SAPPHIRE CORPORATION LIMITED

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

PROPOSED DIVESTMENT OF THE SHARES OF SAPPHIRE MINERAL RESOURCES (HK) LIMITED, LUCKY ART HOLDINGS LIMITED, PRIME EMPIRE LIMITED AND PRECISE SKILL LIMITED

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1. INTRODUCTION

The Board of Directors (the "**Board**") of Sapphire Corporation Limited (the "**Company**" wishes to announce that the Company and its wholly-owned subsidiary, Sapphire Mineral Resources Pte Ltd ("**SMRPL**"), have entered into a conditional sale and purchase agreement dated 25 April 2014 (the "**Agreement**") with Propitious Holdings Company Limited (the "**Purchaser**"), pursuant to which the Company and SMRPL have agreed to sell their effective interest in:

(a) 100% of the ordinary shares of Sapphire Mineral Resources (HK) Limited ("**SMRHK**");

(b) 100% of the ordinary shares of Lucky Art Holdings Limited ("**Lucky Art**");

(c) 16% of the ordinary shares of Prime Empire Limited ("**Prime Empire**"); and

(d) 16% of the ordinary shares of Precise Skill Limited ("**Precise Skill**"),

to the Purchaser for the aggregate consideration of S$70.0 million (the "**Divestment**").

2. INFORMATION ON THE PURCHASER

The Purchaser is incorporated in the British Virgin Islands, and is entirely owned by Mr Wang Zongming ("Mr Wang"), a citizen of the People's Republic of China ("**PRC**"). Mr Wang has more than a decade of experience in the steel trading business, and is currently the legal representative, chairman and shareholder of both Chongqing Wei Lian Material Ltd and Chengdu Mei Jin Material Co., Ltd., which have an aggregate annual trade revenues of approximately RMB700 million.

The Company is given to understand that Mr Wang's consortium has entered into a memorandum of understanding with other third parties to acquire mineral concessions in China and businesses engaged in the production, distribution and trading of metals and minerals which have an aggregate net asset value of approximately RMB1.05 billion as at 31 December 2012. Mr Wang plans to establish an integrated supply chain for, improve economies of scale and strengthen the value proposition of his enlarged business operations in China.

3. INFORMATION ON THE SALE ENTITIES

The specialty steel and vanadium manufacturing business of the Company (and together with its subsidiaries, the "**Group**") is primarily operated through SMRHK, Lucky Art, Prime Empire and Precise Skill (collectively, the "**Sale Entities**"). The corporate structures of the Sale Entities and their respective subsidiaries are set out in Appendix A, and their information is provided below:

3.1 SMRHK

SMRHK is incorporated in Hong Kong, and has an issued and paid-up capital of HK$270,366,773 comprising 270,366,773 ordinary shares, all of which are held by SMRPL. SMRHK is an investment holding company which in turn holds 2,715 ordinary shares of Lucky Art.

3.2 Lucky Art

Lucky Art is incorporated in Hong Kong, and has an issued and paid-up capital of HK$10,000 comprising 10,000 ordinary shares. The Company, SMRPL and SMRHK own 7,284, 1 and 2,715 ordinary shares of Lucky Art respectively.

Lucky Art is an investment holding company which owns the entire equity interest of Neijiang Chuanwei Special Steel Co., Ltd. ("**Special Steel**"). Special Steel in turn owns the entire equity interest of Sichuan Longwei Metal Product Co., Ltd, Chengdu Sapphire Cellar I/E Co., Ltd and Chengdu Lucky Fortune Trading Co., Ltd.. The details of Special Steel and its subsidiaries are set out below:

Name of Subsidiary	Country of Incorporation	Issued and Paid-up Capital	Principal Activities
Special Steel	PRC	RMB200,000,000	Manufacturing and sale of steel and vanadium pentoxide products
Sichuan Longwei Metal Product Co., Ltd	PRC	RMB250,000,000	Manufacturing and sale of cold-rolled steel coil
Chengdu Sapphire Cellar I/E Co., Ltd	PRC	RMB5,000,000	Sale of wine
Chengdu Lucky Fortune Trading Co., Ltd.	PRC	RMB10,000,000	Trading of steel products

Based on the audited financial statements of Lucky Art for the financial year ended 31 December 2013 ("**FY2013**"), the net asset value and the net loss attributable to the shares of Lucky Art are approximately RMB319.5 million and RMB322.6 million respectively.

