

**SAPPHIRE CORPORATION LIMITED**  
**REGISTRATION NUMBER: 198502465W**



**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

**PART 1**

**Information required for announcements of quarterly (Q1, Q2, Q3), Half Year and Full Year Announcements**

**1(a)(i) An income statement and statement of comprehensive income, for the Group, together with a comparative statement for the corresponding period of the immediately preceding financial year**

	<b>Group</b>		
	<b>1Q2014</b>	<b>1Q2013</b>	<b>Change</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
Revenue	15,794	-	NM
Cost of sales	(12,137)	-	NM
<b>Gross profit</b>	<b>3,657</b>	<b>-</b>	<b>NM</b>
Other income	146	821	(82.2)
Distribution costs	-	(4)	(100.0)
Administrative expenses	(2,894)	(1,028)	181.5
Other expenses	(81)	(75)	8.0
<b>Profit/(loss) from operations</b>	<b>828</b>	<b>(286)</b>	<b>NM</b>
Finance costs	(164)	-	NM
Share of results of associates	(66)	(97)	(32)
<b>Profit/(loss) before income tax</b>	<b>598</b>	<b>(383)</b>	<b>NM</b>
Income tax expense	(404)	-	NM
<b>Profit/(loss) from Continuing Operations<sup>#</sup></b>	<b>194</b>	<b>(383)</b>	<b>NM</b>
<b>Results of Discontinued Operations*</b>			
<b>Discontinued Operations</b>			
Loss from Discontinued Operations (net of tax)	(2,112)	(1,571)	34.4
<b>Loss for the period</b>	<b>(1,918)</b>	<b>(1,954)</b>	<b>(1.8)</b>

<sup>#</sup> Details of profit from Continuing Operations in 1Q2014

- Mancala Australia

- Corporate function - expenses

667

(473)

194

\* see details on Page 2

**Note:**

NM – Not Meaningful.

The Group's steel-making operations consist of investments (i) in its 100%-owned subsidiaries, namely Sapphire Mineral Resources (HK) Limited ("SMRHK") and Lucky Art Holdings Limited ("Lucky Art"); and (ii) in its available-for-sale financial assets in 16% of Prime Empire Limited ("Prime Empire") and 16% of Precise Skill Limited ("Precise Skill") (collectively the "Steel Business"). The financial statements of the Steel Business are presented here as Assets Held-For-Sale given the management decision to sell the Steel Business. On 26 April 2014, the Group announced the sale of the Steel Business which is subject to approval from shareholders at an Extraordinary General Meeting to be convened.

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Accordingly, the financials for the Steel Business have been re-presented, on the face of Profit and Loss Account, as Discontinued Operations and the comparatives of which have also been re-presented as part of the Discontinued Operations.

	<b>Group</b>		
	<b>1Q2014</b>	<b>1Q2013</b>	<b>Change</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
<b>Results of Discontinued Operations</b>			
Revenue	28,174	23,472	20.0
Cost of sales	(27,493)	(20,945)	31.3
<b>Gross profit</b>	<b>681</b>	<b>2,527</b>	<b>(73.1)</b>
Other income	1,047	804	30.2
Distribution costs	(231)	(271)	(14.8)
Administrative expenses	(1,592)	(1,996)	(20.2)
Other expenses	(1,178)	(1,186)	(0.7)
<b>Loss from operations</b>	<b>(1,273)</b>	<b>(122)</b>	<b>NM</b>
Finance costs	(849)	(1,244)	(31.8)
Share of results of associates	-	-	
<b>Loss before income tax</b>	<b>(2,122)</b>	<b>(1,366)</b>	<b>55.3</b>
Income tax credit/(expense)	10	(205)	NM
<b>Loss from discontinued operations</b>	<b>(2,112)</b>	<b>(1,571)</b>	<b>34.4</b>

**Consolidated Statement of Comprehensive Income**

<b>Loss for the period</b>	(1,918)	(1,954)	(1.8)
<b>Other comprehensive income</b>			
Translation differences relating to financial statements of foreign subsidiaries	(2,197)	2,476	NM
Changes in fair value of available-for-sale financial Assets	-	5,464	(100.0)
<b>Other comprehensive income for the period, net of Tax</b>	<b>(2,197)</b>	<b>7,940</b>	<b>NM</b>
<b>Total comprehensive income for the period</b>	<b>(4,115)</b>	<b>5,986</b>	<b>NM</b>

**Note:** NM – Not Meaningful.

**Cumulative income or expense recognised in other comprehensive income**

Included in translation differences relating to financial statements of foreign subsidiaries, there is a recorded cumulative translation loss of \$1,417,000 relating to the Assets Held-For-Sale.

