# SAPPHIRE CORPORATION LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198502465W)

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**UNAUDITED FINANCIAL STATEMENTS FOR THE FULL YEAR ENDED 31 DECEMBER 2020**
**- RESPONSES TO QUERIES RAISED BY THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED**

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The Board of Directors (the "**Board**") of Sapphire Corporation Limited (the "**Company**") together with its subsidiaries (collectively known as the "**Group**") refers to the announcement made by the Company on 1 March 2021 in relation to the Company's unaudited financial statements for the full year ended 31 December 2020 ("**Financial Statements**").

The Company sets out below its responses to the query raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

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***Query (a) – part 1 of 2:***

*The Company stated on page 15 of the Financial Statements that "impairment losses on trade and other receivables and contracts assets rose by RMB 7.9 million to RMB 22.2 million mainly due to higher impairment loss made by Ranken for two projects which were expected to incur project losses and impairment losses for other receivable arising from uncertainty of collection due to under-performance and unfavorable market conditions of a debtor recorded by Sapphire".*

*With regard to the two projects, please explain: (i) the background for these projects and the quantum of the impairment losses for these two projects; (ii) why the Company is making these impairments in light of the disposal of Ranken Railway; (iii) how the quantum of the impairments is determined; and (iv) the Board's assessment of the reasonableness of the methodology used to determine the quantum of the impairment losses.*

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**Company's Response:**

(i) The background for these projects and the quantum of the impairment losses for these two projects are as follows:

| **Background** | **Quantum of impairment losses** |
|---|---|
| | **RMB'000** |
| No. 1 Qingdao Metro Line (青岛地铁1号线) | 7,839 |
| No. 2 Guiyang Metro Line (贵阳地铁2号线) | 4,167 |

(ii) Upon completion of the Transaction, Ranken Railway ceased to be a subsidiary of the Company and become an "associated company" of the Group as defined under the Listing Manual, with the Company's effective interest in Ranken Railway reduced from 97.60% to 48.82%. 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.

In accordance with SFRS 28, the Company is required to determine the difference between the cost of the investment and **the entity's share of the net fair value of the investee's identifiable assets and liabilities** and account for the difference as goodwill or negative goodwill in accordance with SFRS 28**.**

Whilst the Group is disposing Ranken Railway as a subsidiary, the Group is also acquiring Ranken Railway as an associated company. Accordingly, the Group had identified trade receivables and contract assets that are credit-impaired on the date of disposal of a subsidiary which is the same date of acquisition of an associated company in determining **the Group's share of the net fair value of Ranken Railway's identifiable assets and liabilities.**

(iii) The quantum of the impairments is estimated by the expected total cost to complete the projects which was higher than the total expected revenue less the projects profit/loss to-date in determining the quantum of contract assets deemed credit-impaired.

(iv) The Board's assessment of the reasonableness of the methodology used to determine the quantum of the impairment losses.

The Board reviewed the reasonableness of the methodology used to determine the quantum of the impairment losses through discussion with Management.

The expected total cost to complete the projects and the total expected revenue was estimated by the project managers based on ground circumstance and conditions and had been subjected to Ranken Railway's local auditors audit work performed.

As a result of the above procedures, the Board was satisfied with the methodology used to determine the quantum of the impairment losses to be reasonable, however, these figures are based on management's records and have not been audited or reviewed by our auditors and may be subject of adjustment.

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***Query (a) – part 2 of 2:***

*With regard to the impairment losses for other receivables arising from uncertainty of collection, please disclose: (i) quantum of the impairment losses; (ii) the underlying transaction of these receivables; (iii) the Company's plans to recover these receivables and action taken thus far to recover these receivables; (iv) whether the debtor is a major customer and whether the Company continues to transact with this debtor and if so, what are the commercial reasons for doing so; (v) how long are the debts outstanding and when were the sales reported; (vi) the reasons for the impairment on these receivables, including the reasons for delays or non-payment (where applicable); (vii) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and (viii) the Board's assessment of the recoverability of the remaining receivables owed by the debtor.*

**Company's Response:**

Answer to (i):

The Company has made allowance for impairment losses of RMB 9,153,000 for the other receivable arising from uncertainty of collection in FY2020.

Answer to (ii), (iv) and (v):

The other receivable relates to amounts due from Mancala Holdings Pty Ltd ("Mancala"), a former subsidiary of the Group which was disposed in February 2017 ("Disposal"). The amounts due relate to financial support given to the former subsidiary prior to the Disposal and no sales were reported or recognised. The debtor is not a major customer. The amounts due has been outstanding and no additional financial support had been provided since date of Disposal.

Answer to (iii) and (vi):

Mancala owed Sapphire (the "Parties") A$4.6 million on the date of disposal and had repaid A$1.5 million in 2018. Based on Mancala's business plans and potential in securing long-term mining services projects, the Parties agreed that the balance amount of A$3.1 million is to be repaid on or before 31 December 2020.

