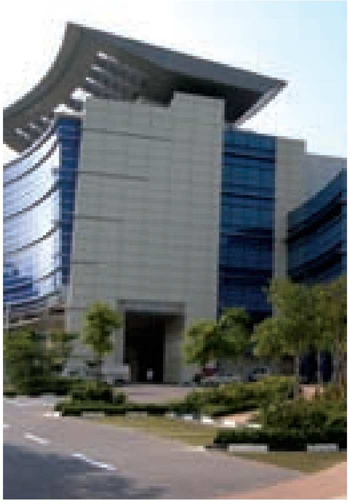





# ANNUAL REPORT 2006



Sapphire Corporation Limited

# Chairman's Statement

*The construction industry is expected to remain competitive. However, the Group will continue to pursue new business opportunities to enhance shareholders' value.*

On behalf of the Board of Directors of Sapphire Corporation Limited, I would like to present the annual report for the year ended 31 December 2006.

In view of the reduced business activities in undertaking new projects, the Group's revenue decreased substantially by $19.6 million from $22.5 million (FY2005) to $2.9 million (FY2006).

The Group's loss for the year decreased by $1.1 million from $6.0 million (FY2005) to $4.9 million (FY2006) due to reduced rectification costs; and reduced finance costs as debts owing to banks by the Group were converted to ordinary shares of the Company. The Group experienced a gross profit of $0.7 million (FY2006) as compared to a gross loss of $0.4 million (FY2005).

Subsequent to the financial year ended 31 December 2006, the Group has successfully placed approximately $7.7 million worth of new shares. Thus, improving the cash flows and financial position of the Group.

In addition, the Group has also entered into debts conversion agreements with certain creditors of the Company and its subsidiary, Caravelle Construction & Development Pte Ltd to convert an aggregate debts of $5,727,855 into ordinary shares of the Company at a conversion price of $0.015 per share. The new shares to be issued are subject to the approval of the Shareholders and Singapore Exchange Securities Trading Limited.

The construction industry is expected to remain competitive. However, the Group will continue to pursue new business opportunities to enhance shareholders' value.

Finally, I would like to thank my fellow directors for their contribution; the management and staff for their commitment and shareholders for their continued support.

**Tan Eng Liang**
*Chairman*

# Board of Directors

*The names of the Directors holding office at the date of this report are set out below together with details of their academic and professional qualifications, date of first appointment as directors, date of last re-election as director as well as directorships in listed companies.*

**DR TAN ENG LIANG** was appointed as Chairman to the Board on 1 November 2001 and was last re-elected on 26 April 2004. He is an Independent and Non-Executive Director, and Chairman of Nominating Committee and Executive Committee of Sapphire Corporation Limited.

He sits on the Boards of many companies, including a few public listed companies and has a wealth of experience. He was a Member of Parliament (1972 to 1980), the Senior Minister of State for National Development (1975 to 1978) and Senior Minister of State for Finance (1978 to 1979). He also served as the Chairman of the Urban Development Authority and the Singapore Sports Council. Dr Tan has a Doctorate from Oxford University, England. Dr Tan has been awarded the Public Service Star (BBM), Public Service Star (BAR) and the Meritorious Service Medal by the Singapore Government. He is also a director of the following public listed corporations, namely, Ezra Holdings Limited, FHTK Holdings Ltd, Tung Lok Restaurant (2000) Limited, Pokka Corporation (Singapore) Limited, United Engineers Limited and Progen Holdings Limited.

**MR TEO CHENG KWEE**, the Group Managing Director and founder of the Group, has more than 30 years of experience in the building and construction industry. Teo Cheng Kwee was appointed to the Board on 26 November 1985. He is responsible for the charting and review of the corporate direction and strategy of the Group. He is also actively involved in the Group's business development with emphasis on overseas markets, overall corporate management and finance.

**MR GOH HUP JIN** was appointed as a Member of the Board on 13 January 1999 and was last re-elected on 18 April 2005. He is a Non-Executive and Non-Independent Director and a Member of Nominating Committee of Sapphire Corporation Limited. He is the Chairman of Nipsea Holdings International Limited. Mr Goh holds a Master of Business Administration from the University of California in Los Angeles and a Bachelor of Engineering (Chemical Engineering) Degree from University of Tokyo. He was previously awarded the Colombo Plan/Monbusho scholarship. He is also a director of the listed corporations, namely, Superior Multi-Packaging Ltd and The Ascott Group Limited.

**MR GOH CHEE WHUI** was appointed as a Member of the Board on 1 May 1990 and was last re-elected on 24 April 2006. He is a Non-Executive and Independent Director, and a Member of the Audit Committee and the Remuneration Committee of Sapphire Corporation Limited. He first joined Nippon Paint as a Chemical Engineer in 1967. One year later, he was promoted to Assistant Factory Manager, taking charge of factory operations in both Singapore and Malaysia. His career with Nippon Paint had since progressed to various key positions held in Nippon Paint branches all over Southeast Asia. In 1981, Goh Chee Whui was appointed Managing Director of Nippon Paint (M) Sdn Bhd, Shah Alam, Malaysia. He returned to Nippon Paint in 1990 as the company's Managing Director, and became the Chairman until his resignation in this capacity in August 2001. He sits on the boards of several Nippon Paint associate companies in the People's Republic of China, Hong Kong and Philippines. He is also a director of Nippon Paint's subsidiary in Vietnam. Mr Goh holds a Degree in Engineering from the University of Tokyo, under a scholarship from the Japanese Ministry of Education.

# Board of Directors

**MR GOH KWANG CHAY** was appointed as a Member of the Board on 26 November 1985 and was re-elected on 24 April 2006. He is a Non-Executive and Non-Independent Director of Sapphire Corporation Limited. He has more than 39 years of experience in the paint and coating industry. He is currently also a director of Nippon Paint (Singapore) Company Private Limited. He holds a Bachelor's Degree in Economics and Political Science from Nanyang University of Singapore.

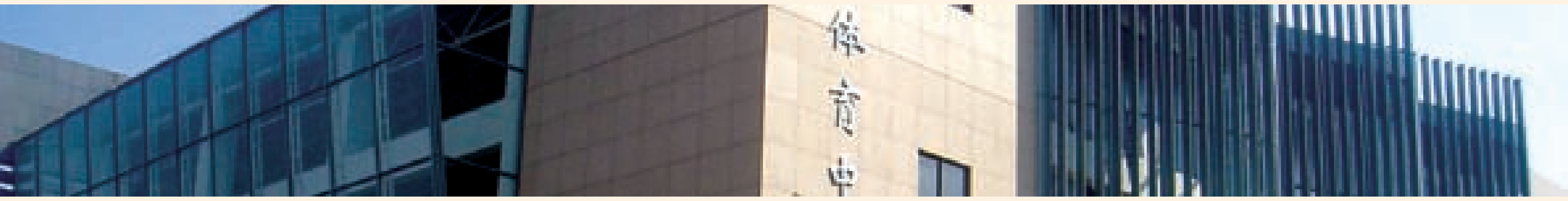
**MR WANG CHYANG** was appointed a Member of the Board on 26 April 2004 and was last re-elected on 18 April 2005. He is a Non-Executive and Non-Independent Director of Sapphire Corporation Limited. He is also a Managing Director of Nippon Paint (Singapore) Company Private Limited and directors of Nippon Paint (Vietnam) Co., Ltd, Industrial Contracts Marketing (2001) Pte Ltd, Indochina Building Supplies Pte Ltd and Nippon Paint Marine (Singapore) Pte Ltd. Besides managing the paint business in Singapore and Vietnam, he is also the Hon Secretary of the Singapore Paint Manufacturers Association. He holds a Degree in Engineering from National University of Singapore.

**MR FOO TEE HENG** was appointed as a Member of the Board on 1 February 1990 and was last re-elected on 18 April 2005. He is an Executive Director of the Group and has more than 27 years of experience in the building and construction industry. Prior to joining the Company, he was a Contracts Supervisor and then Contracts Manager with Industrial Resources Enterprise. In 1985, he joined the Company as Contracts Manager and was promoted to his current position in 1988. He is now actively involved in the marketing and development of the Company's business and overseeing the human resource and administration matters.

**MR CHAN KUM ONN ROGER** was appointed as a Member of the Board on 18 October 1999 and was last re-elected on 24 April 2006. He is a Non-Executive and an Independent Director, Chairman of the Audit Committee, a Member of the Remuneration Committee and the Nominating Committee of Sapphire Corporation Limited. He has been in practice as a Certified Public Accountant since 1980. He is a Fellow Member of The Association of Chartered Certified Accountants and Member of the Singapore Institute of Directors. He is also an Independent Director of Superbowl Holdings Limited.

**MR HEE THENG FONG** was appointed as a Member of the Board on 18 October 1999 and was last re-elected on 24 April 2006. He is a Non-Executive and an Independent Director, Chairman of the Remuneration Committee and a Member of the Audit Committee and the Nominating Committee. Mr Hee has been practising as an Advocate and Solicitor for more than 20 years. He is also a fellow of Chartered Institute of Arbitrators (UK) and Supreme Institute of Arbitrators. He is a director of various listed corporations including YHI International Limited, Datapulse Technology Limited, Delong Limited and Tye Soon Limited.

**MR MOHD ISKANDAR BIN MOHD ISA** was appointed as a Member of the Board on 24 November 2006. He is a Non-Executive and Non-Independent Director of Sapphire Corporation Limited. He joined Perkasa Finance Berhad, a licensed finance company in 1985 as the Marketing Manager. In 1993, he joined Tanjong Tuan Beach Resort as the Resort Manager and transferred to the Headquarter of Safuan Group Berhad in 1995. All the 3 companies are related to the Company's substantial shareholder, Pembinaan Kota Laksamana (Melaka) Sdn. Bhd. He is currently working as a General Manager and is overall in charge of the management of project development, sales and marketing and all corporate, finance and legal matters. He holds a Diploma in Banking Studies from University Technology Mara, Malaysia.