**Notes to other comprehensive income:**

1. Translation differences relate to accounting translation of RMB and Australia dollar denominated financial statements of our foreign subsidiaries to S\$ term. Translation losses recorded in comprehensive income was attributed mainly to weaker RMB against the S\$.

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2. In 2013, movements of available-for-sale financial assets reserve relate to increase in fair value of our investment PEL, partially offset by fall in fair value in quoted shares of China Vanadium Titanomagnetite Mining Company Limited (“China VTM”), which is listed on the Hong Kong Stock Exchange.

**1(a)(ii) Items, which if significant must be included in the income statement.**

**Notes to Income Statement**

	Group Discontinued operations			Group Continuing operations		
	1Q2014 \$'000	1Q2013 \$'000	Change %	1Q2014 \$'000	1Q2013 \$'000	Change %
<b>Revenue includes the following:</b>						
Mining services	-	-	-	15,794	-	NM
Sale of manufactured vanadium products	19,317	9,931	94.5	-	-	-
Processing fees from rebars and hot rolled coil	-	8,986	(100)	-	-	-
Sale of manufactured steel products	8,452	3,534	139.2	-	-	-
Commission from trading of steel Products	89	886	(90.0)	-	-	-
Others	316	135	134.1	-	-	-
<b>Other income includes the following:</b>						
Exchange gain, net	-	-	-	56	705	(92.1)
Interest income – banks	134	103	30.1	6	3	100.0
Rental income	797	680	17.2	-	-	-
<b>Other expenses include the following:</b>						
Exchange loss, net	(1,117)	(190)	487.9	-	-	-
Amortisation of intangible assets and prepaid leases	-	(696)	(100.0)	-	-	-
<b>Finance costs include the following:</b>						
Amortisation of fees in relation to bank loans	-	(164)	(100.0)	-	-	-
Interest expense – long term payable to affiliated party	(736)	(818)	(10.0)	-	-	-
Interest expense – banks loans	(112)	(263)	(57.4)	(30)	-	NM
Interest expense – finance lease	-	-	-	(134)	-	NM
<b>Profit before income tax is arrived after deducting:</b>						
Depreciation of property, plant and equipment	-	(3,971)	(100.0)	(968)	(17)	NM
Reversal of impairment losses on doubtful receivables	-	-	-	-	97	(100.0)

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**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

**1(b)(i) A statement of financial position (for the issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year**

	Group		Company	
	31.03.2014 \$'000	31.12.2013 \$'000	31.03.2014 \$'000	31.12.2013 \$'000
<b>Assets</b>				
Property, plant and equipment	33,676	144	134	144
Interests in subsidiaries	-	-	11,073	-
Interests in associates	817	883	637	637
Other investments	97	1	1	1
<b>Total non-current assets</b>	<b>34,590</b>	<b>1,028</b>	<b>11,845</b>	<b>782</b>
Short term loans receivables	-	2,255	2,326	2,255
Inventories	8,825	-	-	-
Trade and other receivables	11,378	300	15,630	15,610
Cash and cash equivalents	5,614	6,719	5,270	6,303
Assets classified as held for sale	294,390	295,630	50,687	50,687
<b>Total current assets</b>	<b>320,207</b>	<b>304,904</b>	<b>73,913</b>	<b>74,855</b>
<b>Total assets</b>	<b>354,797</b>	<b>305,932</b>	<b>85,758</b>	<b>75,637</b>
<b>Equity</b>				
Share capital	260,489	260,489	260,489	260,489
Reserves	(191,119)	(187,004)	(187,806)	(187,289)
<b>Total equity</b>	<b>69,370</b>	<b>73,485</b>	<b>72,683</b>	<b>73,200</b>
<b>Liabilities</b>				
Long term payable	647	-	-	-
Financial liabilities	9,115	-	-	-
<b>Total non-current liabilities</b>	<b>9,762</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables	32,453	2,616	12,910	2,248
Financial liabilities	10,031	-	-	-
Provisions	177	201	165	189
Current tax liabilities	443	-	-	-
Liabilities classified as held for sale	232,561	229,630	-	-
<b>Total current liabilities</b>	<b>275,665</b>	<b>232,447</b>	<b>13,075</b>	<b>2,437</b>
<b>Total liabilities</b>	<b>285,427</b>	<b>232,447</b>	<b>13,075</b>	<b>2,437</b>
<b>Total equity and liabilities</b>	<b>354,797</b>	<b>305,932</b>	<b>85,758</b>	<b>75,637</b>