3.3 Prime Empire

Prime Empire is incorporated in Hong Kong, and has an issued and paid-up capital of HK$1,000 comprising 10,000 ordinary shares, of which 1,600 shares are owned by the Company.

Prime Empire is an investment holding company which holds approximately 50.17% equity interest of Chengyu Vanadium & Titanium Technology Co., Ltd ("**CVTT**"). Accordingly, the Company has an effective interest in approximately 8.03% of the equity interest of CVTT. CVTT is incorporated in the PRC, has an issued and paid-up capital of RMB695.7 million and is primarily engaged in the business of manufacturing steel products.

Based on the unaudited financial statements of Prime Empire for FY2013, the net tangible asset value and the net profit attributable to the shares of Prime Empire owned by the Company are approximately RMB317.5 million and RMB2.7 million respectively.

3.4 Precise Skill

Precise Skill is incorporated in Hong Kong, and has an issued and paid-up capital of HK$1,000 comprising 10,000 ordinary shares, of which 1,600 shares are owned by the Company.

Precise Skill is an investment holding company which holds 59.18% equity interest of Neijiang Bowei Xinyu Chemical Co., Ltd ("**Bowei**"). Accordingly, the Company has an effective interest in approximately 9.47% of the equity interest of Bowei. Bowei is incorporated in the PRC, has an issued and paid-up capital of RMB94.0 million and is primarily engaged in the business of manufacturing of coke for the production of steel products.

Based on the unaudited financial statements of Precise Skill for FY2013, the net tangible asset value and net profit attributable to the shares of Precise Skill owned by the Company are approximately RMB45.0 million and RMB1.8 million respectively.

4. PRINCIPAL TERMS AND CONDITIONS

4.1 Sale Shares

Subject to the terms and conditions of the Agreement:

(a) the Company has agreed to sell and the Purchaser has agreed to purchase:

  (i) 7,284 ordinary shares of Lucky Art;

  (ii) 1,600 ordinary shares of Prime Empire;

  (iii) 1,600 ordinary shares of Precise Skill; and

(b) SMRPL has agreed to sell and the Purchaser has agreed to purchase:

  (i) one (1) ordinary share of Lucky Art; and

  (ii) 270,366,773 ordinary shares of SMRHK,

(collectively, the "**Sale Shares**"), free from any encumbrances and together with all the rights, dividends, entitlements and benefits attaching to the Sale Shares as at the date of completion of the proposed Divestment ("**Completion**").

The Sale Shares represent an effective interest held by the Company and SMRPL in (i) 100% of the ordinary shares of SMRHK, (ii) 100% of the ordinary shares of Lucky Art, (iii) 16% of the ordinary shares of Prime Empire and (iv) 16% of the ordinary shares of Precise Skill.

4.2 Consideration

The aggregate consideration payable by the Purchaser for the Sale Shares shall be the amount of S$70.0 million (the "**Consideration**"), to be satisfied in the following manner:

(a) the payment of a deposit of S$2.0 million in cash (the "**Deposit**") to the Company no later than ten (10) business days from the date of the Agreement;

(b) the payment of the amount of S$8.0 million in cash to the Company on Completion;

(c) the payment of the amount of S$10.0 million in cash to the Company on the date falling 30 days from the date of Completion (the "**Relevant Date**"); and

(d) the issue of a bond in the principal amount of S$50.0 million, to be secured by assets and land use rights with an interest rate of 5.0% per annum (the "**Bond**"), to the Company on the Relevant Date – please refer to 4.5 on Page 5 for details of Issue of Bond.

In the event that the Agreement is for any reason terminated prior to Completion taking place, the Company shall refund the Deposit in full to the Purchaser within five (5) business days, unless such termination arises from the breach of the Agreement by the Purchaser or is attributable to the fault of the Purchaser, in which event the Deposit shall not be refundable by the Company.

The Consideration was agreed upon among the Company, SMRPL and the Purchaser (collectively, the "**Parties**"), at arm's length and on a willing-buyer willing-seller basis, taking into account the "fair value less cost to sell" ("**FVLCTS**") of the Sale Entities as estimated by Stone Forest Corporate Advisory Pte Ltd ("**Stone Forest**"), an independent corporate advisory firm, as well as the business prospects and industry outlook of the specialty steel and vanadium manufacturing business of the Sale Entities. Please refer to 4.3 for further details.