# Executive Officers

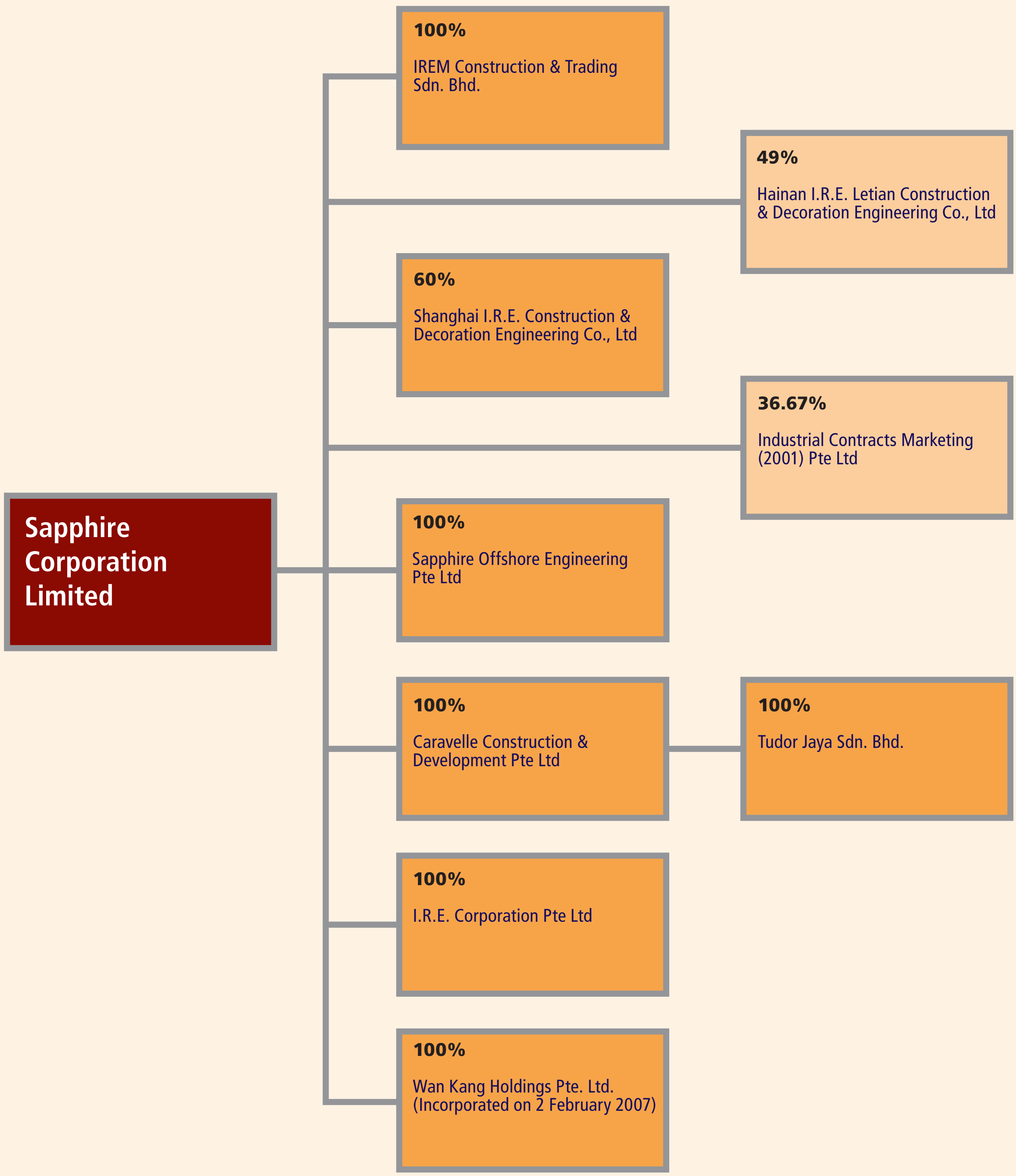
*The business and working experience of the Executive Officers are as follows:*

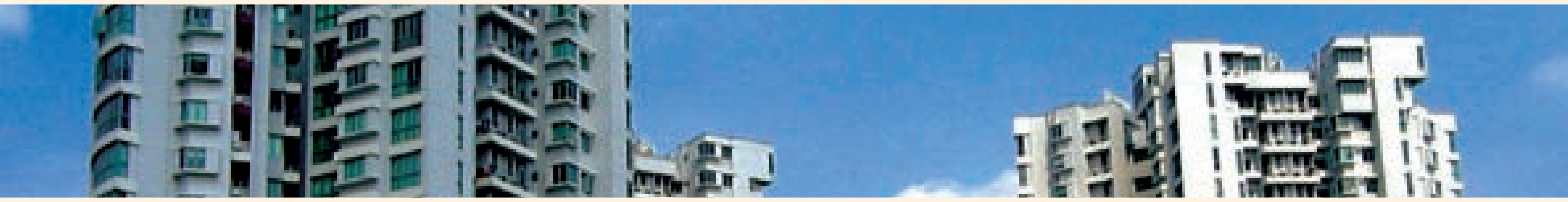
**MR TOH EWE KOK,** the General Manager and Director of Sapphire Offshore Engineering Pte. Ltd., has more than 18 years of experience in formwork and construction industry. He joined Sapphire Offshore Engineering Pte Ltd in 1998 as a General Manager and was appointed as Director in 2001. He is currently responsible for the day-to-day operation of the construction and property development business units in Singapore and Malaysia He also assists the Chief Executive Officer of the Company in overseeing and exploring new business opportunities. He holds a Bachelor Degree in Civil Engineering from the National University of Singapore.

**MR WONG LOKE CHEOW,** the General Manager (Construction) of Caravelle Construction & Development Pte Ltd, has more than 44 years of experience in the building and civil engineering construction industry. He is currently responsible for the day-to-day operation of the construction engineering business units.

**MR GOH HOON LEUM,** the General Manager of Caravelle Construction & Development Pte Ltd, has more than 30 years of experience in the property and construction industry. He joined Sapphire Corporation Limited in late 2004 as Project Director and was appointed as General Manager of Caravelle Construction & Development Pte Ltd in December 2006. He is involved in the charting and review of the corporate direction and strategy. He is also responsible for interalia, land procurement and overseeing the development project. Mr Goh holds a Master of Property from the University of Newcastle and a Bachelor Degree in Land Economics from the University of Technology, Sydney in Australia. He is a licensed valuer, a Council Member of Singapore Institute of Surveyors and Valuer and a member of Australia Property Institute.

# Corporate Structure





# Corporate Information

## Board of Directors
Dr Tan Eng Liang (Chairman)
Teo Cheng Kwee (Group Managing Director)
Foo Tee Heng
Goh Hup Jin
Goh Chee Whui
Wang Chyang
Goh Kaw Kern @ Goh Kwang Chay
Chan Kum Onn, Roger
Hee Theng Fong
Mohd Iskandar Bin Mohd Isa

## Audit Committee
Chan Kum Onn, Roger (Chairman)
Hee Theng Fong
Goh Chee Whui

## Nominating Committee
Dr Tan Eng Liang (Chairman)
Chan Kum Onn, Roger
Hee Theng Fong
Goh Hup Jin

## Executive Committee
Dr Tan Eng Liang (Chairman)
Teo Cheng Kwee (Group Managing Director)
Goh Chee Whui
Foo Tee Heng
Goh Kaw Kern @ Goh Kwang Chay

## Remuneration Committee
Hee Theng Fong (Chairman)
Chan Kum Onn, Roger
Goh Chee Whui

## Company Secretary
Stella Chan Ah Chit - A.C.I.S
(Appointed on 20 December 2006)

## Registered Office
1 Sophia Road
#05-03 Peace Centre
Singapore 228149
Tel: 6337 1295
Fax: 6337 4225

## Share Registrar
M & C Services Private Limited
138 Robinson Road #17-00
The Corporate Office
Singapore 068906

## Auditors
KPMG
Certified Public Accountants
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581

Partner-in-charge
Phuoc Tran
(Partner since financial year ended 2003)

## Principal Banker
United Overseas Bank Limited
80 Raffles Place
UOB Plaza
Singapore 048624

# Corporate Governance Report

*The Company endorses the Code of Corporate Governance ("the Code") issued by the Singapore Exchange Securities Trading Limited in April 2001 and revised in July 2005.*

*This Report describes the Company's corporate governance processes and activities with specific reference to the Code.*

**THE CODE**

*The Code is divided into four main sections:*

(A) BOARD MATTERS

(B) REMUNERATION MATTERS

(C) AUDIT ACCOUNTABILITY

(D) COMMUNICATION WITH SHAREHOLDERS

# Corporate Governance Report

## (A) BOARD MATTERS

### BOARD'S CONDUCT OF ITS AFFAIRS

The Board conducts at least two meetings a year and when necessary, additional board meetings are held to address significant issues or transactions. The Company's Articles of Association allow a board meeting to be conducted by way of a telephone conference or by means of similar communication equipment whereby all directors participating in the meeting are able to hear each other. The attendance of the directors at meetings of the Board and Board committees during the financial year ended 31 December 2006 is as follows:

| | Board | | Audit Committee | | Nominating Committee | | Remuneration Committee | | Executive Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | No of Meeting Held | No of Meeting Attended | No of Meeting Held | No of Meeting Attended | No of Meeting Held | No of Meeting Attended | No of Meeting Held | No of Meeting Attended | No of Meeting Held | No of Meeting Attended |
| Dr Tan Eng Liang | 7 | 6 | 2 | 2 | 1 | 1 | 2 | 2 | 6 | 6 |
| Teo Cheng Kwee | 7 | 7 | 2 | 2 | 1 | 1 | 0 | 0 | 6 | 6 |
| Foo Tee Heng | 7 | 7 | 2 | 1 | 0 | 0 | 0 | 0 | 6 | 6 |
| Hee Theng Fong | 7 | 5 | 2 | 1 | 1 | 0 | 2 | 1 | 0 | 0 |
| Roger Chan Kum Onn | 7 | 7 | 2 | 2 | 1 | 1 | 2 | 2 | 0 | 0 |
| Goh Hup Jin | 7 | 5 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Goh Chee Whui | 7 | 6 | 2 | 2 | 0 | 0 | 2 | 2 | 6 | 5 |
| Goh Kaw Kern @ Goh Kwang Chay | 7 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 5 |
| Wang Chyang | 7 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mohd Iskandar Bin Mohd Isa (appointed on 24 November 2006) | 7 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

The key roles of the Board are:

- to guide the corporate strategy and directions of the Group, approve the broad policies, strategies and financial objectives of the Group and monitoring the performance of management;
- to ensure effective management leadership of the highest quality and integrity;
- to approve annual budgets, major funding proposals, investment and divestment proposals; and
- to provide overall insight in the proper conduct of the Group's business.

# Corporate Governance Report

The Board comprises business leaders and professionals with industry, legal and financial background. Profiles of the Directors are found on page 2 and 3 of this Report.

The Board delegated certain of its functions to the Executive, Audit, Nominating and Remuneration Committees.

The Executive Committee ("EXCO") was formed to assist the Board in the management of the Group. The EXCO comprises the following members:-

| | |
|---|---|
| Dr Tan Eng Liang | - Chairman, Independent Director |
| Mr Teo Cheng Kwee | - Group Managing Director |
| Mr Goh Kaw Kern @ Goh Kwang Chay | - Non-Executive Director |
| Mr Goh Chee Whui | - Independent and Non-Executive Director |
| Mr Foo Tee Heng | - Executive Director |

The EXCO evaluates and recommends to the Board, policies on matters covering financial control and risk management of the Group, monitors the effectiveness of the policies set down by the Board and make recommendations or changes to the policies with the Group's financial objectives in mind. In addition, the EXCO recommends to the Board on any investments, acquisitions or disposals and monitors the funding needs of the Group. It also reviews the financial performance of the Group and initiates actions appropriate for the management of the Group. All minutes of EXCO meetings are circulated to the Board Members.