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**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

Details of the assets and liabilities classified as held for sale are as follows:

	<b>Group</b>	<b>Group</b>
	<b>31.3.2014</b>	<b>31.12.2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Assets of a disposal group classified as held for sale</b>		
Property, plant and equipment	68,469	71,776
Prepaid leases	28,814	30,207
Other investments	9,600	9,600
Inventories	43,449	25,969
Trade and other receivables	67,306	70,850
Deposit with an affiliated party	58,215	63,184
Current tax asset	1,211	1,252
Cash at bank and in hand	17,326	22,792
	<u>294,390</u>	<u>295,630</u>
<b>Liabilities of a disposal group classified as held for sale</b>		
Trade and other payables	116,354	109,879
Income tax payable	29	-
Long term payable to an affiliated party	107,452	110,708
Deferred tax liabilities	8,726	9,043
	<u>232,561</u>	<u>229,630</u>
Net assets	<u>61,829</u>	<u>66,000</u>

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**1(b)(ii) Aggregate amount of Group's borrowings and debt securities.**

	31.03.2014		31.12.2013	
	Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
Amount repayable in one year or less, or on demand	151,058	-	160,225	-
Amount repayable after one year	9,115	-	-	-
Relating to:				
<b>Disposal Group</b>				
- Notes Payable (for trade bills)	33,575	-	49,517	-
- Long term payable to an affiliated party	107,452	-	110,708	-
<b>Mancala Australia</b>				
- Bank Overdraft	1,685	-	-	-
- Short-term bank borrowings	4,897	-	-	-
- Current portion of finance lease	3,449	-	-	-
- Non-current portion of finance lease	9,115	-	-	-
<b>Total</b>	<b>160,173</b>	<b>-</b>	<b>160,225</b>	<b>-</b>

**Details of any collateral as at 31 March 2014**

- (i) The notes payables for Disposal Group are secured with cash deposit of approximately \$16.2 million.
- (ii) Sichuan Longwei Metal Products Co., Ltd ("Longwei") has provided corporate guarantees and has granted mortgages over its land, buildings, equipment and facilities with net book value totaling \$70.2 million to secure loans of a total \$98.4 million borrowed by affiliated parties.
- (iii) The bank overdraft and short term bank loans are secured by personal guarantees of the vendors of Mancala and subordinated loans of A\$5 million from Sapphire to Mancala.
- (iv) The carrying value of fixed assets under finance lease as at 31 March 2014 approximates \$13.5 million.

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1(c) A statement of cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group	
	1Q2014 \$'000	1Q2013 \$'000
<b>Operating activities</b>		
Profit/(loss) before income tax from continuing operations	598	(383)
Adjustments for:		
Depreciation of property, plant and equipment	969	17
Interest income	(6)	(3)
Interest expense	164	-
Share of results of associates	66	97
<b>Operating profit/(loss) before working capital changes</b>	1,791	(272)
Changes in working capital:		
Inventories	156	-
Trade and other payables	(2,438)	(785)
Trade and other receivables	515	1,312
<b>Cash flows generated from operations</b>	24	255
Payment of rectification costs	(23)	(29)
<b>Cash flows generated from operating activities</b>	1	226
<b>Net cash (used in)/from operating activities from discontinued operations</b>	(1,968)	16,459
	(1,967)	16,685
<b>Investing activities</b>		
Net cash outflow from acquisition of subsidiary (note A)	(824)	-
Interest received	6	3
Payment for purchase of property, plant and equipment	-	(172)
Proceeds from disposal of property, plant and equipment	146	-
Repayment of loan from an affiliated party	-	933
<b>Cash flows (used in)/generated from investing activities</b>	(672)	764
<b>Net cash (used in)/generated from investing activities from discontinued operations</b>	134	5,923
	(538)	6,687
<b>Financing activities</b>		
Interest paid	(164)	-
Payment of finance lease liabilities	(1,504)	(4)
<b>Cash flows used in financing activities</b>	(1,668)	(4)
<b>Net cash used in financing activities from discontinued Operations</b>	(113)	(21,363)
	(1,781)	(21,367)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(4,286)	2,005
Cash and cash equivalents at beginning of the year (inclusive of discontinued operations)	9,854	7,820
Effect of exchange rate changes on the balances held in foreign currencies	(553)	2,220
Cash and cash equivalents classified as held for sale	(1,086)	(8,148)
<b>Cash and cash equivalents at end of the period</b>	3,929	3,897

