

CIRCULAR DATED 15 July 2014

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This Circular is issued by Sapphire Corporation Limited (the “Company”). If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of the Company held through The Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular to the purchaser or transferee as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your shares represented by physical share certificate(s), you should at once hand this Circular to the purchaser or transferee or to the bank, stockbroker or agent through whom you effected the sale or transfer, for onward transmission to the purchaser or transferee.

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SAPPHIRE CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 198502465W)

CIRCULAR TO SHAREHOLDERS

in relation to

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

Important Dates and Times:

Last date and time for lodgement of Proxy Form : 28 July 2014 at 11.30 a.m.

Date and time of Extraordinary General Meeting : 30 July 2014 at 11.30 a.m.

Place of Extraordinary General Meeting : 55 Market Street
#03-01 Singapore 048941

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DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated:

“Act”	: The Companies Act, Chapter 50, of Singapore
“Agreement”	: Has the meaning ascribed to it in Section 1 of this Circular
“Bond”	: Has the meaning ascribed to it in section 3.2(d) of this Circular
“Boweï”	: Neijiang Bowei Xinyu Chemical Co., Ltd
“CDP”	: The Central Depository (Pte) Limited
“Circular”	: This circular dated 15 July 2014
“Company”	: Sapphire Corporation Limited
“Completion”	: Has the meaning ascribed to it in section 3.1 of this Circular
“Conditions”	: Has the meaning ascribed to it in section 3.6 of this Circular
“Consideration”	: Has the meaning ascribed to it in section 3.2 of this Circular
“Controlling Shareholder”	: A person who (a) holds directly or indirectly 15% or more of the total number of issued shares excluding treasury shares in the Company or (b) in fact exercises control over the Company
“CRC”	: Cold-rolled steel coil
“CVTT”	: Chengyu Vanadium & Titanium Technology Co., Ltd
“Deposit”	: Has the meaning ascribed to it in section 3.2(a) of this Circular
“Directors”	: The directors of the Company as at the Latest Practicable Date
“Divestment”	: Has the meaning ascribed to it in Section 1 of this Circular
“EGM”	: The extraordinary general meeting of the Company, notice of which is set out on page 28 of this Circular
“EPS”	: Earnings per Share
“FVLCTS”	: Fair value less cost to sell

DEFINITIONS

“Group”	: The Company and its subsidiaries
“HRC”	: Hot-rolled steel coil
“Interest Income”	: Has the meaning ascribed to it in section 7.3(b) of this Circular
“Latest Practicable Date”	: 8 July 2014, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	: The listing manual of the SGX-ST, as amended from time to time
“Longwei”	: Sichuan Longwei Metal Product Co., Ltd
“Lucky Art”	: Lucky Art Holdings Limited
“Mancala”	: Mancala Holdings Pty Ltd
“Maturity Date”	: The date falling six (6) months from the Relevant Date
“Net Proceeds”	: Has the meaning ascribed to it in section 5 of this Circular
“NTA”	: Net tangible assets
“Parties”	: Has the meaning ascribed to it in section 3.2 of this Circular
“PRC”	: People’s Republic of China
“Precise Skill”	: Precise Skill Limited
“Prime Empire”	: Prime Empire Limited
“PHCL”	: Propitious Holdings Company Limited
“Relevant Date”	: Has the meaning ascribed to it in section 3.2(c) of this Circular
“Relevant Liabilities”	: Has the meaning ascribed to it in section 3.6 of this Circular
“Sale Entitles”	: SMRHK, Lucky Art, Prime Empire and Precise Skill, collectively
“Sale Shares”	: Has the meaning ascribed to it in section 3.1 of this Circular
“SGX-ST”	: Singapore Exchange Securities Trading Limited

DEFINITIONS

“Shareholders”	: Registered holders of Shares except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the persons whose direct securities accounts maintained with CDP are credited with the Shares
“Shares”	: Ordinary shares in the capital of the Company
“SMRHK”	: Sapphire Mineral Resources (HK) Limited
“SMRPL”	: Sapphire Mineral Resources Pte Ltd
“Special Steel”	: Neijiang Chuanwei Special Steel Co., Ltd. (内江川威特殊钢有限公司)
“Stone Forest”	: Stone Forest Corporate Advisory Pte Ltd
“Substantial Shareholder”	: Shareholders who are beneficial holders of 5% or more of the Shares
“Trisonic”	: Trisonic International Limited
“Valuation Letter”	: Has the meaning ascribed to it in section 3.3 of this Circular
“Valuation Report”	: Has the meaning ascribed to it in section 3.3 of this Circular
“V205”	: Vanadium pentoxide
“1Q”	: First quarter ended or ending 31 March, as the case may be
“3Q”	: Third quarter ended or ending 30 September, as the case may be
“FY”	: Financial year ended or ending 31 December, as the case may be
“HK\$”	: Hong Kong dollars, the legal currency of Hong Kong
“RMB”	: Renminbi, the legal currency of the PRC
“S\$”	: Singapore dollars, the legal currency of the Republic of Singapore
“%”	: Per centum

The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the meanings ascribed to them in Section 130A of the Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

DEFINITIONS

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act, the Listing Manual or any modification thereof and used in this Circular shall have the meaning assigned to it under the Act, the Listing Manual or any modification thereof, as the case may be.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless stated otherwise.

Certain terms and names in Chinese characters have been translated into English. Such translations are provided solely for the convenience of the Shareholders. They may not be registered with the relevant PRC authorities and should not be construed as representations that the English translations actually represent the Chinese characters.