4.3 Fair Value less Cost to Sell for Sale Shares

For the purposes of preparing the audited consolidated financial statements of the Group for FY2013, the Company has engaged Stone Forest to estimate the FVLCTS of the Sale Entities based on "market approach" which uses valuation multiples of comparable companies as an indicator of fair value of the subject company. According to its valuation report dated 31 March 2014, Stone Forest has estimated the FVLCTS of the Sale Entities as at 31 December 2013 to be in the range of S$65.0 million to S$89.0 million.

4.4 Other commercial options

The Company has sought, but was not able to obtain, any other firm offer for the Sale Shares. It is of the view that the lack of interest from other potential purchasers is due to the weak steel market conditions, being the result of a high level of overcapacity, continued trend of destocking and increasingly higher costs for environmental compliance in the PRC.

The Company has also previously evaluated the following options:

(a) sale of plant and equipment which were specifically and previously used for the business unit of hot roll coil ("**HRC**") to other steel manufacturers, following the decision of the management to shut down the entire HRC operation last year;

(b) sale of under-utilized equipment, specifically equipment used for the business units of reinforcement bars and vanadium pendoxide ("**V2O5**") to other steel manufacturers, following the decision of the management to scale down the production capacity for reinforcement bars and V2O5 by 55% and 30% respectively last year; and

(c) divestment of the steel business separately from the foregoing proposed sale of plant and equipment.

The Company has finally decided against such options as the commercial negotiations to dispose of the assets on a piecemeal basis are expected to take considerable time and there is also no certainty that total cash offer, if any and in such a case, would be higher than the Consideration.

4.5 Issue of Bond

The salient terms and conditions of the Bond issued by the Purchaser are set out below:

Principal Amount	:	S$50.0 million
Interest Coupon	:	The Bond shall bear interest from and including the date of issue of the Bond (the "**Issue Date**") at the rate of 5.0% per annum calculated by reference to the principal amount thereof, payable in arrears on the Maturity Date or such earlier date on which the Bond is redeemed.
Maturity Date	:	The date falling six (6) months from the Issue Date (the "**Maturity Date**")
Redemption Right	:	The Purchaser shall redeem the Bond on the Maturity Date by paying the bondholder the principal amount of the Bond together with all accrued and outstanding interest (calculated up to but excluding the Maturity Date). The Bond so redeemed shall forthwith be cancelled. The Purchaser shall be entitled to redeem the Bond at any time prior to the Maturity Date. For the avoidance of doubt, the bondholder is not entitled to require the Purchaser to redeem the Bond at any time prior to the Maturity Date.

To secure the due and punctual performance of the Purchaser's obligations under the terms and conditions of the Bond, the Purchaser shall on the Relevant Date procure Special Steel and Sichuan Longwei Metal Product Co., Ltd to grant a charge over their property, plant and equipment and land use rights in favour of the Company.

4.6 Conditions Precedent

Completion shall be subject to, *inter alia*, the following conditions ("**Conditions**") having been satisfied (or otherwise waived):

(a) the approval of the shareholders of the Company in general meeting being obtained for the proposed Divestment; and

(b) any approvals or consents of any government or regulatory authorities or third parties being obtained for the proposed Divestment, if required, and where such approvals or consents are subject to any conditions, such conditions being acceptable to each of the Parties (to the extent that such Party is affected by the conditions).

In the event that the Conditions are not fulfilled (or otherwise waived) on or before 31 December 2014 (or such other date as the Parties may agree in writing), the provisions of the Agreement shall cease and determine (save for certain provisions pertaining to, *inter alia*, confidentiality, costs, dispute resolution and governing law), and no Party shall have any claim against any other Party for costs, damages, compensation or losses, save in respect of any antecedent breach.

Subject to Completion taking place, the Company and SMRPL shall cease to be responsible for or assume any liabilities (whether actual or contingent) of the Sale Entities and their respective subsidiaries (the "**Relevant Liabilities**"), and the Purchaser undertakes to keep the Company and SMPRL fully and effectively indemnified against all losses, costs, damages, claims, demands, actions, proceedings, liabilities and expenses (including all legal fees on a full indemnity basis) that they may incur or suffer in connection with such Relevant Liabilities.