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**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

	Group	
	1Q2014 \$'000	1Q2013 \$'000
<b>Cash and cash equivalents for continuing operations consist of the following:</b>		
Fixed deposits	1,325	621
Cash and bank balances	4,289	3,987
Cash and cash equivalents	5,614	4,608
Bank overdraft (included in financial liabilities)	(1,685)	-
	3,929	4,608
Less: fixed deposits pledged	-	(621)
	3,929	3,987
<b>Cash and cash equivalents for discontinued operations consist of the following:</b>		
Fixed deposits	16,241	23,722
Cash and bank balances	1,086	8,148
Cash and cash equivalents	17,327	31,870
Less: fixed deposits pledged	(16,241)	(23,722)
	1,086	8,148

**Note A**

On 7 January 2014, the Group acquired 100% of the equity interest in Mancala Holdings Pty Ltd ("Mancala"), a specialist mining services company based in Australia. The effect of cash flow arising from the acquisition of 100% equity interests in Mancala, is set out below:

	Group	
	1Q2014 \$'000	1Q2013 \$'000
Property, plant and equipment	33,613	-
Other investment	93	-
Inventories	8,707	-
Trade and other receivables	11,281	-
Cash and cash equivalent	(824)	-
Trade and other payables	(18,924)	-
Current provisions	(1,513)	-
Current financial liabilities (Bank loans and finance leases)	(7,413)	-
Long term payables	(2,856)	-
Long term financial liabilities (finance leases)	(10,973)	-
Long term provisions	(118)	-
Provisional identifiable net assets acquired <sup>(1)</sup>	11,073	-
Provisional goodwill / negative goodwill <sup>(2)</sup>	-	-
Provisional total consideration (deferred consideration) <sup>(2)</sup>	11,073	-
Consideration payable <sup>(2)</sup>	(11,073)	-
Cash and cash equivalent of the subsidiary acquired	(824)	-
Cash outflow on acquisition, net of cash acquired	(824)	-

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(1) The provisional identifiable net assets acquired were determined with reference to the unaudited management accounts of Mancala as at the acquisition date. The Group will be engaging an independent professional valuer to determine the fair values of the assets and liabilities acquired as part of the Purchase Price Allocation exercise ("PPA Exercise"). The provisional fair value of the identifiable net assets will be finalized within 12 months from the date of acquisition, and adjustments, if any, will be made to related balances as at 31 December 2014.

(2) The provisional total consideration were determined based on management's estimate of the value of deferred consideration, taking into consideration the probability of various range of profit after tax that Mancala is likely to record for FY2014 and FY2015, discounted at market rate. The Group will be engaging an independent professional valuer to determine the fair value of the total consideration as part of the PPA exercise. The provisional total consideration will be finalized within 12 months from the date of acquisition, and adjustments, if any, will be made to related balances as at 31 December 2014.

The consideration payable of \$11.1 million had been included in other payables of the Group and Company's balance sheet. The resultant goodwill or negative goodwill will be adjusted accordingly upon finalization of the PPA exercise by an independent professional valuer.

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## QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014

1(d)(i) A statement (for the issuer and Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

## (Bi) Consolidated Statement of Changes in Equity

	Share capital \$'000	Capital reserve \$'000	Merger reserve \$'000	Other reserves \$'000	Statutory reserve \$'000	Currency translation reserve \$'000	Fair value reserve \$'000	Accumulated profit/ (losses) \$'000	Total equity \$'000
<b>1Q2013 Group</b>									
At 1 January 2013	260,489	1,235	418	(1,353)	4,803	(6,198)	619	(35,264)	224,749
Loss for the period	–	–	–	–	–	–	–	(1,954)	(1,954)
<b>Other comprehensive income</b>									
Translation differences relating to financial statements of foreign subsidiaries	–	–	–	–	–	2,476	–	–	2,476
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	5,464	–	5,464
Total other comprehensive income	–	–	–	–	–	2,476	5,464	–	7,940
<b>Total comprehensive income</b>	–	–	–	–	–	2,476	5,464	(1,954)	5,986
At 31 March 2013	260,489	1,235	418	(1,353)	4,803	(3,722)	6,083	(37,218)	230,735

## QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014

## (Bi) Consolidated Statement of Changes in Equity

	Share capital \$'000	Capital reserve \$'000	Merger reserve \$'000	Other reserves \$'000	Statutory reserve \$'000	Currency translation reserve \$'000	Fair value reserve \$'000	Accumulated profit/ (losses) \$'000	Total equity \$'000
<b>1Q2014 Group</b>									
At 1 January 2014	260,489	1,235	418	(1,353)	4,954	333	-	(192,591)	73,485
Loss for the period	-	-	-	-	-	-	-	(1,918)	(1,918)
<b>Other comprehensive income</b>									
Translation differences relating to financial statements of foreign subsidiaries	-	-	-	-	-	(2,197)	-	-	(2,197)
Total other comprehensive income	-	-	-	-	-	(2,197)	-	-	(2,197)
<b>Total comprehensive income</b>	-	-	-	-	-	(2,197)	-	(1,918)	(4,115)
Transfer to statutory reserve	-	-	-	-	(3)	-	-	3	-
At 31 March 2014	260,489	1,235	418	(1,353)	4,951	(1,864)	-	(194,506)	69,370

QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2013

(Bii) Statement of Changes in Equity

	Share capital \$'000	Capital reserve \$'000	Other reserves \$'000	Fair value reserve \$'000	Accumulated losses \$'000	Total equity \$'000
<b>1Q2013</b>						
<b>Company</b>						
At 1 January 2013	260,489	1,084	(1,353)	10,374	(99,839)	170,755
Loss for the period	-	-	-	-	(50)	(50)
<b>Other comprehensive income</b>						
Changes in fair value of available-for-sale financial assets	-	-	-	5,464	-	5,464
Total other comprehensive income	-	-	-	5,464	-	5,464
<b>Total comprehensive income</b>	-	-	-	5,464	(50)	5,414
At 31 March 2013	260,489	1,084	(1,353)	15,838	(99,889)	176,169
<b>1Q2014</b>						
<b>Company</b>						
At 1 January 2014	260,489	1,084	(1,353)	1,497	(188,517)	73,200
Loss for the period	-	-	-	-	(517)	(517)
<b>Total comprehensive income</b>	-	-	-	-	(517)	(517)
At 31 March 2014	260,489	1,084	(1,353)	1,497	(189,034)	72,683

**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

- 1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

Share Capital

There was no change in the Company's issued capital since the previous period reported on.

Convertible Securities

The Company has no outstanding convertible securities as at end of the current financial period and as at the end of the corresponding period of the immediately preceding financial year.

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at end of the current financial period and as at end of the immediately preceding year**

	31.03.2014	31.12.2013
Total number of issued shares excluding treasury shares	810,949,328	810,949,328

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at end of the current financial period reported on**

There were no treasury shares as at end of the current financial period.

- 2 Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice**

The figures have not been audited or reviewed by our auditors.

- 3 Where the figures have been audited, or reviewed, the auditors' report (including any qualification or emphasis of a matter)**

Not applicable.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for current reporting period compared with the audited financial statements for the year ended 31 December 2013.

**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as reasons for, and the effect of, the change**

The Group adopted the new/revised FRS and INT FRS applicable for the financial period beginning 1 January 2014. The adoption of the new/revised FRSs did not result in any substantial change to the Group accounting policies or has any significant impact on the interim financial statements.

- 6 Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	12 months					
	Continuing operations		Discontinued operations		Total	
	1Q2014	1Q2013	1Q2014	1Q2013	1Q2014	1Q2013
Basic earnings per share (cents)	0.02	(0.05)	(0.26)	(0.19)	(0.24)	(0.24)
Diluted earnings per share (cents)	0.02	(0.05)	(0.26)	(0.19)	(0.24)	(0.24)

The calculation of the above basic earnings per share was based on weighted average number of shares outstanding of 810,949,328 (2012: 810,949,328).

- 7 Net asset value (for the issuer and the Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the current financial period reported on and the immediately preceding financial year**

	Group		Company	
	31.03.2014	31.12.2013	31.03.2014	31.12.2013
Net asset value per ordinary share (cents)	8.55	9.06	8.96	9.03
Number of shares in issue	810,949,328	810,949,328	810,949,328	810,949,328

## QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014

- 8 A review of the performance of the Group to the extent necessary for a reasonable understanding of the Group's business. The review must discuss any significant factors that affected the turnover, costs and earnings of the Group for the current financial period reported on, including (where applicable) seasonal, or cyclical factors. It must also discuss any material factors that affected the cashflow, working capital, assets or liabilities of the Group during the current financial period reported on.