LETTER TO SHAREHOLDERS

SAPPHIRE CORPORATION LIMITED

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

Directors:

Mr Lim Jun Xiong Steven (Independent Director and Non-Executive Chairman)
Mr Teh Wing Kwan (Executive Director and Group Chief Executive Officer)
Mdm Cheung Kam Wa Emma (Executive Director and Chief Operating Officer)
Mr Teo Cheng Kwee (Non-Executive Director)
Mr Foo Tee Heng (Non-Executive Director)
Mr Yang Jian (Non-Executive Director)
Mr Duan Bing (Non-Executive Director)
Mr Fong Heng Boo (Independent Director)
Mr Tao Yeoh Chi (Independent Director)
Mr Wei Jian Ping (Independent Director)

Registered Office:

80 Robinson Road
#02-00
Singapore 068898

15 July 2014

To: The Shareholders of the Company

Dear Sir / Madam

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

1. INTRODUCTION

As announced on 26 April 2014, the Company and its wholly-owned subsidiary, SMRPL, have entered into a conditional sale and purchase agreement dated 25 April 2014 (the “**Agreement**”) with PHCL, pursuant to which the Company and SMRPL have agreed to sell their effective interest in:

- (a) 100% of the ordinary shares of SMRHK;
- (b) 100% of the ordinary shares of Lucky Art;
- (c) 16% of the ordinary shares of Prime Empire; and
- (d) 16% of the ordinary shares of Precise Skill,

to PHCL for the aggregate consideration of S\$70.0 million (the “**Divestment**”).

The proposed Divestment constitutes a “major transaction” within the meaning of Chapter 10 of the Listing Manual, and is subject to the approval of Shareholders being obtained at the EGM to be convened. The purpose of this Circular is to provide Shareholders with information relating to the proposed Divestment, and to seek the approval of Shareholders for the same at the EGM.

Please refer to Appendix A of this Circular for the corporate structure of the Group prior to and after the proposed Divestment.

LETTER TO SHAREHOLDERS

2. INFORMATION ON PHCL AND SALE ENTITIES

2.1 Information on PHCL

PHCL is incorporated in the British Virgin Islands, and is entirely owned by Mr Wang Zongming (“**Mr Wang**”), a citizen of the 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.

Mr Wang is not related to the Company or any of the Directors, the Controlling Shareholders or the associates of the Directors and Controlling Shareholders.

PHCL was introduced to the Company by Mr Yang Jian, the Non-Executive Director, and Mr Duan Bing, the Non-Executive Director. However, neither Mr Yang Jian nor Duan Bing has or will receive any introducer fee or other benefit in connection with the proposed Divestment.

2.2 Information on the Sale Entities

The specialty steel and vanadium manufacturing business of the Company is primarily operated through the Sale Entities. The corporate structures of the Sale Entities and their respective subsidiaries are set out in Appendix A of this Circular, and their information is provided below:

(a) 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.

(b) 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 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:

LETTER TO SHAREHOLDERS

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
Longwei	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 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.

(c) 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. The Company owns 1,600 shares of Prime Empire, representing 16% of its entire issued and paid-up share capital.

Prime Empire is an investment holding company which holds approximately 50.17% equity interest of 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 (including other income) respectively.

(d) 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. The Company owns 1,600 shares of Precise Skill, representing 16% of its entire issued and paid-up share capital.

Precise Skill is an investment holding company which holds 59.18% equity interest of 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 (including other income) respectively.

LETTER TO SHAREHOLDERS

2.3 Cost of Investment and Carrying Value

The following table shows the audited cost of investment and the carrying value of investment in respect of the Sale Entities:

Subsidiary/investment	Amount
	S\$,000
Cost of investment	
Lucky Art ⁽¹⁾	70,798
Precise Skill ⁽²⁾	5,353
Prime Empire ⁽²⁾	22,081
SMRHK ⁽³⁾	44,394
Total cost of investment (before fair value adjustment and impairment) as at 31 December 2013 (audited)	142,626
Fair value adjustment and accumulated comprehensive loss	(18,625) ⁽⁴⁾
Carrying value before re-measurement for assets classified as held for sale	124,001
Impairment loss on re-measurement	(58,001) ⁽⁵⁾
Carrying value as at 31 December 2013 (audited)	66,000
Net losses of the Sale Entities for 3 months ended 31 March 2014 (un-audited)	(2,112)
Comprehensive loss for 3 months ended 31 March 2014	(2,059)
Carrying value as at 31 March 2014 (un-audited)	61,829

Notes:

- (1) In August 2007, the Group acquired a 40% interest in Kingston Grand Limited ("Kingston"). Kingston held Trisonic, which in turn held investments in Special Steel, CVTT and Bowei. In June 2009, (i) pursuant to a restructuring exercise, Lucky Art was incorporated with the Group having a 16% interest therein, and the shares of Special Steel was transferred to be held by Lucky Art and (ii) the Group acquired another 56.85% of Lucky Art, which thus became a 72.85% subsidiary of the Group. Subsequently, in August 2010, the Group acquired the remaining interest in Lucky Art, and Lucky Art became a 100% subsidiary of the Group. (Please refer to Appendix A for the corporate structure of the Group prior to the proposed Divestment.)
- (2) In April 2010, pursuant to a restructuring exercise, Prime Empire and Precise Skill were incorporated with the Company having a 16% interest in each of Prime Empire and Precise Skill, and the shares of CVTT and Bowei were transferred to be held by Prime Empire and Precise Skill respectively. (Please refer to Appendix A for the corporate structure of the Group prior to the proposed Divestment.)
- (3) SMRHK (formerly known as Asia Victory Investment Limited) was acquired by the Group as a shelf company in January 2008. (Please refer to Appendix A for the corporate structure of the Group prior to the proposed Divestment.)
- (4) Fair value adjustment made in accordance with re-measurement requirement under SFRS 39 – Financial Instruments and accumulated comprehensive loss recorded as at 31 December 2013.
- (5) Impairment loss on re-measurement in accordance with SFRS 105 – Non-current Assets Held for Sale and Discontinued Operations in accordance with the Valuation Report.

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3. PRINCIPAL TERMS AND CONDITIONS

3.1 Sale Shares

Subject to the terms and conditions of the Agreement:

(a) the Company has agreed to sell and PHCL 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 PHCL 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.

3.2 Consideration

The aggregate consideration payable by the PHCL 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 with an interest rate of 5.0% per annum (the “**Bond**”) to the Company on the Relevant Date. The obligations of the PHCL under the Bond shall be secured by a charge granted over property, plant and equipment and land use rights (as referred to in section 3.5 of this Circular).

