% interest in Chengdu KQR. The equity holders of Ranken Railway comprises of Chengdu KQR (49.82%), Shandong Hi-Speed Road & Bridge Investment Management Co., Ltd. (49.82%) and Mr. Cheung Wai Suen (0.36%). Mr Cheung Wai Suen ("**Mr Cheung**") is the Executive Chairman of the Company and also holds 2.01% of the equity interests in Chengdu KQR.

2.2. Information on the Guarantor

The Guarantor is the sole equity holder of Shandong Hi-Speed Road & Bridge Investment Management Co., Ltd. ("**Ranken Railway's Direct Parent**") which owns 49.82% of the equity interests of Ranken Railway. The Guarantor is a company incorporated in the PRC and listed on the Main Board of the Shenzhen Stock Exchange (stock code: 000498). The controlling shareholder of the Guarantor is Shandong Hi-Speed Group Co., Ltd, which holds 49.88% of the shares of the Guarantor and is a wholly-state-owned enterprise ("**SOE**") headquartered in Jinan City, Shandong Province of the PRC.

Save as disclosed above, the Guarantor has confirmed to the Company that, and to the best of the knowledge of the Company, none of the Guarantor and its associates is related to the Company, its directors and controlling shareholders of the Company.

3. THE PROPOSED TRANSACTION

3.1. RATIONALE FOR THE PROPOSED TRANSACTION

Prior to the completion of the Past Transactions, Chengdu KQR (in its capacity then as a 99.6% shareholder of Ranken Railway) had provided guarantees and covered guarantees amounting to an aggregate sum of RMB 148 million to banks and finance companies for Ranken Railway's existing loans. The current amount of guarantees and covered guarantees provided by Chengdu KQR for Ranken Railway's existing loans is RMB 143 million.

As the existing loans of Ranken Railway are due to expire, Ranken Railway will be procuring new loan facilities to replace the existing loans. The Guarantor, as the parent company of Ranken Railway's Direct Parent will be providing comprehensive credit guarantee(s) for the aggregate sum of up to RMB 293,960,000 ("**Principal Guarantee**") to lender(s) of Ranken Railway which will allow Ranken Railway to take out such new loan facilities with lower interest rates. This Principal Guarantee is in addition to other guarantee(s) provided by the Guarantor to Ranken Railway's lenders for loan facilities of Ranken Railway where Chengdu KQR has not been required to provide corresponding guarantees or to provide cover guarantee to Guarantor for such facilities.

As required by Shenzhen Stock Exchange rules and SOE regulations of Ranken Railway as a subsidiary of Shenzhen Stock Exchange-listed Guarantor, Ranken Railway needs to obtain financial support from Chengdu KQR (which continues to hold 49.82% of the shares in Ranken Railway and Chengdu KQR is obliged to provide such financial support as agreed previously in the share transfer and capital increase agreement dated 28 May 2020 with Shandong Hi-Speed Road & Bridge Investment Management Co., Ltd) on the same terms as the Guarantor or to provide a financial guarantee in the event that Chengdu KQR is unable to provide such financial support, before Ranken Railway may draw down on its new loan facilities. If the Proposed Transaction is not completed, Ranken Railway will face cash flow difficulties and become adversely impacted as it will not be able to draw down on its new loan facilities. As Ranken Railway's drawdown of such new loan facilities for Ranken Railway's business would be in the interest of Ranken Railway and of Chengdu KQR as shareholder of Ranken Railway, Chengdu KQR is seeking a waiver from SGX-ST from obtaining prior shareholders' approval to proceed with the Proposed Transaction and provide the covered guarantee contemplated thereunder to enable Ranken Railway to draw down on its new loan facilities.

The provision of the Principal Guarantee by the Guarantor will allow Ranken Railway to leverage on its status as an affiliate of an SOE to negotiate lower interest rates on external borrowings from financial institutions.

3.2. MATERIAL TERMS OF THE AGREEMENT

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

Parties	:	<u>Guarantor:</u> Shandong Hi-speed Road & Bridge Group Co., Ltd.
		<u>Covered Guarantor:</u> Chengdu KQR
		<u>Principal:</u> Ranken Railway
Scope of the covered guarantee	:	Principal loan amount, interests, penalties, liquidated damages, compensations, costs of credit realization and other payable costs and expenses in the comprehensive credit business guaranteed by the Guarantor; and Any other costs and expenses of the Guarantor in repaying the guaranteed amounts on behalf of the Principal. The assets of Chengdu KQR which are subject to escrow arrangements undertaken by the Company to the SGX-ST are not subject to the covered guarantee
Aggregate Value of the covered guarantee	:	Not more than RMB 146,450,872, based on current capital contribution of Chengdu KQR in Ranken Railway The limit of the covered-guarantee provide by Chengdu KQR shall be RMB 293,960,000, the quantum of the Principal Guarantee, multiplied by the capital contribution percentage of Chengdu KQR in Ranken Railway, and shall be subject to results from indebtedness actually paid by the Guarantor on behalf of Ranken Railway multiplied by the capital contribution percentage of Chengdu KQR in Ranken Railway

Term of covered guarantee : The Agreement shall become effective, amongst others, when the Company has passed the resolutions at its general meeting approving the Agreement or obtained waiver from the SGX-ST for such prior shareholders' approval.