### Review of Group Performance

#### Overview

On 7 January 2014, we completed the acquisition of the entire equity stake of Mancala Holdings Pty Ltd ("Mancala Australia"), a specialist mining services company based in Australia.

Following the release of our full year 2013 results announcement in which the Group announced the weak financial performance of the steelmaking business, the management decided to exit the steelmaking industry. On 26 April 2014, we announced the sale of our Steel Business which is subject to approval from shareholders at an Extraordinary General Meeting to be convened.

Given the above strategic decisions:

- The financial performance for the Steel Business has since been presented as part of the Discontinued Operations while its financial position has been classified as Assets Held-For-Sale; and
- The financials of the Continuing Operations for 1Q2014 reflect the operations of the mining services segment of Mancala Australia and the corporate functions of the Group.

In 1Q14, our newly acquired subsidiary, Mancala Australia, contributed positively to the financial performance of the Group and, coupled with management efforts to reduce corporate running costs, our Continuing Operations recorded a net profit after tax of \$0.2 million during the quarter under review. However, the Steel Business continued to suffer from significantly lower gross margin and recorded a loss of \$2.1 million despite fixed costs saving arising from operational streamlining.

### **Review of Financial Performance (1Q2014 vs 1Q2013)**

#### **Continuing Operations**

On consolidation of the results of Mancala Australia, we recorded a maiden revenue of \$15.8 million from our mining services segment in 1Q14. The mining services segment also recorded a \$3.7 million gross profit, representing a margin of 23.2%.

Other income fell by \$0.7 million to \$0.1 million due mainly to lower exchange gain arising from a stronger US\$ against the S\$.

Administrative expenses rose by \$1.9 million to \$2.9 million with the inclusion of the administrative expenses of Mancala Australia of \$2.4 million. Meanwhile, our corporate functions incurred lower administrative expenses as management continued to improve internal efficiencies. Administrative expenses for corporate functions fell by \$0.5 million to \$0.5 million.

Finance costs rose by \$0.2 million with the inclusion of interest expense incurred by Mancala Australia, which has working capital borrowings and finance lease obligations.

Income tax expense of \$0.4 million related to provision for income tax in relation to Vietnam operations of Mancala Australia (effective tax rate in Vietnam is high).

## QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014

Given the above, the Continuing Operations in 1Q2014 recorded a net profit of \$0.2 million, reversing a net loss of \$0.4 million in 1Q2013.

### **Discontinued operations**

Revenues for Discontinued Operations (Steel Business) rose by 20.0% to \$28.2 million from \$23.5 million due mainly to higher sales volume of cold rolled coil and vanadium products.

Despite higher revenues, gross profit fell sharply to \$0.7 million from \$2.5 million over the comparative periods due mainly to lower average unit selling price and higher unit production cost (materials, wages and factory overheads). As a result of these factors and the lower gross profit, gross profit margin also fell sharply by 8.4 percentage points to 2.4% from 10.8%. During the period under review, unit selling prices for CRC and V2O5 fell while the related raw materials cost and production overheads increased significantly.

Other income rose by \$0.2 million to \$1.0 million, primarily due to higher rental income from the lease of Longwei's industrial land, building and equipment.

Both distribution costs and administrative expenses fell due to cost control measures. Distribution costs fell by \$0.1 million to \$0.2 million while administrative expenses fell by \$0.4 million to \$1.6 million due to lower staff costs following the operational streamlining.

Other expenses remained relatively unchanged at \$1.2 million. In 1Q2014, the Steel Business recorded an exchange loss of \$1.1 million due to a stronger US\$ against the RMB. However, this was partially offset by the absence of depreciation and amortization of \$0.9 million which has been suspended in 1Q2014 for the Disposal Group in accordance with the accounting principles of asset held-for-sale ("Depreciation and Amortization for the Disposal Group").

Finance costs fell by \$0.4 million to \$0.8 million due mainly to lower interest expense on the back of lower bank borrowings. The Management had capped borrowings following the decisions to scale down capacity for Rebar and V2O5 and hold back the expansion plans for CRC.

Given the above, Net Loss for Discontinued Operations in 1Q2014 rose to \$2.1 million as compared to \$1.6 million in 1Q2013. It should be noted that had the Depreciation and Amortization for the Disposal Group of \$1.1 million been accounted for, the net loss for the Discontinued Operations in 1Q2014 would have been \$3.2 million. The higher losses reflected the continual weak market sentiment of our Steel Business in China, which we are disposing.