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 PHCL within five (5) business days, unless such termination arises from the breach of the Agreement by PHCL or is attributable to the fault of PHCL, in which event the Deposit shall not be refundable by the Company.

LETTER TO SHAREHOLDERS

The Consideration was agreed upon among the Company, SMRPL and the PHCL (collectively, the “**Parties**”), at arm’s length and on a willing-buyer willing-seller basis, taking into account the FVLCTS of the Sale Entities as estimated by 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.

3.3 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 (the “**Valuation Report**”), Stone Forest has estimated the FVLCTS of the Sale Entities to be in the range of S\$65.0 million to S\$89.0 million as at 31 December 2013.

A copy of the valuation letter dated 3 July 2014 from Stone Forest (the “**Valuation Letter**”), which provides a summary of the Valuation Report, is set out in Appendix B of this Circular.

A copy of the Valuation Report is available for inspection at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898, during normal business hours, from the date of this Circular up to and including the date of the EGM.

3.4 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 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 V205 to other steel manufacturers, following the decision of the management to scale down the production capacity for reinforcement bars and V205 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.

LETTER TO SHAREHOLDERS

3.5 Terms of the Bond

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

Principal Amount : S\$50.0 million

Interest Coupon : The Bond shall bear interest from and including the Relevant Date (being the date of issue of the Bond) 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 Relevant Date

Transfer of Bond : Title to the Bond shall pass only by way of transfer and registration in the register of bondholder to be maintained by PHCL (the “**Register**”). The person in whose name the Bond is registered on the Register (the “**Bondholder**”) will be treated as the absolute owner for all purposes.

For the avoidance of doubt, the Company will be the Bondholder named in the Register when the Bond is issued by PHCL.

Redemption Right : PHCL 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.

PHCL shall be entitled to redeem the Bond at any time prior to the Maturity Date. However, for the avoidance of doubt, the Bondholder is not entitled to require the PHCL to redeem the Bond at any time prior to the Maturity Date.

There are no restrictions on the sale or transfer of the Sale Shares by PHCL during the period after Completion and prior to redemption of the Bond. However, to secure the due and punctual performance of PHCL’s obligations under the terms and conditions of the Bond, PHCL shall on the Relevant Date procure each of Special Steel and Longwei to grant a charge over their property, plant and equipment and land use rights in favour of the Company. It is provided in the deeds of charge that Special Steel and Longwei will not sell, lease, transfer or otherwise dispose of such property, plant and equipment and land use rights or any interest therein prior to the release of the charge. Based on the audited accounts of the Company for FY2013, the carrying value of such property, plant and equipment and land use rights (pre-paid leases) was approximately S\$102.0 million as at 31 December 2013.

For the avoidance of doubt, the Bond is not convertible into shares or other securities of PHCL, and the terms and conditions of the Bond do not contain any provision for the adjustment of the principal amount of the Bond or the interest payable thereon.

3.6 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 in general meeting being obtained for the proposed Divestment; and

LETTER TO SHAREHOLDERS

- (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 PHCL undertakes to keep the Company and SMRPL 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.

4. RATIONALE AND BENEFITS

Previous Acquisitions

The Company had undertaken the following acquisitions in 2011 and 2012:

- (a) Pursuant to the circular to Shareholders dated 16 September 2011 (the “**2011 Circular**”) and the extraordinary general meeting held on 3 October 2011, the Company acquired the remaining 30% equity interest of Special Steel, increasing its equity interest from 70% to 100%. As stated in the 2011 Circular, the Company believed that the proposed acquisition was in line with the strategic efforts undertaken to give the Group full control over Special Steel so as to better steer its business strategies and recognize its full contribution. The Company also believed the proposed acquisition of Special Steel is earnings accretive and will enhance the financial performance of the Group due to Special Steel’s established business operations in steel manufacturing and the strong potential of the V2O5 business.
- (b) Pursuant to the circular to Shareholders dated 27 November 2012 (the “**2012 Circular**”) and the extraordinary general meeting held on 12 December 2012 (the “**2012 EGM**”), the Company acquired 100% equity interest in Longwei. As stated in the 2012 Circular, the assets of Longwei is scalable at a later stage to produce the sought-after silicon steel, which will allow the Group to add new product offerings and new recurring revenue streams with higher margin. The Company further explained in the 2012 Circular that the proposed acquisition of Longwei was in line with the Group’s direction to grow its business organically, especially in the specialty steel sector, of which the CRC production line and its auxiliary facility, when integrated with Special Steel’s HRC production line (if subsequently upgraded to produce silicon steel), will form an efficient value chain that will enjoy economies of scale. The Company also believed that specialty steel such as CRC and silicon steel could command higher selling prices as compared to other regular steel products, and the rapid urbanization plans in Southwest region of the PRC should help to boost demand for specialty steel.
- (c) Pursuant to the 2012 Circular and the 2012 EGM, the Company also acquired the equipment of hot-rolled reinforcement bars (“**Rebar**”) production line from CVTT. As stated in the 2012 Circular, the proposed acquisition of the Rebar production line will provide a steady income stream with an attractive margin and, to a significant extent, solidify the profits of the Group from the processing of steel billets for the next five (5) years. The 2012 Circular also mentioned that the proposed acquisition was carried out on the context

LETTER TO SHAREHOLDERS

that CVTT contemplated terminating the cooperation agreement relating to the processing of Rebar for CVTT, but upon negotiations between Special Steel and CVTT, the parties have agreed to continue such arrangement.