5. RATIONALE AND BENEFITS

As highlighted in its previous profit guidance announcement dated 3 October 2013 and results announcement for the full year ended 31 December 2013 ("FY2013"), the Company had conducted a strategic review of the specialty steel and vanadium manufacturing business of the Group. The Company had also appointed Roger Emmott Associates Limited (an international consulting firm based in the United Kingdom and specializing in the steel, mining and energy sectors) and China Metallurgical Industry Planning and Research Institute (a consulting firm based in the PRC and specializing in the steel sector) to conduct independent reviews of the overall steel manufacturing industry outlook in the PRC.

Based on these independent reviews, the Company notes that the business has been operating in a challenging environment with weak demand for steel and manufacturing overcapacity in the industry. While steel prices have fallen due to destocking by steel producers, costs have continued to rise, resulting in declining operating margins. Environmental regulations have also become increasingly stringent, giving rise to higher costs of compliance. Moreover, the shift in government policies in the PRC, with increased emphasis on boosting domestic consumption instead of infrastructure spending, is expected to further weaken the demand for steel.

Against this context, the Company also notes that silicon steel is one of the sectors within the steel industry which seems to have differentiated characteristics of higher growth opportunity. However, an internal analysis and independent review suggest that if the Company is to upgrade and expand the silicon steel production facilities for better growth prospects, the expansion and upgrade would require significant capital investment and working capital which would entail much higher borrowings.

As previously stated in the results announcement of the Company for FY2013, the management reduced fixed cost budgets, streamlined operations, rationalized assets, reallocated resources, shut down the HRC operations and scaled down the reinforcement bars and Vo2O5 capacity. Despite these efforts, the financial performance of the specialty steel and vanadium manufacturing business of the Group remained weak and its financial forecasts did not appear promising. Having also considered the significant capital investment which is required for expansion into silicon steel segment and the returns of which are uncertain, the Board is of the view that the proposed Divestment is in the best interest of the Company, particularly in light of the unfavourable market conditions and its negative impact on the business, financial performance and prospects of the Company, going forward.

In addition to the aforesaid, on completion of disposal of the Sale Entities, the Company and SMRPL shall cease to be responsible for or assume the Relevant Liabilities, which would mean that the cash position of the Company will increase substantially and the Group's gearing position will improve significantly.

As announced on 7 January 2014, the Company has acquired the entire share capital of Mancala Holdings Pty Ltd ("**Mancala**"). Upon the completion of the proposed Divestment, the Group will continue to operate in the resources business, but it will be primarily engaged in providing specialist mining services through Mancala and its subsidiaries. The proposed Divestment will enable the Group to realize its investment in the loss-making steel business for cash, consolidate its resources and further streamline its operations, such that it can focus on and expand the specialist mining services business; and capitalise on other potential investment opportunities which the Company has been exploring, in order to enhance long-term shareholders' value.

6. USE OF PROCEEDS

The proceeds of S$70.0 million in cash from the proposed Divestment, after deducting related costs and expenses of approximately S$0.2 million, will amount to approximately S$69.8 million ('Net Proceeds"). The Company intends to use the Net Proceeds from the proposed Divestment as follows:

Use of Net Proceeds	**Percentage Allocation**
Expansion of and investment in resources related business and/or potential investments in other businesses	85% to 100%
Working capital purposes	0% to 15%

7. MAJOR TRANSACTION

The relative figures in respect of the proposed Divestment, as computed on the bases set out in Rule 1006 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), are as follows:

	Bases in Rule 1006	**S$'000**
(a)	Net asset value of the Sale Shares to be disposed	S$66,000
	Net asset value of the Group	S$73,485
	Size of relative figure	89.8%
(b)	Net profits/(losses)[(1)] attributable to the Sale Shares	(S$153,227)
	Net profits/(losses) of the Group[(2)]	(S$157,931)
	Size of relative figure	97.0%
(c)	Value of the Consideration	S$70,000
	Company's market capitalisation[(3)]	S$48,657
	Size of relative figure	143.9%
(d)	Number of shares to be issued as consideration	Not applicable
	Number of shares of the Company in issue	-
	Size of relative figure	-

Notes:

(1) "Net profits/(losses)" means profit or loss before income tax, minority interests and extraordinary items.
(2) Based on the audited consolidated financial statements of the Group for FY2013.
(3) "Market capitalisation" is determined by multiplying the number of shares of the Company in issue by the weighted average price of S$0.060 of such shares transacted on 24 April 2014 (being the market day preceding the date of the Agreement).