In FY2019, the Company noted that Mancala continues to be loss-making and Mancala's potential in securing long-term mining services projects had not been forth-coming and an allowance of 40% of the receivables amounting to RMB 6,121,000 was made.

In FY2020, the Company asked for the expected date of receipt of the amount outstanding of A$3.1 million and was informed by Mancala that Mancala will not be in a financial position to pay this outstanding amount and thus full allowance of the amount outstanding amounting to RMB 9,153,000 was made.

The Company will continue to communicate with Mancala on their plans for the repayment and consider legal action, if necessary.

Answer to (vii) and (viii):

The Board reviewed the reasonableness of the methodology used to determine the value of the impairment through discussion with Management and noted that full impairment has been made for the amount owed by Mancala and thus no further risk of recoverability of the remaining receivables owed by the debtor.

As a result of the above procedures, the Board was satisfied with the methodology used to determine the value of the impairment to be reasonable, however, these figures are based on management's records and have not been audited or reviewed by our auditors and may be subject of adjustment.

***Query (b):***

*We note that the Company disclosed on page 16 of the Financial Statements that the remaining other receivables relate to, inte alia, a sum of RMB 52.7 million being due from Ranken Railway which will be "offset against other payable to Ranken Railway / simultaneous transfer of funds for the receivable and payable after the year-end". Please provide the background / underlying transaction for the receivable due from Ranken Railway and an explanation for the settlement mechanism.*

**Company's Response:**

(a) The background / underlying transaction for the receivable due from Ranken Railway is as follows:

With reference to the Company's announcement dated 25 June 2019: "the Company has increased its investment in the share capital of its wholly-owned subsidiary, Ranken Holding Co., Limited (formerly known as Ranken Infrastructure Limited ("Ranken")) by subscribing for an additional 1,000 shares in cash (the "Additional Investment") amounting to an aggregate consideration of S$10,316,000 (the "Investment Amount").

The Additional Investment is funded by the proceeds from the Rights Issue (after deducting certain expenses for the Rights Issue) as announcements on 30 December 2018, 12 April 2019, 15 April 2019, 30 April 2019, 6 May 2019, 17 May 2019, 22 May 2019, 31 May 2019 and 4 June 2019 ("Previous Announcements"), and as detailed in the Company's circular dated 15 April 2019 and the instructions booklet dated 17 May 2019 ("Instructions Booklet").

Thereafter, Ranken will immediately lend the full Investment Amount to Ranken Railway Construction Group Co.,Ltd, the operating subsidiary of the Group ("IntraGroup Loan")."

As such the sum of RMB 52.7 million relate to amount due from Ranken Railway in the books of Ranken Holding Co., Limited.

(b) The explanation for the settlement mechanism is as follows:

Company also disclosed on page 17 of the Financial Statements that "Included in the remaining other payables is an amount of RMB 52.5 million payable to Ranken Railway which will be offset against other receivable from Ranken Railway / simultaneous transfer of funds for the receivable and payable after the year-end". This amount payable to Ranken Railway relates mainly to funds provided by Ranken Railway to Chengdu Kai Qi Rui Business Management Co., Ltd ("Chengdu KQR") over the years in support of corporate expenses for Chengdu KQR, Ranken and the Company.

As such the sum of RMB 52.5 million relate to amount payable to Ranken Railway in the books of Chengdu KQR.

It is noted that the amount due from and to Ranken Railway are in the books of different subsidiaries of the Group and as such the settlement mechanism will be necessary.

***Query (c):***

*It is noted that the Company has a net cash outflow from operating activities of RMB 42.9 million and a net profit of RMB 41.1 million for FY2020. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial period/year.*

**Company's Response:**

As disclosed in Page 17 of the FY2020 results announcement "Review of Cash Flows (FY2020 vs FY2019)" section: "operating cash flow fell by RMB 75.6 million to cash outflow of RMB 42.9 million after accounting for (a) operating profit before working capital changes of RMB 84.1 million and (ii) net working capital changes of RMB 119.5 million, net of tax payment of RMB 7.5 million."

The net cash outflow from its operating activities, despite the Company's net profit position for the financial period/year was mainly due to net working capital changes of RMB 119.5 million, which includes (a) increase in contract assets of RMB 149.6 million as a result of a higher amount of works completed over various stages but not yet certified and billed and (b) lower trade and other payables of RMB 103.1 million as the Group had to make payment to its suppliers when payment were due, offset by lower trade and other receivables of RMB 179.4 million for monies received from debtors.

By Order of the Board
**SAPPHIRE CORPORATION LIMITED**

Wang Heng
Chief Executive Officer and Executive Director
10 March 2021