On appointment, the Group Managing Director will brief new directors on the Group's business and policies. Directors and senior executives are encouraged to undergo relevant training to enhance their skills and knowledge, especially on new laws and regulations affecting the Group's operations.

## BOARD COMPOSITION AND BALANCE

The Board comprises 10 directors of whom 8 are Non-Executive Directors. Of the 8 Non-Executive directors, 4 are independent of the management and the substantial shareholders. They are Dr Tan Eng Liang, Mr Roger Chan Kum Onn, Mr Hee Theng Fong and Mr Goh Chee Whui. The Nominating Committee reviews the independence of each director annually.

There is a clear separation of the role of the Chairman and the Group Managing Director. This will provide a healthy professional relationship between the Board and Management to shape the strategic process.

The Board is also supported by other board key committees to provide independent oversight of Management. These key committees are the Audit Committee ("AC"), Executive Committee ("EC"), Remuneration Committee ("RC") and Nominating Committee ("NC") and are mainly made up of independent or non-executive directors.

# Corporate Governance Report

## Board Composition and Committees

| | Audit Committee | Executive Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| Board Member | | | | |
| Dr. Tan Eng Liang | | C | C | |
| Teo Cheng Kwee | | M | | |
| Foo Tee Heng | | M | | |
| Hee Theng Fong | M | | M | C |
| Roger Chan Kum Onn | C | | M | M |
| Goh Hup Jin | | | M | |
| Goh Chee Whui | M | M | | M |
| Goh Kaw Kern @ Goh Kwang Chay | | M | | |
| Wang Chyang | | | | |
| Mohd Iskandar Bin Mohd Isa | | | | |

Note: C: Chairman
M: Member

Membership in the different committees are carefully managed to ensure that there is equitable distribution of responsibilities among the Board members. This is to maximise the effectiveness of the Board and to foster active participation and contribution from the Board members. Diversity of experience and appropriate skills are also considered.

The Board is of the view that the current board size of 10 directors is appropriate after taking into consideration the nature and scope of the Group's operations for the effective conduct of the Group's affairs.

## CHAIRMAN AND GROUP MANAGING DIRECTOR

There is a clear separation of the roles and responsibilities between the Chairman and the Group Managing Director of the Company. The Chairman who is Independent and Non-Executive is responsible for the functioning of the Board and is free to act independently in the best interests of the Group and shareholders while the Group Managing Director is responsible for the Group's business development and operational decisions. The Chairman ensures that the members of the Board work together with the Management with the capability and authority to engage Management in constructive views on various matters, including strategic issues and business planning processes.

## NOMINATING COMMITTEE

The Nominating Committee ("NC") was formed in March 2002. The key roles of the NC are:

- to review and make recommendations to the Board on all appointments and re-appointment of members of the Board;
- to evaluate and assess the effectiveness of the Board as a whole, and the contribution by each director to the effectiveness of the Board; and
- to determine the independence of directors in accordance with Guideline 2.1 of the Code.

# Corporate Governance Report

The Nominating Committee comprises the following:

| | |
|---|---|
| Dr Tan Eng Liang | - Chairman, Independent Director |
| Mr Chan Kum Onn, Roger | - Independent Director |
| Mr Hee Theng Fong | - Independent Director |
| Mr Goh Hup Jin | - Non-Executive Director |

The NC evaluated the Board's performance as a whole in FY2006 based on performance criteria set by the Board. Each individual director assessed the performance of the Board. The assessment parameters include attendance record at the meetings of the Board and the relevant committees, intensity of participation at meetings, quality of discussions and any special contributions. The performance measurements ensure that the mix of skills and experience of the directors continue to meet the needs of the Group. The NC is of the view that each individual director has contributed to the effectiveness of the Board as a whole. Our Articles of Association require one-third of our directors (except the Managing Director) to retire and subject themselves to re-election by shareholders at every AGM ("one-third rotation rule"). In other words, no director stays in office for more than three years without being re-elected by shareholders. The NC has recommended that Dr Tan Eng Liang, Mr Goh Hup Jin, Mr Foo Tee Heng, Mr Mohd Iskandar Bin Mohd Isa and Mr Goh Kaw Kern @ Goh Kwang Chay, the Directors retiring at this Annual General Meeting ("AGM") to be re-elected.

Although the non-executive directors hold directorships in other companies which are not in the Group, the Board is of the view that such multiple board representations did not hinder them from carrying out their duties as directors. These directors would contribute their invaluable experiences to the Board and give it a broader perspective.

## ACCESS TO INFORMATION

The Management will provide half-yearly management accounts and other relevant information to the Board. The Management will submit the monthly group performance report and other relevant information to EXCO. In addition, all other relevant information on material events and transactions are circulated by electronic mail and facsimile to the directors for review and approval. The senior management staff may be invited to attend the Board and Audit Committee Meetings to answer queries and to provide insights into the Group's operations.

The Board has separate and independent access to the senior management and the Company Secretary at all times. The Board will consult independent professional advice where appropriate.

The Company Secretary attends all board meetings and most committee meetings and is responsible to ensure that board procedures are adhered. The Company Secretary assists the Board to ensure that the Company complies with the requirements of the Companies Act and all other rules and regulations applicable to the Company.

# Corporate Governance Report

## (B) REMUNERATION MATTERS

### PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

### DISCLOSURE OF REMUNERATION

The Remuneration Committee ("RC") was formed in January 2002 and held seven meetings since March 2002. The RC has adopted specific terms of reference. The RC will seek independent professional advice, if necessary.

The RC comprises the following:

| | |
|---|---|
| Mr Hee Theng Fong | - Chairman, Independent and Non-Executive Director |
| Mr Chan Kum Onn, Roger | - Independent and Non-Executive Director |
| Mr Goh Chee Whui | - Independent and Non-Executive Director |

RC's main functions are:

- to review and recommend to the Board in consultation with Management and Chairman of the Board, a framework of remuneration and to determine specific remuneration packages and terms of employment for each of the executive directors of the Group including those employees related to executive directors and substantial shareholders of the Group;
- to recommend to the Board in consultation with management and the Chairman of the Board, the Executives' Share Option Schemes or any long term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith; and
- to carry out its duties in the manner that it deemed expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board of Directors from time to time.

As part of its review, the RC shall ensure that:

- all aspects of remuneration including director's fees, salaries, allowances, bonuses, options and benefits-in-kinds should be covered;
- the remuneration packages should be comparable within the industry practices and norms and shall include a performance related element coupled with appropriate and meaningful measures of assessing individual executive directors' performance; and
- the remuneration package for employees related to executive directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibilities.

No director is involved in deciding his own remuneration.

The non-executive and independent directors do not have any service contracts. They are paid a basic fee and additional fees for serving on any of the Committees. The exception is Mr Goh Kaw Kern @ Goh Kwang Chay, a non-executive director who was paid an allowance for serving as one of the approved cheque signatories till 31 July 2006. The Board recommends payment of such fees to be approved by shareholders as a lump sum payment at the Annual General Meeting of the Company.

Service Contracts for Executive Directors are for a fixed appointment period of one year and will be reviewed by the Remuneration Committee on an annual basis. Executive Directors' remuneration packages consist of salary, allowances and bonuses. There are no onerous compensation commitments on the part of the Company in the event of termination of services of the executive directors.

# Corporate Governance Report

A breakdown, showing the level and mix of each individual director's remuneration paid and payable by the Company for Year 2006 is as follows:

**Directors' Remuneration**

| Name of Director | Remuneration Band | Salary | Bonus | Other Benefits | Directors' Fees | Total |
|---|---|---|---|---|---|---|
| | $ | % | % | % | % | % |
| Executive Directors | | | | | | |
| Teo Cheng Kwee | 250,000 to 499,999 | 75 | 13 | 12 | 0 | 100 |
| Foo Tee Heng | 0 to 249,999 | 69 | 11 | 20 | 0 | 100 |
| Non Executive Directors | | | | | | |
| Dr Tan Eng Liang | 0 to 249,999 | 0 | 0 | 0 | 100 | 100 |
| Hee Teng Fong | 0 to 249,999 | 0 | 0 | 0 | 100 | 100 |
| Roger Chan Kum Onn | 0 to 249,999 | 0 | 0 | 0 | 100 | 100 |
| Goh Hup Jin | 0 to 249,999 | 0 | 0 | 0 | 100 | 100 |
| Goh Chee Whui | 0 to 249,999 | 0 | 0 | 0 | 100 | 100 |
| Goh Kaw Kern @ Goh Kwang Chay | 0 to 249,999 | 0 | 0 | 64 | 36 | 100 |
| Wang Chyang | 0 to 249,999 | 0 | 0 | 0 | 100 | 100 |
| Mohd Iskandar Bin Mohd Isa | 0 to 249,999 | 0 | 0 | 0 | 0 | 0 |

The Company does not have any employee share option schemes or other long-term incentive scheme for directors.

The overall wage policy for the employees is linked to performance of the Group as well as individual and is determined by the Board and its Remuneration Committee. The Board will respond to any queries raised at AGMs pertaining to such policies. Accordingly, it is the opinion of the Board that there is no necessity for such policies to be approved by the shareholders.

Disclosure of top three executives' remuneration (executives who are not directors of the Company) in bands of $250,000 for Year 2006 is as follows:

| Name of Executive | Remuneration Band | Salary | Bonus | Other Benefits | Directors' fees | Total |
|---|---|---|---|---|---|---|
| | $ | % | % | % | % | % |
| Toh Ewe Kok | 0 to 249,999 | 86 | 8 | 6 | 0 | 100 |
| Goh Hoon Leum | 0 to 249,999 | 82 | 7 | 11 | 0 | 100 |
| Wong Loke Cheow | 0 to 249,999 | 80 | 7 | 13 | 0 | 100 |

No spouse, children and immediate family members relating to the Company's Directors are working for the Group in the Year 2006.

## (C) AUDIT ACCOUNTABILITY

### AUDIT COMMITTEE

In March 2003, the AC was re-constituted to comprise three non-executive directors who are also independent directors. The AC comprises the following:

| | |
|---|---|
| Mr Chan Kum Onn, Roger | - Chairman, Independent and Non-Executive Director |
| Mr Hee Theng Fong | - Independent and Non-Executive Director |
| Mr Goh Chee Whui | - Independent and Non-Executive Director |

The AC has adopted specific terms and reference defining its scope of authority which includes review of the annual audit plan, internal audit process, the adequacy of internal controls, non audit services charged by auditors and Interested Person Transactions for which shareholders' mandate is renewed annually.

The Board considers that the members of the AC are appropriately qualified to fulfill their responsibilities as the members bring with them invaluable managerial and professional expertise in the financial, legal and industry domain.

The AC meets at least two times a year to perform the following functions:

- to review the Group's audit plans, scope and results with our external auditors;
- to review and approve the half-yearly and year-end announcement results and annual financial statements;
- to review interested persons transactions with the internal auditors; and
- to nominate the external auditors for re-appointment and review their independence.