The term of the Agreement to continue as long as the Covered Guarantor owns equity interests in the Principal.

Interest payable by Ranken Railway and/or Guarantor to Chengdu KQR for its provision of the covered guarantee : Nil

4. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

- 4.1. For the purposes of Chapter 10 of the Listing Manual, the relative figures computed on the relevant bases set out in Rule 1006 of the Listing Manual in respect of the Proposed Transaction based on the unaudited consolidated financial statements of the Group for FY2020 are as follows:

Rule 1006	Bases	Relative figures (%)
(a)	<p>The net asset value ("NAV") of the assets to be disposed of, compared with the Group's latest announced NAV ⁽¹⁾</p> <p>Pursuant to Rule 1003(4)(a), the reference to "net asset value of the assets to be disposed of" shall mean the aggregate value of the financial assistance.</p>	23.8% ⁽¹⁾⁽³⁾
(b)	The net profits attributable to the equity interest to be disposed of, compared with the Group's net profits	Not applicable as the Proposed Transaction is not a disposal or acquisition.
(c)	<p>The aggregate value of the Consideration given or received, compared with the Company's market capitalisation⁽²⁾ based on the total number of issued shares of the Company ("Shares") excluding treasury shares</p> <p>Pursuant to Rule 1003(4)(b), the reference to "aggregate value of the consideration given or received" shall mean the aggregate value of the financial assistance.</p>	77.5% ⁽²⁾⁽³⁾
(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 RMB 616,394,000 the latest announced NAV as at 31 December 2020
 - (2) Based on 407,589,893 Shares in issue as at 5 August 2021 and the weighted average price of S\$0.0970 (and at an exchange rate of S\$1 : RMB 4.78) of the Shares transacted on the same date, the last market day preceding the date of the Agreement when the Shares were transacted.
 - (3) Based on the Aggregate Value of RMB 146,450,872 guaranteed by Chengdu KQR to the Guarantor under the Agreement at an exchange rate of RMB 4.78.
- 4.2. As the relative figures under Rules 1006(a) and (c) exceed 20%, the Proposed Transaction may be regarded as a major transaction as defined under Rule 1014 of the Listing Manual and may be subject to the prior approval of shareholders of the Company ("**Shareholders**").
 - 4.3. Rule 1002(1) of the Listing Manual specifically excludes the provision of financial assistance to an associated company. Although the Proposed Transaction is financial assistance to be provided to the Guarantor, such covered guarantee is for the benefit of Ranken Railway and guarantees primary obligations of Ranken Railway.
 - 4.4. In view of the urgency to complete the Proposed Transaction as elaborated upon in paragraph 5 below, the Company will make an application to SGX-ST to seek a waiver from the requirements pursuant to Rule 1014(2) of the Listing Manual in respect of the Proposed Transaction ("**Waiver Application**").

5. THE WAIVER APPLICATION

It is the Company's intention to seek Shareholders' approval in respect of the Proposed Transaction and to comply with the spirit of Rule 1014(2) of the Listing Manual by seeking the approval of Shareholders by way of ratification subsequent to the completion of the Proposed Transaction. The reasons in support of the Waiver Application are set out below.

(a) Proposed Transaction has been foreshadowed

It was disclosed in the circular to Shareholders seeking approval for the Past Transaction that notwithstanding that Ranken Railway will cease to be a subsidiary of the Company upon Completion, Chengdu KQR will remain a 49.82% shareholder of Ranken Railway. Accordingly, Ranken Railway may require capital support from Chengdu KQR – whether in the form of equity or loan – given the scale of its operations, as required under PRC laws and the requirements of the Shenzhen Stock Exchange (as informed by Ranken Railway's Direct Parent to the Company).

(b) The time-sensitive nature of the Proposed Transaction

The Proposed Transaction has to be completed expediently given that RMB 72 million of the existing loans of Ranken Railway are due to expire in first half of August 2021 and Ranken Railway may only draw down on its new loan facilities after the covered guarantee contemplated under the Proposed Transaction is completed, and such covered guarantee being required further to Shenzhen Stock Exchange rules and SOE regulations.