Business Risks

The foregoing acquisitions were, however, not without risks. Details of some of the more notable risks as identified in the 2011 Circular and 2012 Circular, and the materialisation of some of these risks and changes in the steel-making industry as disclosed in the recent results announcements of the Company for 3Q2013, FY2013 and 1Q2014, are set out below:

- (a) The steel-making business involved significant working capital requirements and capital expenditure commitments, and the continual loss-making position of the business has resulted in higher working capital needs for and cash outflows from the entire operations. It is noted that (i) the loss-making position of the steel-making business has weakened the Group's position to secure more banking and trade finance facilities in China for working capital and capital expenditure commitments, and (ii) while access to financing facilities have since become more restrictive, the effective cost of fund has also increased. Recent trends in certain key financial indicators such as profitability and indebtedness appear to raise serious concerns over capability of smaller scale steel-makers to borrow, upgrade and expand.
- (b) The steel-making industry is affected by general economic conditions. The steel business has adversely been affected by the slowdown of economic activities in the PRC, the financial and debts crisis in the United States and the Europe which caused high level of overcapacity in the PRC. The local steel industry is currently in a significant period of destocking with demand continues to lag behind supply which have caused prices to fall. Meanwhile, many smaller scale steel-makers are struggling to improve factory utilization for economies of scale and they appear to have less pricing power compared to the larger players. The Company also highlighted that whilst the processing fees income from CVTT for processing of steel billets is significant, there is no assurance that CVTT will be able to fulfill its obligations under the processing agreement as the global economic environment remains challenging on many fronts. The discontinuance of the processing of steel billets for CVTT due to weak market sentiment has also adversely affected the business and operations of the Company's steelmaking business in the PRC.
- (c) The HRC industry is competitive, and the market for HRC is fast changing. Recent market research conducted by Roger Emmott Associates Limited suggested that most of the HRC available for the world market now is being manufactured at the width of 1200mm to 1800mm with a lower range of thickness of 1.2mm to 4.0mm (the "**Higher Grade HRC**") whereas those specifications produced by Special Steel are at the width of 430mm to 862mm with the thickness of 1.2mm to 20.0mm (the "**Lower Grade HRC**"). The recent change in market demand in such a dynamic business environment has further weakened the demand for Lower Grade HRC. Prior to management decision to shut down the HRC production, the capacity utilization rates for HRC had fallen significantly to around 10% to 15%.
- (d) The overall steel-making industry in the PRC is competitive, and selling prices have fallen while costs are increasing due largely to higher imported materials cost and higher local operating expenses thereby resulting in lower margins. The steel industry review reports issued by Roger Emmott Associates Limited advised that the 6-month average steel price (HRC and Rebar) for 2013 has fallen by approximately 21.5% and 7.3% compared to the 12-month average price for 2011 and 2012 respectively, and average steel price had not recovered much since such drop in price. The higher direct costs and operating expenses have resulted in declining gross margins, which were reported as 17.9%, 13.8% and 1.3% (including provision for obsolete stocks for HRC) for FY2011, FY2012 and FY2013 respectively.

LETTER TO SHAREHOLDERS

- (e) The environmental compliance laws and regulations have since become more stringent and the related compliance costs are increasingly higher. Hence, investment in emission control and cost of compliance are expected to be high.

The Company also noted that while excess capacity remains a significant issue in the PRC steel industry, the continued urbanisation of the country fuels the requirements for more steel, but in different proportions, forms and specifications. To a large extent, the steel industry is expected to move up the value chain and upgrade capacity to keep pace with such requirements, albeit at a slower, but possibly a stable pace. Capacity upgrade and expansion plans during this industry rebalancing period will, however, mean heavier capital expenditure at higher cost of funds with longer investment recovery period to meet long-term demand growth, which remains uncertain at this point in time. The Company also believes that steel-making players need to effectively establish an integrated supply chain, improve economies of scale and strengthen the value proposition of business, steelmakers. In doing so, they need to consolidate, upgrade, expand or possibly merge with others for a stronger market position in order to leverage.

The Company has since streamlined its operations and is consolidating its resources. It has also capped borrowings for capital expenditure, shut down HRC production, scaled back capacity for Rebar and V2O5; and held back expansion for CRC and silicon steel production. Following these plans and given the foregoing, the management has made a decision to divest the entire steel-making business for cash and cash equivalents.

Please refer to section 2.3 of this Circular for details of the cost of investment (and the carrying value) of the Sale Entities and the difference between such cost of investment and the Consideration.

Market Conditions

As highlighted in its previous profit guidance announcement dated 3 October 2013 and results announcement for the full year ended 31 December 2013, 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 which specializes in the steel, mining and energy sectors) and China Metallurgical Industry Planning and Research Institute (a consulting firm based in the PRC which specializes 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 continued to rise, resulting in declining operating margins. Environmental regulations have also become increasingly stringent, giving rise to higher costs of compliance for the steelmaking industry.

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 V2O5 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

LETTER TO SHAREHOLDERS

for expansion into silicon steel segment and the returns of which are uncertain, the Directors are 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, 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. There is no warranty or other provision in the Agreement which will result in the Company and/or SMRPL becoming responsible for or assuming the Relevant Liabilities after Completion.

Moving Forward

After completion of the proposed Divestment, the Group will continue to operate within its existing scope of business, being the provision of services in the resources industry. As announced on 7 January 2014, the Company has acquired the entire share capital of Mancala Holdings Pty Ltd ("**Mancala**") which is primarily engaged in the business of providing specialist mining services. After the disposal of the steel-making business which is operated through the Sale Entities, the remaining business of the Group will be the specialist mining services business of 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 of Mancala and its subsidiaries.

The proposed Divestment will also allow the Group to capitalise on other potential investment opportunities which it has been exploring, in order to enhance shareholders' value over the long term. In line with its investment strategy that is focused on businesses with stable income and high growth, the Company has set certain parameters and will consider targets which exhibit the following characteristics:

- (a) targets that record modest but firm profitability, which will enable the Group to stabilise its earnings base and reduce earnings fluctuation;
- (b) targets that generate stable cash flows but require more working capital in order to fund increasingly higher trade volumes – with the support of the Group, such profitable targets have the potential of becoming more profitable; and
- (c) well-run but undervalued targets that are facing a cyclical industry downturn and urgently require financial turnaround, but nevertheless have strong growth prospects which the Group will be able to capitalise on when the industry recovers.