The Audit Committee has recommended for endorsement on Whistle Blowing Policy, for the Group. The policy serves to encourage and provide a channel to employees to report in good faith and in confidence, their concerns about possible improprieties in financial reporting or other matters. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action.

The external and internal auditors have full access to the AC and the AC has full access to the Management. The AC has the authority to commission investigations into any matters, which has or is likely to have material impact on the Group's operating and financial results. The AC meets with the internal auditors, without the presence of management, at least twice a year. The AC reviews the findings from the auditors and the assistance given to the auditors by the management.

The AC has reviewed all non-audit services provided by the external auditors for Year 2006 and is satisfied that in AC's opinion, such services would not affect the independence of the external auditors.

The external auditors, during their course of audit, will evaluate the effectiveness of the Company's internal controls and report to the AC, together with their recommendations, any material weakness and non-compliance of the internal controls. The AC has reviewed the external audit reports and based on the controls in place, is satisfied that there are adequate internal controls in the Group.

The review of interested persons transactions of the Group is supported by the Internal Audit Department from Wuthelam Holdings Pte Ltd, a related corporation of the Company's majority shareholder. The AC is of the view that the internal auditors are suitably qualified and the audit function is adequately resourced and has appropriate standing within the Group.

# Corporate Governance Report

The internal auditors report directly to the Chairman of the AC. The internal auditors review the interested persons transactions every half yearly to ensure that transactions are conducted at arms length and the Group comply with the Listing Manual. The internal auditors will submit a report on their findings on interested person's transactions to the AC for review and approval every half yearly.

The AC is satisfied that the review procedures for Interested Person Transactions, as well as the review on Interested Person Transactions made every half yearly by the AC (with internal audit assistance) are sufficient to ensure that Interested Person Transactions is made with the relevant class of Interested Persons in accordance with the Group's normal commercial terms, and are not prejudicial to Shareholders.

## (D) COMMUNICATION WITH SHAREHOLDERS

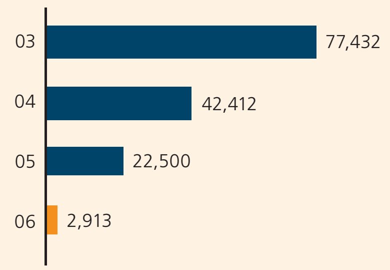
The Company recognises the need to communicate with the shareholders on all material matters affecting the Group and does not practise selective disclosure. Price sensitive announcements including interim and full year results are released through SGXNET. A copy of the Annual Report and Notice of Annual General Meeting will be sent to every shareholder. At AGMs, shareholders are given the opportunity to air their views and ask questions regarding the Group and its businesses. Separate resolutions on each distinct issue are proposed at general meetings for approval. The external auditors are present to assist the directors to address any queries raised by shareholders. The Articles of Association of the Company allow a member of the Company to appoint one or two proxies to attend and vote instead of the member.

## DEALINGS IN SECURITIES

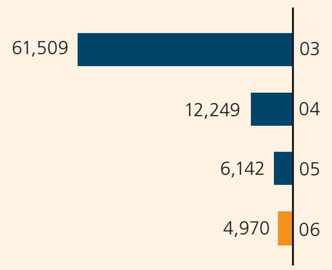
The Company has adopted its Code of Best Practices on Securities Transactions by officers of the Group setting out the implications of insider trading and regulations with regard to dealings in the Company's securities by its officers, that is modelled, with some modifications, on Rule 1207(18) of the SGX-ST Listing Manual. The Company's Code of Best Practices provides guidance for directors and employees on their dealings in the Company's securities. The incumbent employees are also required to report to the directors whenever they deal in the Company's shares.

# Financial Highlights

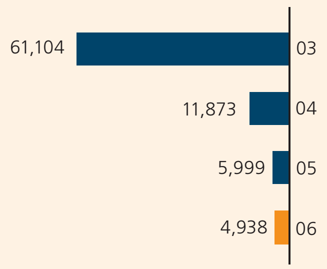
| Group | 2003<br>$'000 | 2004<br>$'000 | 2005<br>$'000 | 2006<br>$'000 |
|---|---|---|---|---|
| Revenue | 77,432 | 42,412 | 22,500 | 2,913 |
| Loss Before Income Tax | 61,509 | 12,249 | 6,142 | 4,970 |
| Loss For The Year | 61,104 | 11,873 | 5,999 | 4,938 |
| Shareholders' Funds | (67,383) | (4,124) | 9,098 | 6,935 |



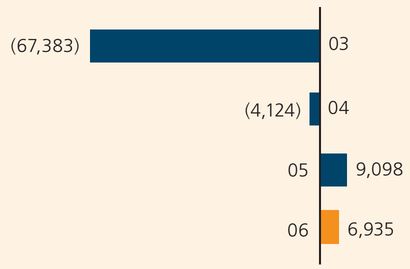

Revenue ($'000)




Loss Before Income Tax ($'000)




Loss For The Year ($'000)




Shareholder's Funds ($'000)

# Contents

# Directors' Report

**Year ended 31 December 2006**

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2006.

## Directors

The directors in office at the date of this report are as follows:

Dr Tan Eng Liang
Teo Cheng Kwee
Goh Hup Jin
Goh Chee Whui
Goh Kaw Kern @ Goh Kwang Chay
Foo Tee Heng
Chan Kum Onn, Roger
Hee Theng Fong
Wang Chyang
Mohd Iskandar Bin Mohd Isa (Appointed on 24 November 2006)

## Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares in the Company (other than wholly-owned subsidiaries) are as follows:

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|---|---|---|
| **Company** | | |
| Ordinary shares | | |
| Teo Cheng Kwee | | |
| - interests held | 82,591,625 | 82,591,625 |
| - deemed interest | 17,402,500 | 17,402,500 |
| Goh Chee Whui | 218,750 | 218,750 |
| Goh Kaw Kern @ Goh Kwang Chay | 218,750 | 218,750 |
| Foo Tee Heng | 2,805,625 | 2,805,625 |
| Wang Chyang | 68,750 | 68,750 |

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or debentures of the Company or of related corporations either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2007.

# Directors' Report

**Year ended 31 December 2006**

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During the financial year, the Company and its related corporations have in the normal course of business entered into transactions with a director, a firm of which a director is a partner as well as major shareholder and its related corporations (companies in which one of the directors is deemed to have substantial financial interest). Such transactions comprised building works, purchases and sales of construction materials, property rental services and other transactions carried out on normal commercial terms. The directors have neither received nor become entitled to receive any benefit arising out of these transactions other than those to which they are ordinarily entitled to as shareholders of these companies or members of the firm.

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and in note 27 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## Share options

Pursuant to the debt conversion exercise approved at the Company's Extraordinary General Meeting on 10 August 2004 and further supplemental agreements entered between the lenders of the Company and a subsidiary, the details of the options granted and shares issued by virtue of an exercise of options are as follows:

| | | As at 31 December 2005 | | Converted during the year | | As at 31 December 2006 | |
|---|---|---|---|---|---|---|---|
| **Lenders** | **Conversion price per ordinary share $** | **Amount of conversion loan $** | **Number of conversion shares** | **Amount of conversion loan $** | **Number of conversion shares** | **Amount of conversion loan $** | **Number of conversion shares** |
| Standard Chartered Bank (note (i)) | 0.025 | 250,000 | 10,000,000 | 250,000 | 10,000,000 | – | – |

(i) Standard Chartered Bank ("SCB")

During the financial year, the Company exercised the put option by requiring SCB to convert the balance of the loan of $250,000 into 10,000,000 ordinary shares at a conversion price of $0.025 per ordinary share.

There were no unissued shares of the Company under option as at the end of the financial year.

## Audit Committee

The Audit Committee members at the date of this report are:

| | |
|---|---|
| Chan Kum Onn, Roger | (Chairman, Independent and Non-executive director) |
| Hee Theng Fong | (Independent and Non-executive director) |
| Goh Chee Whui | (Independent and Non-executive director) |

The Audit Committee performs the functions specified by Section 201B of the Companies Act, the SGX Listing Manual and the Code of Corporate Governance.

# Directors' Report

**Year ended 31 December 2006**

The Audit Committee has held 2 meetings since the last directors' report. In performing its functions, the Committee also reviewed the overall scope of the internal and external audits, the independence of the external auditors and the assistance given by the Company's officers to the auditors. It met with the Company's external auditors and internal auditors to discuss the results of their examinations and their evaluation of the Company's system of internal accounting controls. The consolidated financial statements of the Group and the financial statements of the Company were reviewed by the Audit Committee prior to their submission to the directors of the Company for adoption. The Committee also reviewed interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange) conducted during the financial year. The Audit Committee has full access to and the co-operation of management for it to discharge its functions. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the Board of Directors that the auditors, KPMG, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

## Auditors' remuneration

The Audit Committee reviewed the independence of the auditors as required under Section 206(1A) of the Companies Act and determined that the auditors were independent in carrying out their audit of the financial statements.

## Auditors

The auditors, KPMG, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

**Teo Cheng Kwee**
*Director*

**Foo Tee Heng**
*Director*

16 March 2007

# Statement by Directors

**Year ended 31 December 2006**

In our opinion:

(a) the financial statements set out on pages 23 to 61 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of the results, changes in equity and cash flows of the Group and of the results and changes in equity of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

**Teo Cheng Kwee**
*Director*

**Foo Tee Heng**
*Director*

16 March 2007

# Independent Auditors' Report

Members of the Company
Sapphire Corporation Limited

We have audited the accompanying financial statements of Sapphire Corporation Limited (the Company) and its subsidiaries (the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement of the Group and the income statement and statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 23 to 61.