As the relative figures as computed on the above bases exceeds 20%, the proposed Divestment constitutes a "major transaction" within the meaning of Chapter 10 of the Listing Manual of the SGX-ST. Accordingly, the proposed Divestment is conditional upon the approval of shareholders of the Company in general meeting.

8. FINANCIAL EFFECTS

The pro forma financial effects of the proposed Divestment, based on the audited consolidated financial statements of the Group for FY2013, are set out below. The pro forma financial effects are presented for illustration purposes only and are not intended to reflect the actual future financial situation of the Company or the Group after completion of the proposed Divestment.

8.1 Earnings per Share ("EPS")

Assuming that the proposed Divestment was completed on 1 January 2013, the effect on the EPS of the Company will be as follows:

	Before Divestment	After Divestment
(Loss)/earnings after tax and minority interest (S$'000)[(1)]	(157,176)	346
Number of shares ('000)	810,949	810,949
(Loss)/earnings per share (cents)	(19.38)	0.04

Notes:

(1) The proforma effect of the proposed Divestment on the loss after tax and minority interest has been computed taking into consideration of the following:

(i) the impact on the Group's results for FY2013 in the absence of the losses incurred by the sale entities of S$152.5 million;

(ii) recognition of a gain on disposal of S$3.8 million as set out in paragraph 8.3(a) below; and

(iii) recognition of interest income of S$1.25 million on the assumption that the Bond is to be redeemed in full only on Maturity Date as set out in paragraph 8.3(b) below.

8.2 Net Tangible Assets ("NTA")

Assuming that the proposed Divestment was completed on 31 December 2013, the effect on the NTA per share of the Company will be as follows:

	Before Divestment	After Divestment
NTA (S$'000)[(1)]	73,485	77,285
Number of shares ('000)	810,949	810,949
NTA per share (cents)	9.06	9.53

Notes:

(1) The effect of the proposed Divestment on NTA has been computed taking into consideration the recognition of a gain on disposal of S$3.8 million as set out in paragraph 8.3(a) below.

8.3 Positive Financial Effects on Divestment

The proposed Divestment, on Completion, is expected to have a positive financial impact to EPS, NTA and cash flows of the Company. Details of which are as follows:

(a) Gain on Divestment of S$3.8 million

The book value of the Sale Shares and the carrying value of the available-for-sale financial assets as at 31 December 2013 is approximately S$66.0 million. The Consideration of S$70.0 million less estimated cost of S$0.2 million represents a gain of S$3.8 million over the book value of the Sale Shares and the carrying value of the available-for-sale financial assets.Accordingly, the gain resulting from the proposed Divestment is estimated at S$3.8 million.

(b) Interest Income of S$1.25 million

The principal amount of the secured Bond is S$50 million and assuming that the Bond is to be redeemed only in full on the Maturity Date, the Company will earn an interest income of S$1.25 million, at the rate of 5.0% per annum calculated by reference to the principal amount thereof.

(c) NTA is expected to increase by S$5.05 million

Given the estimated gain on Divestment and interest income of S$3.8 million and S$1.25 million (assuming that the Bond is to be redeemed only in full on Maturity Date) respectively, the NTA of the Company will increase by S$5.05 million on Completion of the proposed Divestment.

(d) Cash inflows from Divestment of S$71.25 million

On completion of the proposed Divestment and full redemption of the Bond on Maturity Date, there will be a total cash inflow of S$71.25 million (being the Consideration and Interest Income) from the Proposed Divestment. Given that, the gearing position of the Company is also expected to improve significantly.

9. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors and controlling shareholders of the Company have any interest, directly or indirectly, in the proposed Divestment.

10. DESPATCH OF SHAREHOLDERS CIRCULAR

The Company will in due course despatch to the shareholders a circular containing information pertaining to the proposed Divestment and seeking approval for the same at an extraordinary general meeting to be convened.

11. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents have been available for inspection at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898, during normal business hours, for three (3) months from the date of this announcement:

(a) the Agreement;

(b) the valuation report for the purposes of preparing the audited consolidated financial statements of the Group for FY2013, dated 31 March 2014 issued by Stone Forest; and

(c) the steel industry review reports issued by Roger Emmott Associates Limited and China Metallurgical Industry Planning and Research Institute.

BY ORDER OF THE BOARD

Teh Wing Kwan
Executive Director and Group Chief Executive Officer

26 April 2014

APPENDIX A
CORPORATE STRUCTURE