### **Review of Financial Position (31 March 2014 vs 31 December 2013)**

*Note: Significant changes in financial position during the quarter under review were mainly attributed to maiden consolidation of Mancala Australia's financial position as at 31 March 2014.*

#### Property plant and equipment

Property plant and equipment ("PPE") rose by \$33.6 million to \$33.7 million on maiden consolidation of Mancala Australia's PPE (see Note A on pages 8 and 9).

#### Interest in subsidiaries (the Company's level)

The Company's interest in subsidiaries of \$11.1 million relates to the provisional deferred consideration payable for the acquisition of Mancala Australia. The total consideration of A\$15 million is payable in cash and shares upon the issue of FY2014 and FY2015 financial statements of Mancala Australia and is subject to adjustment if the FY2014 NPAT of Mancala Australia is less than A\$3 million and/or the FY2015 NPAT of Mancala Australia is less than A\$5 million ("Deferred Consideration"). The provisional consideration payable (as recorded)

**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

represents management's estimate of the value of Deferred Consideration (see Note A on pages 8 and 9), which is subject to a PPA Exercise to be conducted by an independent professional valuer within 12 months from the date of acquisition.

Other investments

Other Investments rose by \$96,000 to \$97,000 million on consolidation of Mancala Australia's financial position. This represents Mancala Australia's 1.95% interest in Bass Metal Limited, which is listed on the Australian Securities Exchange.

Short term loan receivables

Short-term loan receivables of \$2.3 million as at 31 December 2013 represents secured loan to Mancala Australia prior to completion of the acquisition. On completion of the acquisition, the amount is now offset as inter-company loan on consolidation.

Inventories

Inventories rose by \$8.8 million on consolidation of Mancala Australia's financial position This comprised drill rods, hydraulic and mechanical parts, hardware and other work-in-progress for mining services business.

Trade and other receivables

Trade and other receivables rose by \$11.1 million to \$11.4 million on consolidation of Mancala Australia's financial position. This comprised trade receivable of \$9.8 million and other receivables, deposits and prepayment of \$1.3 million. Trade receivable of \$9.8 million includes \$3.7 million receivable from the nickel mine project in Ban Phuc, Vietnam.

Cash and cash equivalents

Cash and cash equivalents fell by \$1.1 million to \$5.6 million as at 31 March 2014 due mainly to running cost of the corporate office and payment for professional fees.

Assets and liabilities classified as held for sale

This relates to the assets and liabilities of the steel business as detailed on page 5. The carrying value of the Steel Business fell by \$4.2 million from \$66.0 million as at 31 December 2013 to \$61.8 million as at 31 March 2014 due to losses of \$2.1 million incurred for the 3 months ended 31 March 2014 and a translation loss of S\$2.1 million on a weaker RMB against the S\$.

As announced on 26 April 2014, the Group has entered into a conditional sale and purchase agreement to sell the Steel Business for the aggregate consideration of S\$70.0 million. Given the lower carrying value of \$61.8 million, the expected gain, on completion of the sale of Steel Business, is expected to be \$8.2 million (excluding incidental expenses and an accumulated translation loss of \$1.4 million which is to be accounted for on completion of sale) – see details on page 2. The estimated net gain on disposal of \$6.8 million is now higher than the S\$3.8 million net gain forecast earlier.

## QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014

### Long-term payable

The long term payable of \$0.6 million was recorded on consolidation of Mancala Australia's financial position. It relates to loans previously advanced by the vendors/founders of Mancala, and is not expected to be repaid within the next 12 months.

### Financial liabilities

The Group recorded current and long-term financial liabilities totaling \$19.1 million on consolidation of Mancala Australia's financial position. This comprised \$1.7 million in bank overdraft, \$4.9 million in short-term bank borrowings and \$12.5 million of finance leases obligations.

### Trade and other payables

Trade and other payables rose by \$29.8 million to \$32.5 million on consolidation of Mancala Australia's financial position. This comprised trade payables of \$11.1 million and other payables of \$21.4 million. Included in the other payables were mainly the provisional deferred consideration of \$11.1 million payable for the acquisition of Mancala Australia (see note A on page 8 and 9), \$4.6 million of PAYG withholding in Australia and withholding tax in Vietnam to meet employees' personal tax obligations and \$1.5 million of leave provision.

### Current tax liabilities

The Group recorded current tax liabilities of \$0.4 million on consolidation of Mancala Australia's financial position which relate to provision for income tax on taxable profits of Mancala Australia's operations in Vietnam.

### Share capital and reserves

There has been no change in the Company's issued share capital since the previous financial year ended 31 December 2013.