*Directors' responsibility for the financial statements*

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion:

(a) the consolidated financial statements of the Group and the balance sheet, income statement and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of the results, changes in equity and cash flows of the Group and of the results and changes in equity of the Company for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

**KPMG**
*Certified Public Accountants*

16 March 2007

# Balance sheets

**As at 31 December 2006**

| | Note | Group 2006 $ | Group 2005 $ | Company 2006 $ | Company 2005 $ |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | 79,236 | 1,352,601 | 42,240 | 370,340 |
| Interests in subsidiaries | 4 | – | – | 8,600,004 | 129,005 |
| Interests in associates | 5 | 1,668,878 | 2,026,286 | 1,196,020 | 1,528,592 |
| Other investments | 7 | 4,350 | 4,350 | 4,350 | 4,350 |
| | | 1,752,464 | 3,383,237 | 9,842,614 | 2,032,287 |
| **Current assets** | | | | | |
| Inventories | 8 | 25,047 | 41,360 | – | – |
| Contracts-in-progress | 9 | 606,799 | 1,017,122 | – | 35,749 |
| Development properties | 10 | 12,688,346 | 12,874,011 | – | – |
| Trade and other receivables | 11 | 2,642,453 | 6,178,746 | 2,781,370 | 17,503,479 |
| Cash at bank and in hand | 14 | 699,609 | 989,212 | 457,006 | 411,673 |
| | | 16,662,254 | 21,100,451 | 3,238,376 | 17,950,901 |
| **Total assets** | | 18,414,718 | 24,483,688 | 13,080,990 | 19,983,188 |
| **Equity attributable to equity holders of the Company** | | | | | |
| Share capital | 15 | 98,883,057 | 36,789,431 | 98,883,057 | 36,789,431 |
| Reserves | 16 | (91,948,063) | (27,691,643) | (94,085,298) | (27,474,615) |
| **Total equity** | | 6,934,994 | 9,097,788 | 4,797,759 | 9,314,816 |
| **Non-current liabilities** | | | | | |
| Obligations under finance leases | 17 | – | 2,908 | – | – |
| **Current liabilities** | | | | | |
| Bank overdrafts | 14 | 798,041 | 2,112,388 | – | 1,113,421 |
| Progress billings in excess of contracts-in-progress | 9 | 29,283 | 2,396,669 | 29,283 | 1,661,920 |
| Trade and other payables | 18 | 8,804,149 | 8,336,293 | 7,083,269 | 6,159,272 |
| Current portion of | | | | | |
| - obligations under finance leases | 17 | 2,908 | 19,809 | – | 12,807 |
| - interest-bearing bank loans | 20 | – | 621,252 | – | 621,252 |
| Provisions | 21 | 1,770,343 | 1,789,689 | 1,170,679 | 1,092,806 |
| Current tax payable | | 75,000 | 106,892 | – | 6,894 |
| | | 11,479,724 | 15,382,992 | 8,283,231 | 10,668,372 |
| **Total liabilities** | | 11,479,724 | 15,385,900 | 8,283,231 | 10,668,372 |
| **Total equity and liabilities** | | 18,414,718 | 24,483,688 | 13,080,990 | 19,983,188 |

The accompanying notes form an integral part of these financial statements.

# Income statements

**Year ended 31 December 2006**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2006** | **2005** | **2006** | **2005** |
| | | **$** | **$** | **$** | **$** |
| Revenue | 22 | 2,913,499 | 22,499,678 | 719,987 | 10,811,020 |
| Cost of sales | | (2,251,840) | (22,849,993) | (578,691) | (11,567,729) |
| **Gross profit/(loss)** | | 661,659 | (350,315) | 141,296 | (756,709) |
| Other operating income | | 153,715 | 323,382 | 41,120 | 256,919 |
| Distribution costs | | (171,534) | (521,677) | (147,261) | (170,948) |
| Administrative and other operating expenses | | (5,505,186) | (5,118,187) | (7,580,026) | (7,974,061) |
| **Loss from operations** | | (4,861,346) | (5,666,797) | (7,544,871) | (8,644,799) |
| Finance costs | | (8,791) | (333,790) | (3,475) | (167,849) |
| Share of loss of associates | | (99,422) | (141,313) | – | – |
| **Loss before income tax** | 23 | (4,969,559) | (6,141,900) | (7,548,346) | (8,812,648) |
| Income tax credit | 24 | 31,740 | 142,614 | 6,893 | – |
| **Loss for the year** | | (4,937,819) | (5,999,286) | (7,541,453) | (8,812,648) |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | (4,937,819) | (6,072,214) | (7,541,453) | (8,812,648) |
| Minority interests | | – | 72,928 | – | – |
| **Loss for the year** | | (4,937,819) | (5,999,286) | (7,541,453) | (8,812,648) |
| **Loss per share (cents)** | 25 | | | | |
| **Basic** | | 0.13 cents | 0.22 cents | | |
| **Diluted** | | 0.13 cents | 0.22 cents | | |

The accompanying notes form an integral part of these financial statements.

# Consolidated statement of changes in equity

**Year ended 31 December 2006**

| Group | Share capital $ | Share premium $ | Capital reserve $ | Merger reserve $ | Other reserve $ | Fair value reserve $ | Currency translation reserve $ | Accumulated losses $ | Sub-total $ | Minority interest $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2005 | 26,790,731 | 49,797,101 | 321,171 | 417,550 | – | – | 282,077 | (81,581,287) | (3,972,657) | 1,325,699 | (2,646,958) |
| Exchange differences on translation of net assets/(liabilities) of foreign subsidiaries and associates | – | – | – | – | – | – | (60,379) | – | (60,379) | 36,637 | (23,742) |
| Realised upon disposal of subsidiaries | – | – | (725) | – | – | – | 115,247 | – | 114,522 | – | 114,522 |
| Net gains/(losses) recognised directly in equity | – | – | (725) | – | – | – | 54,868 | – | 54,143 | 36,637 | 90,780 |
| Loss for the year | – | – | – | – | – | – | – | (6,072,214) | (6,072,214) | 72,928 | (5,999,286) |
| Total recognised gains/(losses) for the year | – | – | (725) | – | – | – | 54,868 | (6,072,214) | (6,018,071) | 109,565 | (5,908,506) |
| Disposal/dilution of subsidiaries | – | – | – | – | – | – | – | – | – | (1,435,264) | (1,435,264) |
| Issue of shares arising from debt conversion (net of expenses) | 3,763,187 | 2,952,678 | – | – | – | – | – | – | 6,715,865 | – | 6,715,865 |
| Issue of shares for the acquisition of land (net of expenses) | 6,235,513 | 6,137,138 | – | – | – | – | – | – | 12,372,651 | – | 12,372,651 |
| At 31 December 2005 | 36,789,431 | 58,886,917 | 320,446 | 417,550 | – | – | 336,945 | (87,653,501) | 9,097,788 | – | 9,097,788 |
| At 1 January 2006 | 36,789,431 | 58,886,917 | 320,446 | 417,550 | – | – | 336,945 | (87,653,501) | 9,097,788 | – | 9,097,788 |
| Exchange differences on translation of net assets/(liabilities) of foreign subsidiaries and associates | – | – | – | – | – | – | 46,793 | – | 46,793 | – | 46,793 |
| Realised upon disposal of a subsidiary and an associate | – | – | – | – | – | – | (371,415) | – | (371,415) | – | (371,415) |
| Change in fair value of available-for-sale financial assets recognised by an associate | – | – | – | – | – | 75,251 | – | – | 75,251 | – | 75,251 |
| Net gains/(losses) recognised directly in equity | – | – | – | – | – | 75,251 | (324,622) | – | (249,371) | – | (249,371) |
| Loss for the year | – | – | – | – | – | – | – | (4,937,819) | (4,937,819) | – | (4,937,819) |
| Total recognised gains/(losses) for the year | – | – | – | – | – | 75,251 | (324,622) | (4,937,819) | (5,187,190) | – | (5,187,190) |
| Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005 | 58,886,917 | (58,886,917) | – | – | – | – | – | – | – | – | – |
| Issue of shares arising from debt conversion (net of expenses) | 906,633 | – | – | – | (3,000) | – | – | – | 903,633 | – | 903,633 |
| Issue of placement shares (net of expenses) | 2,300,076 | – | – | – | (51,602) | – | – | – | 2,248,474 | – | 2,248,474 |
| Recognition of costs in relation to the issue of shares for the acquisition of land in 2005 | – | – | – | – | (127,711) | – | – | – | (127,711) | – | (127,711) |
| At 31 December 2006 | 98,883,057 | – | 320,446 | 417,550 | (182,313) | 75,251 | 12,323 | (92,591,320) | 6,934,994 | – | 6,934,994 |

The accompanying notes form an integral part of these financial statements.

# Statement of changes in equity

**Year ended 31 December 2006**

| | Share capital $ | Share premium $ | Capital reserve $ | Other reserve $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| At 1 January 2005 | 26,790,731 | 49,797,101 | 162,000 | – | (77,710,884) | (961,052) |
| Loss for the year | – | – | – | – | (8,812,648) | (8,812,648) |
| Issue of shares arising from debt conversion (net of expenses) | 3,763,187 | 2,952,678 | – | – | – | 6,715,865 |
| Issue of shares for the acquisition of land (net of expenses) | 6,235,513 | 6,137,138 | – | – | – | 12,372,651 |
| At 31 December 2005 | 36,789,431 | 58,886,917 | 162,000 | – | (86,523,532) | 9,314,816 |
| Loss for the year | – | – | – | – | (7,541,453) | (7,541,453) |
| Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005 | 58,886,917 | (58,886,917) | – | – | – | – |
| Issue of shares arising from debt conversion (net of expenses) | 906,633 | – | – | (3,000) | – | 903,633 |
| Issue of placement shares (net of expenses) | 2,300,076 | – | – | (51,602) | – | 2,248,474 |
| Recognition of costs in relation to the issue of shares for the acquisition of land in 2005 | – | – | – | (127,711) | – | (127,711) |
| At 31 December 2006 | 98,883,057 | – | 162,000 | (182,313) | (94,064,985) | 4,797,759 |

The accompanying notes form an integral part of these financial statements.

# Consolidated cash flow statement

**Year ended 31 December 2006**

| | Note | 2006<br>$ | 2005<br>$ |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before income tax | | (4,969,559) | (6,141,900) |
| Adjustments for: | | | |
| Share of loss of associates | | 99,422 | 141,313 |
| Bad debts written off | | 1,128 | 590,875 |
| Depreciation of property, plant and equipment | | 72,234 | 330,515 |
| Interest expense | | 8,791 | 333,790 |
| Interest income | | (8,952) | (15,770) |
| Impairment loss on property, plant and equipment | | – | 128,074 |
| Impairment loss on other investments | | – | 44,894 |
| Profit on disposals of subsidiaries | 26 | (216,272) | (270,291) |
| Loss on disposal of associate | | 33,292 | – |
| Profit on disposals of property, plant and equipment | | (74,181) | (7,341) |
| Provision for rectification costs | | 698,156 | 1,787,272 |
| Operating loss before working capital changes | | (4,355,941) | (3,078,569) |
| Changes in working capital: | | | |
| Inventories | | 14,478 | (199) |
| Trade and other receivables | | 2,732,615 | 3,706,489 |
| Trade and other payables | | (173,888) | (383,192) |
| Contracts-in-progress, net | | (1,382,522) | (703,064) |
| Development properties | | (106,926) | (402,986) |
| Cash utilised in operations | | (3,272,184) | (861,521) |
| Income tax paid | | (152) | (8,802) |
| Payment of rectification costs | | (923,452) | (718,010) |
| **Cash flows from operating activities** | | (4,195,788) | (1,588,333) |
| | | | |
| **Investing activities** | | | |
| Interest received | | 7,768 | 16,184 |
| Proceeds from disposal of property, plant and equipment | | 1,276,062 | 670,074 |
| Proceeds from disposal of associate | | 252,850 | – |
| Dividend income from an associate | | – | 44,000 |
| Net cash inflow/(outflow) from disposals of subsidiaries | 26 | 15,221 | (431,273) |
| Purchase of property, plant and equipment | | (2,895) | (26,609) |
| Purchase of unquoted investment | | – | (1,950) |
| **Cash flows from investing activities** | | 1,549,006 | 270,426 |
| | | | |
| **Financing activities** | | | |
| Fixed deposit pledged to bank | | 3,054 | (51,547) |
| Interest paid | | (8,791) | (182,790) |
| Repayment of bank borrowings | | (371,252) | – |
| Proceeds from issue of shares | | 2,300,076 | – |
| Additional loans from shareholders and other creditors | | 1,990,285 | – |
| Payment of finance lease rentals | | (19,809) | (21,498) |
| Payment of loan from joint venture | | – | (200,000) |
| Payment of share issue expenses | | (206,793) | (303,545) |
| Increase in minority shareholders | | – | 31,997 |
| **Cash flows from financing activities** | | 3,686,770 | (727,383) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | 1,039,988 | (2,045,290) |
| Cash and cash equivalents at beginning of year | | (1,174,723) | 788,835 |
| Effect of exchange rate changes on the balances held in foreign currencies | | (12,190) | 81,732 |
| **Cash and cash equivalents at end of year** | 14 | (146,925) | (1,174,723) |

The accompanying notes form an integral part of these financial statements.