Based on the foregoing investment strategy, the Company may potentially explore targets with businesses outside the resources industry. However, in the event that the Group undertakes any acquisition, investment or other transaction in future that changes the risk profile of the Group, the Company will seek approval from the Shareholders at a general meeting.

5. USE OF PROCEEDS

As at the Latest Practicable Date, the Company has received the Deposit of S\$2.0 million. It will receive S\$8.0 million on the date of Completion and another S\$10.0 million on the Relevant Date (being the date falling 30 days from the date of Completion). The balance of S\$50.0 million of the Consideration will be payable to the Company upon the redemption of the Bond on the Maturity Date (being the date falling six (6) months from the Relevant Date).

LETTER TO SHAREHOLDERS

The aggregate 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 (the “**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%

6. 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 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.

LETTER TO SHAREHOLDERS

7. 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.

7.1 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

Note:

- (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 section 7.3(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 section 7.3(b) below.

7.2 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

Note:

- (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 section 7.3(a) below.

LETTER TO SHAREHOLDERS

7.3 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

The book value of the Sale Shares and the carrying value of the assets held for sale 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 assets held for sale. Accordingly, the gain from the proposed Divestment was estimated at S\$3.8 million as at 31 December 2013.

Following the 1Q2014 results announcement released by the Company on 15 May 2014, due to the continual losses of the specialty steel and vanadium manufacturing business, the carrying value of the assets held for sale as at 31 March 2014 was lower at \$61.8 million. The Consideration of S\$70.0 million, less estimated cost of S\$0.2 million and estimated foreign translation loss of S\$1.4 million for the quarter ended 31 March 2014, represents a gain of S\$6.6 million over the carrying value of the assets held for sale. Accordingly, the gain on the proposed Divestment was estimated at S\$6.6 million as at 31 March 2014.

Please refer to section 2.3 of this Circular for further details on the cost of investment and carrying value in respect of the Sale Entities.

(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 ("**Interest Income**").

(c) NTA is expected to be higher

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 (based on NTA as at 31 December 2013) and S\$9.25 million (based on NTA as at 31 March 2014) on Completion of the proposed Divestment.

(d) Cash inflow of S\$71.25 million from Divestment

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 (comprising the Consideration and Interest Income) from the proposed Divestment. Given such cash inflow, the gearing position of the Company is also expected to improve significantly. However, such cash inflow will only fully materialize in approximately seven (7) months from Completion (as referred to in sections 3.2 and 3.5 of this Circular) upon full redemption of the Bond by PHCL.

LETTER TO SHAREHOLDERS

8. RECOMMENDATION OF DIRECTORS

Having reviewed, *inter alia*, the terms, rationale and financial effects of the proposed Divestment, the Directors are unanimously of the view that the proposed Divestment (including acceptance of the Bond) is in the interest of the Company, and accordingly, the Directors recommend that the Shareholders vote in favour of the proposed Divestment at the EGM.

9. INTERESTS 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. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the interests of Directors and Substantial Shareholders in the Shares, as recorded in the Company's Register of Directors' Shareholdings and Register of Substantial Shareholders respectively, are set out below:

Directors	Number of Shares		%
	Direct Interest	Deemed Interest	
Mr Teo Cheng Kwee	7,009,581	870,125 ⁽¹⁾	0.97
Mr Foo Tee Heng	1,021,887	-	0.13
Mr Yang Jian	8,005,050	-	0.99
Ms Cheung Kam Wa Emma	437,750	-	0.05

Substantial Shareholders	Number of Shares		%
	Direct Interest	Deemed Interest	
ACH Investments Pte Ltd	185,426,181	-	22.87
Mr Shi Yin Jun	100,768,191	-	12.43
Mr Christopher Chong Meng Tak ⁽²⁾	-	185,426,181	22.87
Ms Rosanna Ai Leng Lam ⁽²⁾	-	185,426,181	22.87

Notes:

- (1) Mr Teo Cheng Kwee is deemed to be interested in the Shares held by Ms Goh Teng Sim by virtue of Section 7 of the Act.
- (2) Mr Christopher Chong Meng Tak and Ms Rosanna Ai Leng Lam are deemed to be interested in the Shares in which ACH Investments Pte Ltd has an interest.

11. EXTRAORDINARY GENERAL MEETING

The EGM will be held on 30 July 2014 at 11.30 a.m. at 55 Market Street, #03-01, Singapore 048941 for the purpose of considering and, if thought fit, passing with or without any modifications, the resolutions set out in the Notice of EGM.

LETTER TO SHAREHOLDERS

12. ACTIONS TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and wish to appoint a proxy to attend and vote at the EGM on their behalf, may complete, sign and return the Proxy Form attached to the Notice of EGM in accordance with the instructions printed thereon as soon as possible and in any event so as to reach the registered office of the Company not less than 48 hours before the time fixed for the EGM. The completion and return of the Proxy Form by a Shareholder does not preclude him from attending and voting at the EGM, if he wishes to do so, in place of his proxy.

A Depositor shall not be entitled to attend and vote at the EGM unless he is shown to have shares of the Company entered against his name in the Depository Register as at 48 hours before the time fixed for holding the EGM, as certified by CDP to the Company.

13. CONSENT OF STONE FOREST AND PROFESSIONAL FIRMS

Stone Forest has given and have not before the date of this Circular withdrawn its written consent to the issue of this Circular with the inclusion of its name, its report, and all references thereto, in the form and context in which they appear in the Circular.

Each of Roger Emmott Associates Limited and China Metallurgical Industry Planning and Research Institute has given and have not before the date of this Circular withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references to its name and its report, in the form and context in which they appear in the Circular.

14. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the proposed Divestment, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

15. 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, from the date of this Circular up to and including the date of the EGM:

- (a) the Agreement;
- (b) the Valuation Letter;
- (c) the Valuation Report;

LETTER TO SHAREHOLDERS

- (d) the steel industry review reports issued by Roger Emmott Associates Limited and China Metallurgical Industry Planning and Research Institute;
- (e) the circular to Shareholders dated 16 September 2011 in relation to (i) the acquisition of the remaining 30% equity interest in Special Steel by Lucky Art and the entry into the deed of novation and repayment by Lucky Art and SMRHK and (ii) the shareholders' loan agreement between the Company and Trisonic International Limited; and
- (f) the circular to Shareholders dated 27 November 2012 in relation to (i) the acquisition of Sichuan Longwei Metal Product Co., Ltd, (ii) the acquisition of hot-rolled reinforcement bars production line and (iii) the general mandate for interested person transactions.

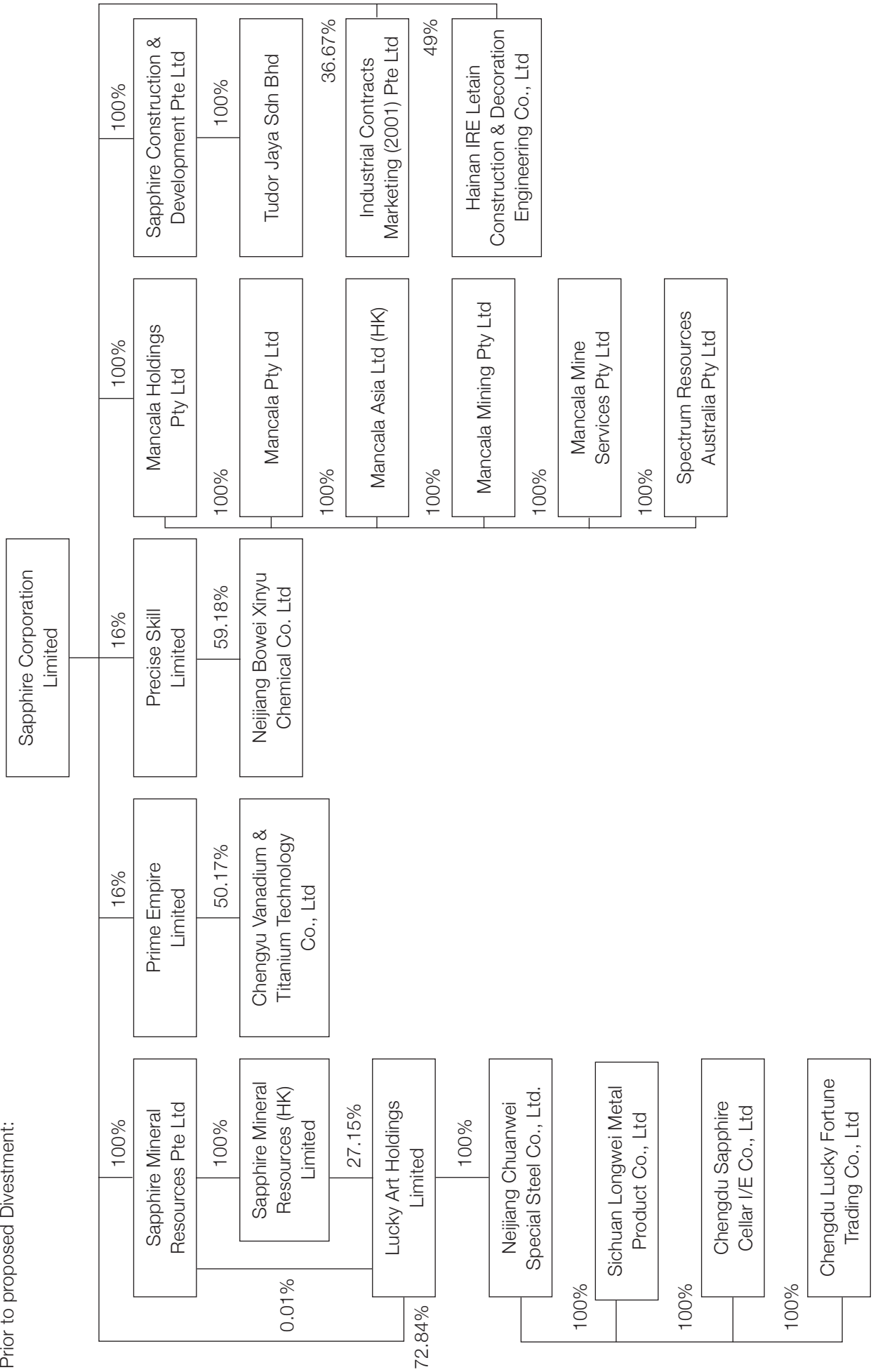
Yours faithfully,

For and on behalf of the Board of Directors of
Sapphire Corporation Limited

Mr Teh Wing Kwan
Executive Director and Group Chief Executive Officer

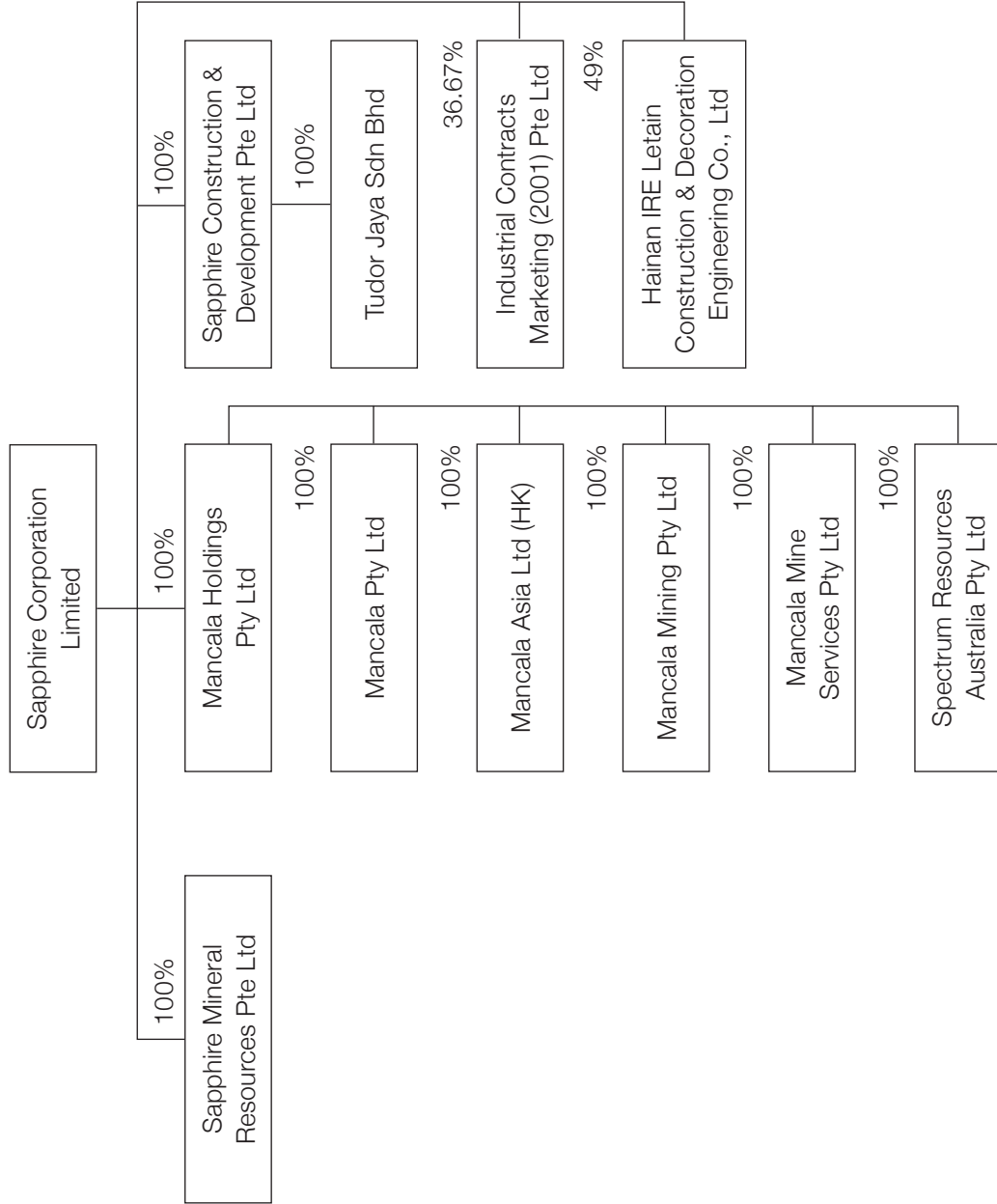
APPENDIX A: CORPORATE STRUCTURE

Prior to proposed Divestment:



APPENDIX A: CORPORATE STRUCTURE

After proposed Divestment:



APPENDIX B: VALUATION LETTER

3 July 2014

The Board of Directors
Sapphire Corporation Limited
3 Shenton Way
#25-01 Shenton House
Singapore 068805

Dear Sirs,

1. INTRODUCTION

Stone Forest Corporate Advisory Pte Ltd ("**SFCA**") has been appointed by the Board of Directors (the "**Board**") of Sapphire Corporation Limited ("**SCL**") on 24 February 2014 to estimate the fair value less costs to sell ("**FVLCTS**") of the Disposal Group (as defined below) as at 31 December 2013 ("**Valuation Date**") in accordance with Singapore Financial Reporting Standard ("**FRS**") 105 – Non-current Assets Held for Sale and Discontinued Operations. The Disposal Group refers to SCL's 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 ("**Prime Skill**").

This Letter has been prepared for the purpose of incorporation in the circular ("**Circular**") to be issued in relation to the proposed divestment in the Disposal Group ("**Proposed Divestment**") and is a summary of the information contained in our full valuation report dated 31 March 2014 (the "**Report**") which was used for the purpose of compliance with FRS 105. Accordingly, this Letter should be read in conjunction with the full text of the Report. The Report is not set out in the Circular, but is made available for inspection at the registered office of SCL at 80 Robinson Road #02-00, Singapore 068898. Unless otherwise stated, words and expressions defined in the Circular for the purpose of obtaining shareholders' approval for the Proposed Divestment have the same meaning in this Letter.