(c) Irrevocable undertaking by the Company's controlling and substantial shareholders

On 5 August 2021, the Company had procured irrevocable undertaking from its Shareholders namely Wang Heng, Best Feast Limited and Ou Rui Limited (which directly own an aggregate of approximately 56.46% of the issued and paid-up capital in the Company), in favour of the Company (i) to vote in favour of all the resolutions at the Extraordinary General Meeting ("EGM") relating to approval of the Proposed Transaction; and (ii) not to decrease its current shareholdings in the Company until after the EGM has been held.

(d) Proposed Transaction may have been excluded under Rule 1002(1) of the Listing Manual

Rule 1002(1) of the Listing Manual specifically excludes the provision of financial assistance to an associated company. In the event Chengdu KQR had provided financial support or provided financial guarantee directly to Ranken Railway, such provision of financial support or financial guarantee would have been excluded for purposes of Rule 1002(1) of the Listing Manual.

The provision of the Principal Guarantee by the Guarantor will allow Ranken Railway to leverage on its status as an affiliate of an SOE to negotiate lower interest rates on external borrowings from financial institutions. Although the Proposed Transaction is financial assistance to be provided to the Guarantor, such covered guarantee is for the benefit of Ranken Railway and guarantees primary obligations of Ranken Railway.

The Company shall announce the results of its waiver application to the SGX-ST in due course.

6. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTION

- 6.1 The Group's accounting position for financial guarantee contracts (such as the covered guarantee contemplated in the Proposed Transaction) is to account the same as insurance contracts under SFRS(I) 4 - Insurance Contracts. Financial guarantee contracts are accounted for as insurance contracts and treated as contingent liabilities until such time it becomes probable that the Group will be required to make a payment under the financial guarantee contract. A provision is recognised based on the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the financial guarantee contract.

As at the date of this Announcement, as there is no probability that the Group will be required to make a payment in respect of covered guarantee contemplated under the Proposed Transaction there is accordingly :

- (a) no such provision for any contingent liability in relation to the Proposed Transaction as at the date of this Announcement; and
- (b) the Proposed Transaction has no financial impact on the net tangible assets or earnings per share of the Company as at the date of this Announcement.

The financial effects set out below are based on the unaudited consolidated financial statements of the Group for FY2020

(a) Net Tangible Assets ("NTA")

Assuming that the Proposed Transaction has been effected on 31 December 2020, being the end of the most recently completed financial year of the Company, as there were no claims and it is not probable that the Group will be required to make a payment under the guarantee as at the date of this Announcement, there is no financial impact on the Company or on the Group as at the time when Chengdu KQR entered into the covered guarantee or when the covered guarantee comes into effect. The effect of the Proposed Transaction on the NTA per Share is as follows:

	Before the Proposed Transaction	After the Proposed Transaction
NTA (RMB '000)	616,394	616,394
Number of Shares	407,589,893	407,589,893
NTA per Share (RMB cents)	151.23	151.23

(b) Earnings per Share ("EPS")

Assuming that the Proposed Transaction has been effected on 1 January 2020 being the beginning of the most recently completed financial year of the Company and as at the date of this Announcement, as it is not probable that the Group will be required to make a payment under the covered guarantee contemplated in the Proposed Transaction, there is no financial impact on the Company or on the Group as at the time when Chengdu KQR entered into the covered guarantee or when the covered guarantee comes into effect. The effect of the Proposed Transaction on the EPS is as follows:

	Before the Proposed Transaction	After the Proposed Transaction
Earnings after tax and minority interest (RMB '000)	38,614	38,614
Weighted average number of Shares	407,589,893	407,589,893
EPS (RMB cents)	9.47	9.47

- 6.2 In the event it becomes probable that Ranken Railway is not able to fulfil its payment obligations under the relevant loan facilities, the financial impact on the Company and the Group attributed

to the Proposed Transaction will depend on the extent Chengdu KQR would need to fulfil its obligations under the covered guarantee and the appropriate provision for such contingent liability. There would also be further financial impact as such event would result in the impairment to the carrying value of Ranken Railway and also affect obligations of Chengdu KQR not covered by the Proposed Transaction, and such financial effect may differ depending on circumstances and the extent of financial impact may not be quantified with certainty at the date of this Announcement.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Mr. Cheung, the Executive Chairman of the Company, is a shareholder of Ranken Railway and Chengdu KQR. Save as disclosed herein, none of the Directors nor, to the best of the Directors' knowledge, any of the controlling Shareholders, has any interest, whether direct or indirect, in the Proposed Transaction other than through their respective shareholdings in the Company (if any).

8. EGM AND CIRCULAR TO SHAREHOLDERS

The Company will be convening an EGM to seek Shareholders' approval for the Proposed Transaction. A circular containing, *inter alia*, the notice of EGM and the details of the Proposed Transaction will be despatched to Shareholders in due course.

9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Agreement will be made available for inspection during normal business hours at the registered office of the Company at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542, for a period of three (3) months from the date of this Announcement.

10. 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

10 August 2021