# Notes to the financial statements

**Year ended 31 December 2006**

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the directors on 16 March 2007.

## 1 Domicile and activities

Sapphire Corporation Limited (the "Company") is incorporated in the Republic of Singapore and has its registered office at 1 Sophia Road, #05-03 Peace Centre, Singapore 228149. Its principal place of business is at 123 Genting Lane, #07-01 Yenom Industrial Building, Singapore 349574.

The principal activities of the Company are those relating to the sale of paints and building materials, repair and renovation works, building construction and retrofitting works and painting contractor. The principal activities of the subsidiaries are set out in Note 4.

The consolidated financial statements relate to the Company and its subsidiaries (referred to as the "Group") and the Group's interests in associates and joint venture.

## 2 Summary of significant accounting policies

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore dollars which is the Company's functional currency.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

- Note 2.5 contains information on the assessment of impairment loss in respect of financial assets. In particular, the Group evaluates whether there is any objective evidence that trade receivables are impaired, and determines the amount of impairment loss as a result of the inability of the customers to make required payments. The Group determines the estimates based on the aging of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

- Note 2.13 - revenue and profit recognition on uncompleted projects are dependent on estimating the total outcome of the construction contract, as well as work done to date. Actual outcome in terms of total costs or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date. As at 31 December 2006, the management considered that all costs to complete and revenue can be reliably estimated.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

- Note 21 contains information about the assumptions in relating to provision for rectification costs and claims and fees.

The accounting policies set out below have been applied consistently by the Group. The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

## 2.2 Consolidation

***Business combinations***

From 1 January 2005, business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition.

Prior to 1 January 2005, business combinations which meet the criteria for merger accounting are accounted for under the pooling of interests method. Under this method of accounting, where the consideration paid exceeds/is less than the nominal value of the issued share capital acquired, the difference is recorded as a merger deficit/reserve. The consolidated financial statements include the results of operations and the assets and liabilities of the pooled enterprises as if they had been part of the Group for the whole of the current and preceding periods.

***Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

***Associates and joint ventures***

Associates are those entities in which the Group has significant influence, but not control, over their financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating activities.

The consolidated financial statements include the Group's proportionate share in the joint venture's individual income, expenses, assets and liabilities with items of a similar nature in the consolidated financial statements on a line by line basis.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

***Transactions eliminated on consolidation***

Intra-group balances and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains resulting from transactions with associates and joint venture are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

***Accounting for subsidiaries, associates and joint ventures by the Company***

Investments in subsidiaries, associates and joint venture are stated in the Company's balance sheet at cost less accumulated impairment losses.

## 2.3 Foreign currencies

***Foreign currency transactions***

Transactions in foreign currencies are translated at the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date on which the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for available-for-sale equity instrument (see note 2.5).

***Foreign operations***

The assets and liabilities of foreign operations are translated to Singapore dollars, the functional currency of the Company, at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates prevailing at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to the income statement.

## 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis over their estimated useful lives (or lease term, if shorter) of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

| | | |
|---|---|---|
| Leasehold property | - | Over lease term of 50 years |
| Plant and machinery | - | 5 to 10 years |
| Furniture, fittings and office equipment | - | 3 to 10 years |
| Motor vehicles | - | 5 to 10 years |
| Renovation | - | 5 years |

Fully depreciated assets are retained in the financial statements until they are no longer in use. Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each report date.

## 2.5 Financial instruments

***Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, financial liabilities, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

***Available-for-sale financial assets***

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than for impairment losses, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Where available-for-sale equity investment does not have a quoted market price in an active market and other methods of determining fair value do not result in a reasonable estimate, the investment is measured at cost less impairment losses.

***Other***

Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses.

***Impairment of financial assets***

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

***Share capital***

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

### 2.6 Leases

***Finance lease***

Leased assets in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, property, plant and equipment acquired through finance leases are capitalised at the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Lease payments are apportioned between finance expense and reduction of the lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

***Operating lease***

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

### 2.7 Impairment – non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.8 Inventories

Inventories, which comprise inventories of paints and building materials, are stated at the lower of cost determined on the weighted average basis and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

### 2.9 Development properties

Development properties are those properties which are held with the intention of development and sale in the ordinary course of business. They are stated at the lower of cost plus, where appropriate, a portion of attributable profit, and estimated net realisable value, net of progress billings. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of properties under development comprise specifically identified costs, including acquisition costs, development expenditure, borrowing costs and other related expenditure. Borrowing costs payable on loans funding a development property are also capitalised, on a specific identification basis, as part of the cost of the development property until the completion of development.

### 2.10 Contracts-in-progress

Contracts-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

If payments received from customers exceed the income recognised, the difference is presented as other payables in the balance sheet.

### 2.11 Employee benefits

***Defined contribution plans***

Obligations for defined contribution plan are recognised as an expense in the income statement as incurred.

***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### 2.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Upon completion of a contract, unutilised provision for future rectification costs is transferred to a provision for rectification costs. Any surplus of provision will be written back at the end of the warranty period while additional provision, where necessary, is made when foreseeable. The provision is made based on estimated costs to carry out the rectification works.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

### 2.13 Revenue recognition

***Construction contracts***

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

***Development properties for sale***

The Group recognises income on property development projects when the risks and rewards of ownership have been transferred to the buyer through either the transfer of legal title or an equitable interest in a property. In cases where the Group is obliged to perform any significant acts after the transfer of legal title or an equitable interest, revenue is recognised as the acts are performed based on the percentage of completion method under Recommended Accounting Practice (RAP) 11 *Pre-completion Contracts for the Sale of Development Property* issued by the Institute of Certified Public Accountants of Singapore in October 2005. Under RAP 11, when (a) construction is beyond a preliminary stage, (b) minimum down payment criteria are met, (c) sales prices are collectible, and (d) aggregate sales proceeds and costs can be reasonably estimated, the percentage of completion method is an allowed alternative. If any of the above criteria are not met, pre-completion proceeds received are accounted for as deposits until such criteria are met.

Under the percentage of completion method, the percentage of completion is measured by reference to the work performed, based on the ratio of costs incurred to date to the estimated total costs for each contract. Profits are recognised only in respect of finalised sales agreements to the extent that such profits relate to the progress of the construction work.

The Group has not commenced the development and sale of the development properties. No revenue has been recognised during the current and prior years.

***Rental, sale and maintenance of construction machinery and equipment***

Revenue is recognised when services and goods are delivered and accepted by the customers.

***Dividends***

Dividend income is recognised in the income statement when the shareholders right to receive payment is established.

***Interest income***

Interest income is recognised as it accrues, using the effective interest method.

# Notes to the financial statements

**Year ended 31 December 2006**

## 2 Summary of significant accounting policies (cont'd)

### 2.14 Finance costs

Finance costs comprises interest expense on borrowings and bank charges. Interest expense is recognised in the income statement using the effective interest method. Bank charges are recognised in the income statement in the period in which they are incurred.

### 2.15 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# Notes to the financial statements

**Year ended 31 December 2006**

## 3 Property, plant and equipment

| Group<br>Cost | Leasehold properties<br>$ | Plant and machinery<br>$ | Furniture, fittings and office equipment<br>$ | Motor vehicles<br>$ | Renovation<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| At 1 January 2005 | 542,159 | 7,839,696 | 1,064,589 | 999,274 | 117,736 | 10,563,454 |
| Additions | – | – | 1,823 | 24,786 | – | 26,609 |
| Disposals | (542,159) | (889,126) | (37,225) | (240,805) | (117,736) | (1,827,051) |
| Disposal of subsidiaries | – | (584,323) | (225,851) | (259,428) | – | (1,069,602) |
| Translation differences on consolidation | – | 1,724 | 7,411 | 7,074 | – | 16,209 |
| At 31 December 2005 | – | 6,367,971 | 810,747 | 530,901 | – | 7,709,619 |
| Additions | – | – | 2,895 | – | – | 2,895 |
| Disposals | – | (6,071,372) | (261,855) | (270,521) | – | (6,603,748) |
| Translation differences on consolidation | – | (1,453) | (6,296) | (5,955) | – | (13,704) |
| At 31 December 2006 | – | 295,146 | 545,491 | 254,425 | – | 1,095,062 |
| **Accumulated depreciation and impairment losses** | | | | | | |
| At 1 January 2005 | 258,433 | 5,699,588 | 943,307 | 796,055 | – | 7,697,383 |
| Depreciation for the year | – | 262,265 | 17,989 | 50,261 | – | 330,515 |
| Disposals | (258,433) | (648,812) | (37,225) | (219,850) | – | (1,164,320) |
| Disposal of subsidiaries | – | (370,528) | (175,150) | (133,068) | – | (678,746) |
| Impairment loss | – | 128,074 | – | – | – | 128,074 |
| Translation differences on consolidation | – | 33,847 | 4,807 | 5,458 | – | 44,112 |
| At 31 December 2005 | – | 5,104,434 | 753,728 | 498,856 | – | 6,357,018 |
| Depreciation for the year | – | 40,123 | 11,619 | 20,492 | – | 72,234 |
| Disposals | – | (4,878,057) | (261,644) | (262,166) | – | (5,401,867) |
| Translation differences on consolidation | – | (1,354) | (4,610) | (5,595) | – | (11,559) |
| At 31 December 2006 | – | 265,146 | 499,093 | 251,587 | – | 1,015,826 |
| **Carrying amount** | | | | | | |
| At 1 January 2005 | 283,726 | 2,140,108 | 121,282 | 203,219 | 117,736 | 2,866,071 |
| At 31 December 2005 | – | 1,263,537 | 57,019 | 32,045 | – | 1,352,601 |
| At 31 December 2006 | – | 30,000 | 46,398 | 2,838 | – | 79,236 |