2. TERMS OF REFERENCE

Scope of Work

SFCA has been appointed to estimate the FVLCTS of the Disposal Group as at 31 December 2013 in accordance with FRS 105. The Report is intended for SCL's financial reporting purposes of preparing the audited consolidated financial statements of SCL for FY2013. The Report and this Letter is not intended for the shareholders of SCL to form any opinion on the Proposed Divestment. Other factors which are not discussed or referred to in the Report and this Letter may be pertinent and should therefore be considered by the shareholders in evaluating the merits of the Proposed Divestment and the consideration to be received.

According to paragraph 15 FRS 105, "An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell".

Fair Value is defined by FRS 113 – Fair Value Measurement as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

APPENDIX B: VALUATION LETTER

FRS 113 establishes a fair value hierarchy that categories into three levels the inputs to valuation techniques used to measure fair value.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entities can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Due to the unavailability of Level 1 inputs being quoted prices (unadjusted) in active markets, we have applied Level 2 inputs being the "Market Approach" based on quoted prices for similar assets or liabilities in active market, by way of comparing the market multiples for comparable companies with the Disposal Group in accordance with FRS's. The Market Approach is also agreed by the management of SCL (the "**Management**").

SFCA's compensation is not contingent upon the reporting of a pre-determined value or direction in value that favours anyone, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

Limitations of our Report and this Letter

This Letter and the Report are addressed strictly to the Board and for the intended purpose as set out above and accordingly neither the Report nor this Letter may be used or relied upon in any other connection by, and are not intended to confer any benefit on any person (including without limitation the respective shareholders of SCL).

Neither the Report nor this Letter constitutes an opinion on the commercial merits and structure of the Proposed Divestment. Our terms of reference do not require us to evaluate or comment on the rationale, or the strategic or long term perspective of the Proposed Divestment or future financial performance of SCL or the Disposal Group. We are not required to express any view on the growth prospects or potential of the Disposal Group.

The Report, which is not intended to be and is not included in the Circular, does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Divestment.