Reserves include translation reserve, merger reserve, capital reserve, statutory reserve, other reserves, fair value reserve and accumulated profit/losses of the Group. Reserves are represented by net deficit reserves, which rose by \$4.1 million from \$187.0 million to \$191.1 million due mainly to current quarter losses and translation loss of the steel business.

As a result of the above, total equity fell by \$4.1 million to \$69.4 million as at 31 March 2014.

## **9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results**

In the 2013 full year results announcement, we had cautioned and highlighted that the steelmaking industry remains very weak due mainly to overcapacity and destocking which have caused steel prices to fall. While steel prices have fallen, costs are increasing, resulting in depleting margins. We had also mentioned that the management had streamlined operations for the Steel Business to lower fixed costs and reduce loss-making business segments. We also announced the completion of acquisition of Mancala Australia on 7 January 2014, which is now part of our Continuing Operations.

**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

In 1Q14:

- our Continuing Operations recorded a Net Profit of S\$0.2 million compared to a net loss of S\$0.4 million in 1Q2013 due mainly to maiden profit contribution from Mancala Australia and cost control measures for our corporate functions; and
- our Discontinued Operations recorded a higher loss of S\$2.1 million compared to a net loss of S\$1.6 million in 1Q2013 as a result of the weak financial performance of our steelmaking business in China, which we are disposing.

**10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months**

Our Steel Business in China continued to make losses and there has been no obvious sign of recovery. As such, we continue to believe that the demand for steel products is weak, margins are depleting and industrial compliance costs are increasingly higher. It has also become harder for our Steel Business to achieve optimal capacity utilization for economies of scale. Accordingly, following our decision to sell the Steel Business, we have also shut down the entire operations of Rebar production (we had previously shut down the entire production of Hot Roll Coil and scaled down the capacity of V2O5).

As previously announced, the sale of the Steel Business will have positive financial effects for the Group that, on completion of sale:

- We will record an estimated gain on disposal, net of expenses, of approximately S\$3.8 million (based on NTA of the Assets Held for Sale as at 31 December 2013).
- We will earn an interest income of up to S\$1.25 million ("Interest Income") assuming that the asset bond is to be redeemed in full only its maturity date; and
- We will have a total cash inflow of the S\$71.25 million from the sale of the steel business, which will increase our NTA, ex-disposal, by the same amount;

Due to the continual losses of the Steel Business in 1Q2014, the Disposal Group recorded a lower NTA as at 31 March 2014. Accordingly, based on the total sale consideration of S\$70 million, the net gain on disposal is now estimated to be approximately S\$6.8 million (compared to S\$3.8 million previously). Including the Interest Income of up to S\$1.25 million, the total estimated gain is expected to approximate S\$8.05 million.

The good news for our continuing operations is that Mancala Australia has made a profit contribution to the Group's results in 1Q2014. As of 31 March 2014, Mancala Australia has a healthy orders book of A\$81 million (S\$94 million) to be delivered and performed over the next 2 to 3 years and also operates the largest nickel mines in Vietnam. However, the Management is aware of the volatility of commodity prices which has impacted the mining services industry and has recently accelerated operational streamlining for Mancala Australia in order to improve its production efficiency and cash flow. Meanwhile, we will continue to monitor the operating expenses budget for our corporate functions closely.

We have also been proactively evaluating various strategic investment opportunities looking out for other earnings-accretive targets which provide value-added engineering services for the mining and infrastructure sectors. We will continue to update shareholders in due course on our corporate development plans.

**QUARTERLY FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014**

**11 Dividend**

- (a) **Current Financial Period Reported on – any dividend declared for the current financial period reported on?**

No.

- (b) **Corresponding Period of the Immediately Preceding Financial Year – any dividend declared for the corresponding period of the immediately preceding financial year?**

No.

- (c) **Date payable**

Not applicable.

- (d) **Books closure date**

Not applicable.

**12 If no dividend has been declared/recommended, a statement to that effect**

No dividend has been declared/recommended in the current period reported on.

**13 Disclosure of Interested Person Transaction Conducted under a Shareholder Mandate for the period ended 31 March 2014**

There was no such interested person transaction in the current period reported on.

**14 Confirmations by Directors**

The Board of Directors of the Company hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited interim consolidated financial statements for the period ended 31 March 2014 to be false or misleading in any material aspect.

**BY ORDER OF THE BOARD**

**Teh Wing Kwan  
GROUP CEO**

**15 May 2014**