# Notes to the financial statements

**Year ended 31 December 2006**

## 3 Property, plant and equipment (cont'd)

| | Leasehold properties $ | Plant and machinery $ | Furniture, fittings and office equipment $ | Motor vehicles $ | Renovation $ | Total $ |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2005 | 542,159 | 2,271,294 | 420,642 | 428,137 | – | 3,662,232 |
| Additions | – | – | 429 | 5,065 | – | 5,494 |
| Disposals | (542,159) | (846,143) | (7,220) | (221,084) | – | (1,616,606) |
| At 31 December 2005 | – | 1,425,151 | 413,851 | 212,118 | – | 2,051,120 |
| Additions | – | – | 2,895 | – | – | 2,895 |
| Disposals | – | (1,186,476) | (152,228) | (134,107) | – | (1,472,811) |
| At 31 December 2006 | – | 238,675 | 264,518 | 78,011 | – | 581,204 |
| **Accumulated depreciation and impairment losses** | | | | | | |
| At 1 January 2005 | 258,433 | 1,626,105 | 403,573 | 413,605 | – | 2,701,716 |
| Depreciation for the year | – | 1,760 | 4,602 | 3,080 | – | 9,442 |
| Impairment loss | – | 56,189 | – | – | – | 56,189 |
| Disposals | (258,433) | (608,164) | (7,220) | (212,750) | – | (1,086,567) |
| At 31 December 2005 | – | 1,075,890 | 400,955 | 203,935 | – | 1,680,780 |
| Depreciation for the year | – | 30,000 | 5,404 | 2,066 | – | 37,470 |
| Disposals | – | (897,215) | (152,015) | (130,056) | – | (1,179,286) |
| At 31 December 2006 | – | 208,675 | 254,344 | 75,945 | – | 538,964 |
| **Carrying amount** | | | | | | |
| At 1 January 2005 | 283,726 | 645,189 | 17,069 | 14,532 | – | 960,516 |
| At 31 December 2005 | – | 349,261 | 12,896 | 8,183 | – | 370,340 |
| At 31 December 2006 | – | 30,000 | 10,174 | 2,066 | – | 42,240 |

In 2005, pursuant to the intention to sell idle/under utilised plant and machinery, the Group and Company reassessed the recoverable amount of these assets. The recoverable amount was determined based on the assets' expected net selling price. A total impairment loss of $128,074 and $56,189 was recognised in the Group's and Company's income statement respectively.

Included in the carrying amount of the property, plant and equipment are assets of the Group which were acquired under finance leases with carrying amount of $Nil (2005: $10,135).

# Notes to the financial statements

**Year ended 31 December 2006**

## 4 Interests in subsidiaries

| | Company 2006 $ | Company 2005 $ |
|---|---|---|
| Investment in subsidiaries | 31,883,244 | 27,436,105 |
| Impairment loss | (23,283,240) | (27,307,100) |
| | 8,600,004 | 129,005 |

In view of the recurring losses of certain subsidiaries, the Directors of the Company have reassessed their recoverable value of the Company's investments in these subsidiaries. The recoverable value was determined based on the subsidiaries' estimated fair value. An impairment loss of $4,200,000 (2005: $271,000) was recognised in the Company's income statement during the year.

Details of the subsidiaries are as follows:

| Name of subsidiaries | Principal activities | Place of incorporation | Effective equity interest held 2006 % | Effective equity interest held 2005 % | Cost of investment 2006 $ | Cost of investment 2005 $ |
|---|---|---|---|---|---|---|
| Caravelle Construction & Development Pte Ltd[(1)] and its subsidiary: | Construction and development of properties | Singapore | 100 | 100 | 22,488,700 | 9,688,700 |
| Tudor Jaya Sdn. Bhd.[(2)#] | Property development | Malaysia | 100 | – | – | – |
| Sapphire Offshore Engineering Pte Ltd [(1)] | Supply of temporary falseworks and formwork systems | Singapore | 100 | 100 | 8,800,000 | 8,800,000 |
| I.R.E. Corporation (H.K.) Limited | Investment holding and provision of painting and equipment services | Hong Kong | – | 97.5 | – | 8,352,860 |
| Shanghai I.R.E. Construction and Decoration Engineering Co., Ltd[(3) +] | Provision of building renovation services | People's Republic of China | 60 | 60 | 594,540 | 594,540 |
| Tudor Jaya Sdn. Bhd.[#] | Property development | Malaysia | – | 100 | – | 1 |
| IREM Construction & Trading Sdn. Bhd.[(4)] | Under member's voluntary liquidation | Malaysia | 100 | 100 | 2 | 2 |
| I.R.E. Corporation Pte Ltd[(5)] | Dormant | Singapore | 100 | 100 | 2 | 2 |
| | | | | | 31,883,244 | 27,436,105 |

# Notes to the financial statements

**Year ended 31 December 2006**

## 4 Interests in subsidiaries (cont'd)

(1) Audited by KPMG Singapore

(2) Audited by other member firm of KPMG International

(3) Audited by Neuventure Certified Public Accountants, Shanghai, People's Republic of China

(4) Not required to be audited as the subsidiary is in the process of member's voluntary liquidation

(5) Audited by Richard Lim & Co.

# During the year, the Company sold its interest in Tudor Jaya Sdn. Bhd. to Caravelle Construction & Development Pte Ltd at cost.

+ This subsidiary is a foreign enterprise established in the People's Republic of China for operating term of 15 to 25 years. Cost of investment represents capital contributed in accordance with the terms of the investment agreement.

## 5 Interests in associates

| | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
|---|---|---|---|---|
| Unquoted shares, at cost | 1,196,020 | 1,824,400 | 1,196,020 | 1,824,400 |
| Share of post-acquisition reserves | 472,858 | 201,886 | – | (295,808) |
| | 1,668,878 | 2,026,286 | 1,196,020 | 1,528,592 |

In view of recurring losses of an associate, the Directors of the Company have reassessed the recoverable value of the Company's investment in this associate. The recoverable value was based on the associate's estimated fair value. An impairment loss of $72,572 (2005: $295,808) was recognised in the Company's income statement during the year.

Details of the associates are as follows:

| Name of associate | Principal activities | Place of incorporation/ business | Effective equity interest held by the Group 2006 % | Effective equity interest held by the Group 2005 % | Cost of investment 2006 $ | Cost of investment 2005 $ |
|---|---|---|---|---|---|---|
| Industrial Contracts Marketing (2001) Pte Ltd (1) | Provision of painting and renovation services | Singapore | 36.67 | 36.67 | 550,000 | 550,000 |
| Hainan I.R.E. Letian Construction & Decoration Engineering Co., Ltd(2)+ | Provision of building renovation services | People's Republic of China | 49 | 49 | 646,020 | 646,020 |
| Wuhan I.R.E. Construction & Decoration Engineering Co., Ltd + | Provision of building renovation services | People's Republic of China | – | 49 | – | 628,380 |
| | | | | | 1,196,020 | 1,824,400 |

# Notes to the financial statements

**Year ended 31 December 2006**

## 5 Interests in associates (cont'd)

(1) Audited by Kung Seah Lim & Co., Republic of Singapore

(2) Audited by Neuventure Certified Public Accountants, Shanghai, People's Republic of China

\+ These associates are foreign enterprises established in the People's Republic of China for operating term of 15 to 25 years. Cost of investment represents capital contributed in accordance with the terms of the investment agreement.

The financial information of the associates which is not adjusted for the percentage of ownership held by the Group is as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **$** | **$** |
| **Assets and liabilities** | | |
| Total assets | 9,892,230 | 13,497,003 |
| Total liabilities | (5,786,478) | (8,654,585) |
| | | |
| **Results** | | |
| Revenue | 11,894,510 | 15,857,100 |
| Loss after income tax | (211,100) | (243,470) |

## 6 Investment in joint venture

This relates to an unincorporated joint venture entered into by the Company with third party to jointly undertake construction projects.

Details of the joint venture are as follows:

| Name of joint venture | Principal activities | Place of business | Effective equity interest held by Group/Company | |
|---|---|---|---|---|
| | | | **2006** | **2005** |
| | | | **%** | **%** |
| China Construction – I.R.E. J.V. + | Undertake building contracts | Singapore | 50 | 50 |

\+ Audited by KPMG Singapore

# Notes to the financial statements

**Year ended 31 December 2006**

## 6 Investment in joint venture (cont'd)

The share of the assets and liabilities of the jointly controlled joint venture as at 31 December 2006 and the results for the year, which have been included in the balance sheets and income statements of the Group and of the Company on a proportionate consolidation basis, are as follows:

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| **Results** | | |
| Income | 12,500 | 273,043 |
| Expenses | (13,871) | (269,602) |
| (Loss)/profit before income tax | (1,371) | 3,441 |
| | | |
| **Assets and liabilities** | | |
| Current assets | 39,846 | 34,857 |
| Current liabilities | (44,076) | (37,717) |
| Non-current liabilities | (202,066) | (202,066) |
| | (206,296) | (204,926) |

The joint venture is not a taxable person. Its taxable income is taxable proportionately on the joint venture partners.

## 7 Other investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| **Available-for-sale equity securities** | | | | |
| Unquoted equity shares | 1,950 | 61,172 | 1,950 | 39,144 |
| Impairment loss | – | (59,222) | – | (37,194) |
| | 1,950 | 1,950 | 1,950 | 1,950 |
| Quoted equity shares | 10,100 | 10,100 | 10,100 | 10,100 |
| Impairment loss | (7,700) | (7,700) | (7,700) | (7,700) |
| | 2,400 | 2,400 | 2,400 | 2,400 |
| | 4,350 | 4,350 | 4,350 | 4,350 |

## 8 Inventories

| | 2006<br>$ | 2005<br>$ |
|---|---|---|
| Inventories | | |
| - at net realisable value | 25,047 | 41,360 |

Inventories for resale at net realisable value are stated after deducting an allowance for slow moving inventories of $50,200 (2005: $43,708).

# Notes to the financial statements

**Year ended 31 December 2006**

## 9 Contracts-in-progress

| | Group 2006 $ | Group 2005 $ | Company 2006 $ | Company 2005 $ |
|---|---|---|---|---|
| Cost incurred | 49,181,164 | 73,566,134 | 45,047,656 | 58,828,172 |
| Attributable loss | (4,298,044) | (4,266,395) | (5,756,560) | (7,152,123) |
| | 44,883,120 | 69,299,739 | 39,291,096 | 51,676,049 |
| Progress billings | (44,305,604) | (70,679,286) | (39,320,379) | (53,302,220) |
| | 577,516 | (1,379,547) | (29,283) | (1,626,171) |
| Comprising: | | | | |
| Contracts-in-progress | 606,799 | 1,017,122 | – | 35,749 |
| Excess of progress billings over contracts-in-progress | (29,283) | (2,396,669) | (29,283) | (1,661,920) |
| | 577,516 | (1,379,547) | (29,283) | (1,626,171) |

Included in costs incurred for the year are the following:

| | Group 2006 $ | Group 2005 $ | Company 2006 $ | Company 2005 $ |
|---|---|---|---|---|
| Staff costs | – | 323,998 | – | 323,998 |

## 10 Development properties

| | Group 2006 $ | Group 2005 $ |
|---|---|---|
| At cost | | |
| Leasehold land | 12,688,346 | 12,874,011 |

The development properties of the Group comprise two contiguous parcels of vacant reclaimed development leasehold land located in Kawasan Bandar VI, District of Melaka Tengah, Melaka Bandaraya Bersejarah in Malaysia, with an aggregate area of 56,133.56 square metres. Details of the leasehold land are as follows:

| Plot/Lot number | Land area (sq. m.) | Zoning | Tenure | Group's effective interest |
|---|---|---|---|---|
| Lot PT 1191 | 20,138.00 | Commercial | 99 years leasehold expiring on 26 October 2103 | 100% |
| Lot PT 1197 | 35,995.56 | Commercial | 99 years leasehold expiring on 13 October 2104 | 100% |

The Group has not commenced the development of these properties as at the year end.