We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Divestment and such remain the sole responsibility of the Board and the Management.

Our estimate of the FVLCTS is conducted according to FRS 105 and is based on Management's representation and information, which pertain to the prevailing market, economic, industry, monetary and other conditions, provided to us as of the date of the Report. Such Management's representation and information may change significantly over a relatively short period of time in a dynamic business environment and we assume no responsibility and are not required to update, revise or reaffirm our conclusion set out in our Report dated 31 March 2014 to reflect events or developments subsequent to the date of our Report.

APPENDIX B: VALUATION LETTER

Reliance on information

In conducting our work, we have held discussions with the Management and we have read the information provided by them and other publicly available information, upon which our analysis is based. The Management have confirmed to us that all material information available to them with respect to the Disposal Group, that is relevant for the purpose of our terms of reference, has been disclosed to us and that such information is fair and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us to be inaccurate or misleading in any material respect.

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us as described above, whether written or verbal, and no representation or warranty, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

3. KEY ASSUMPTIONS

We have relied on the following general assumptions provided by the Management for our estimate of the FVLCTS:

- 1) Information provided by the Management up to the date of the Report fairly reflects the Disposal Group's financial and operating position.
- 2) We have identified comparable companies to the Disposal Group and applied the rolling median EV/EBITDA and rolling average EV/EBITDA multiples.
- 3) We have normalized consolidated EBITDA of the Disposal Group based on the financial information provided by the Management.
- 4) We have subtracted the net debt from the Enterprise Value.
- 5) We have applied cost of disposal of 2.0% based on our discussion with the Management to estimate the FVLCTS.

4. CONCLUSION

In accordance with the terms of reference, limitations, key assumptions and critical risk factors set out in our Report dated 31 March 2014, SFCA has estimated the FVLCTS of the Disposal Group to be between **S\$65.0 million to S\$89.0 million** as at 31 December 2013.

Yours faithfully,
For and on behalf of Stone Forest Corporate Advisory Pte Ltd

Tay Woon Teck
Director

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (the “**EGM**”) of Sapphire Corporation Limited (the “**Company**”) will be held on 30 July 2014 (Wednesday) at 11.30 a.m. at 55 Market Street, #03-01, Singapore 048941 for the purpose of considering and, if thought fit, passing with or without any modifications the following resolutions:-

AS ORDINARY RESOLUTION

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

RESOLVED THAT:-

- (1) the sale by the Company and its wholly-owned subsidiary, Sapphire Mineral Resources Pte Ltd, of their effective interest in:
 - (a) 100% of the ordinary shares of Sapphire Mineral Resources (HK) Limited;
 - (b) 100% of the ordinary shares of Lucky Art Holdings Limited;
 - (c) 16% of the ordinary shares of Prime Empire Limited; and
 - (d) 16% of the ordinary shares of Precise Skill Limited,

to Propitious Holdings Company Limited for the aggregate consideration of S\$70.0 million (the “**Divestment**”), subject to the terms and conditions of the sale and purchase agreement dated 25 April 2014 (the “**Agreement**”) and entered into between the Company, Sapphire Mineral Resources Pte Ltd and Propitious Holdings Company Limited, and any other transactions and/or ancillary documents contemplated under the Agreement, be and are hereby approved; and

- (2) any of the Directors of the Company be and is hereby authorised to complete and to do all acts and things as he may consider necessary or expedient for the purposes of or in connection with the Divestment and to give effect to this resolution (including but not limited to the execution of ancillary agreements, procurement of third party consents and amendment to the Agreement) as he shall think fit and in the interests of the Company.

By Order of the Board

Teh Wing Kwan
Executive Director and Group Chief Executive Officer

15 July 2014

Notes:

1. With the exception of The Central Depository (Pte) Limited (which may appoint more than two proxies), a member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. If the appointor is a corporation, the proxy form must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
3. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 80 Robinson Road #02-00 Singapore 068898, no later than 48 hours before the time set for the Extraordinary General Meeting.

PROXY FORM

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

IMPORTANT:

1. For investors who have used their CPF monies to buy shares of Sapphire Corporation Limited, the Circular to Shareholders is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, _____ (Name)

of _____ (Address)

being a member/members of Sapphire Corporation Limited (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Extraordinary General Meeting ("EGM"), as my/our proxy/ proxies to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll at the EGM of the Company to be held on 30 July 2014 at 11.30 a.m. at 55 Market Street, #03-01, Singapore 048941 or at any adjournment thereof.

Please indicate with an "X" in the space provided whether you wish your vote(s) to be cast for or against the resolutions as set out in the Notice of EGM. In the absence of specific direction, the proxy/proxies will vote or abstain as he/they will on any other matter arising at the EGM.

ORDINARY RESOLUTIONS	For	Against
To approve the proposed divestment of the shares of Sapphire Mineral Resources (HK) Limited, Lucky Art Holdings Limited, Prime Empire Limited and Precise Skill Limited		

Dated this _____ day of _____ 2014

Signature(s) of Member(s)
or Common Seal of Corporate Member

Total Number of Shares held in	No. of Shares
(a) CDP Register	
(b) Register of Members	

Notes :

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Cap 50), you should insert that number. If you have shares registered in your name in the Register of Members of the Company, you should insert that number. If you have shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. A member entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
3. The instrument appointing a proxy or proxies must be deposited at the Company's registered address at 80 Robinson Road #02-00 Singapore 068898, not less than 48 hours before the time set for the EGM.
4. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding to be represented by each proxy.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its officer or attorney duly authorised.
6. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a member may authorise by resolution of its director or other governing body such person as it thinks fit to act as its representatives at the EGM, in accordance with Section 179 of the Companies Act, Cap 50, of Singapore.
8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument proxy if the members, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time fixed for holding the EGM, as certified by The Central Depository (Pte) Limited to the Company.

Fold along this line

PROXY FORM

Affix
Postage
Stamp

The Company Secretary
SAPPHIRE CORPORATION LIMITED
80 Robinson Road #02-00
Singapore 068898