# Notes to the financial statements

**Year ended 31 December 2006**

## 11 Trade and other receivables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2006 | 2005 | 2006 | 2005 |
| | | $ | $ | $ | $ |
| Trade receivables | 12 | 2,114,186 | 4,924,581 | 1,972,980 | 3,205,191 |
| Deposits, prepayments and other receivables | 13 | 528,267 | 1,254,165 | 401,337 | 580,730 |
| Amounts due from subsidiaries: | | | | | |
| - trade advances | | – | – | 130,725 | 355,392 |
| - trade | | – | – | 497,692 | 663,412 |
| - loans | | – | – | 5,473,057 | 18,385,135 |
| | | – | – | 6,101,474 | 19,403,939 |
| Allowance for doubtful amounts due from subsidiaries | | – | – | (5,694,421) | (5,686,381) |
| | | – | – | 407,053 | 13,717,558 |
| | | 2,642,453 | 6,178,746 | 2,781,370 | 17,503,479 |

Amounts due from subsidiaries are interest-free, unsecured and are repayable on demand.

Trade receivables amounting to $Nil (2005: $1,440,858) and $Nil (2005: $992,675) of the Group and Company respectively are assigned to secured bank overdrafts (See Note 14).

## 12 Trade receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Trade receivables | 14,331,506 | 17,551,780 | 13,552,257 | 14,800,428 |
| Allowance for doubtful receivables | (12,217,320) | (12,627,199) | (11,579,277) | (11,595,237) |
| | 2,114,186 | 4,924,581 | 1,972,980 | 3,205,191 |

Included in trade receivables are the following:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Receivables from major shareholders | 794,411 | 567,422 | 777,766 | 566,906 |
| Retention monies | 833,961 | 1,248,896 | 781,461 | 811,213 |

# Notes to the financial statements
**Year ended 31 December 2006**

## 13 Deposits, prepayments and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **$** | **$** | **$** | **$** |
| Security deposits | – | 250,000 | – | 250,000 |
| Other deposits | 62,034 | 55,529 | 59,914 | 26,666 |
| Prepayments | 15,632 | 23,605 | 8,204 | 10,992 |
| Advances: | | | | |
| - staff | 144,431 | 152,188 | 139,950 | 147,250 |
| - subcontractors/suppliers | 3,258,189 | 3,256,877 | 2,757,008 | 2,757,008 |
| - minority shareholder of subsidiary | – | 208,000 | – | – |
| Other receivables | | | | |
| - associate | 13,999 | 6,124 | 13,999 | 6,124 |
| - others | 1,428,471 | 781,107 | 342,580 | 215,490 |
| Club memberships, at cost | 133,900 | 133,900 | 133,900 | 133,900 |
| | 5,056,656 | 4,867,330 | 3,455,555 | 3,547,430 |
| Allowance for doubtful receivables and advances | (4,528,389) | (3,613,165) | (3,054,218) | (2,966,700) |
| | 528,267 | 1,254,165 | 401,337 | 580,730 |

In 2005, security deposits were placed with the Group's lenders to whom options were granted to convert the borrowings into ordinary shares of the Company. The security deposits were pledged against the bank loans in Note 20.

## 14 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **$** | **$** | **$** | **$** |
| Fixed deposits | 48,493 | 51,547 | – | – |
| Cash and bank balances | 651,116 | 937,665 | 457,006 | 411,673 |
| Cash at bank and in hand | 699,609 | 989,212 | 457,006 | 411,673 |
| Fixed deposits pledged to bank | (48,493) | (51,547) | – | – |
| | 651,116 | 937,665 | 457,006 | 411,673 |
| Bank overdrafts | | | | |
| - secured | – | (1,871,985) | – | (873,018) |
| - unsecured | (798,041) | (240,403) | – | (240,403) |
| | (798,041) | (2,112,388) | – | (1,113,421) |
| Cash and cash equivalents in cash flow statement | (146,925) | (1,174,723) | 457,006 | (701,748) |

In 2005, the secured bank overdrafts were secured by way of third party's pledge of fixed deposits of US$1,200,000 and assignment of receivables from certain project accounts of the Company and a subsidiary.

Fixed deposits are pledged to obtain performance bond by a subsidiary.

# Notes to the financial statements

Year ended 31 December 2006

## 15 Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | No. of shares | $ | No. of shares | $ |
| Issued and fully paid ordinary shares: | | | | |
| At 1 January | 3,678,943,142 | 36,789,431 | 2,679,073,123 | 26,790,731 |
| Transfer from share premium account upon implementation of the Companies (Amendment) Act 2005 | – | 58,886,917 | – | – |
| Issue of shares arising from debt conversion (net of expenses) | 78,111,374 | 906,633 | 376,318,769 | 3,763,187 |
| Issue of placement shares (net of expenses) | 246,675,111 | 2,300,076 | – | – |
| Issue of shares for the acquisition of land (net of expenses) | – | – | 623,551,250 | 6,235,513 |
| At 31 December | 4,003,729,627 | 98,883,057 | 3,678,943,142 | 36,789,431 |

During the financial year,

<u>Debt conversion</u>

- The Company exercised the put option by requiring Standard Chartered Bank ("SCB") to convert the Company's loan of $250,000 into 10,000,000 ordinary shares of $0.01 each in the capital of the Company, at a conversion price of $0.025 per ordinary share.
- Pursuant to debt conversion agreements with certain trade creditors of the Company and a subsidiary, an aggregate of $681,114 owing by the Company and a subsidiary was converted into 68,111,374 ordinary shares at a conversion price of $0.01 per ordinary share.
- Expenses incurred of $24,481 in relation to the issuance of shares were deducted from share capital.

<u>Placement shares</u>

- The Company issued 80,000,000 and 166,675,111 placement shares at subscription price of $0.01 and $0.009 per placement share respectively.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

On date of commencement of the Companies (Amendment) Act 2005 on 30 January 2006:

(i) The concept of authorised share capital is abolished;
(ii) Shares of the Company have no par value; and
(iii) Amount standing to the credit of the Company's share premium account becomes part of the Company's share capital.

# Notes to the financial statements

**Year ended 31 December 2006**

## 16 Reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Share premium | – | 58,886,917 | – | 58,886,917 |
| Capital reserve | 320,446 | 320,446 | 162,000 | 162,000 |
| Merger reserve | 417,550 | 417,550 | – | – |
| Other reserve | (182,313) | – | (182,313) | – |
| Fair value reserve | 75,251 | – | – | – |
| Currency translation reserve | 12,323 | 336,945 | – | – |
| Accumulated losses | (92,591,320) | (87,653,501) | (94,064,985) | (86,523,532) |
| | (91,948,063) | (27,691,643) | (94,085,298) | (27,474,615) |

The application of the share premium account was governed by Section 69 of the Companies Act, Chapter 50. The share premium is transferred to the share capital upon the implementation of the Companies (Amendment) Act 2005 during the year.

Capital reserve comprises designated funds appropriated from profits for future expansion programmes in accordance with the regulations in People's Republic of China. The capital reserve also includes the equity component of convertible bank loan of $313,000 and $162,000 for the Group and Company respectively. The equity component is calculated as the excess of the proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Merger reserve represents the difference between the nominal value of shares issued by the Company in exchange for the nominal value of shares acquired in respect of the acquisition of a subsidiary, Caravelle Construction & Development Pte Ltd, accounted for under the pooling of interest method.

The share premium account, capital reserve and merger reserve are not available for distribution as dividends.

Other reserve relates to expenses incurred in relation to the issue of shares of the Company.

Fair value reserve arises from the changes in fair value of available-for-sale financial assets recognised by an associate.

The currency translation reserve comprises all foreign exchange differences arising from the translation of net assets/liabilities of foreign subsidiaries and associates.

Movements in reserves for the Group and the Company are set out in the consolidated statement of changes in equity and statement of changes in equity respectively.

# Notes to the financial statements

**Year ended 31 December 2006**

## 17 Obligations under finance leases

At 31 December 2006, the Group and the Company had obligations under finance leases that are repayable as follows:

| | <------------------- 2006 -------------------> | | | <------------------- 2005 -------------------> | | |
|---|---|---|---|---|---|---|
| | **Principal** | **Interest** | **Payments** | **Principal** | **Interest** | **Payments** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Group** | | | | | | |
| Within 1 year | 2,908 | 438 | 3,346 | 19,809 | 3,515 | 23,324 |
| After 1 year but within 5 years | – | – | – | 2,908 | 438 | 3,346 |
| | 2,908 | 438 | 3,346 | 22,717 | 3,953 | 26,670 |
| **Company** | | | | | | |
| Within 1 year | – | – | – | 12,807 | 2,465 | 15,272 |

Under the terms of the lease agreements, no contingent rents are payable. Interest rates are charged at 3% (2005: 2.75% to 3%) and Nil% (2005: 2.75%) per annum for the Group and the Company respectively.

## 18 Trade and other payables

| | | **Group** | | **Company** | |
|---|---|---|---|---|---|
| | **Note** | **2006** | **2005** | **2006** | **2005** |
| | | **$** | **$** | **$** | **$** |
| Trade payables | | 4,151,743 | 5,362,678 | 3,802,385 | 4,051,612 |
| Amounts due to minority shareholder of a subsidiary (non-trade) | | 250,000 | – | 250,000 | – |
| Loans from | | | | | |
| - major shareholder | | 107,357 | 88,368 | – | – |
| - other creditors | | 3,337,536 | 1,366,240 | 2,351,843 | 1,366,195 |
| Accrued operating expenses | | 834,863 | 1,132,958 | 630,919 | 589,465 |
| Other payables | 19 | 122,650 | 386,049 | 48,122 | 152,000 |
| | | 8,804,149 | 8,336,293 | 7,083,269 | 6,159,272 |

Included in trade payables are the following:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **$** | **$** | **$** | **$** |
| Payables to | | | | |
| - major shareholder and its related corporations | 2,385,487 | 1,745,883 | 2,366,571 | 1,720,046 |
| - subsidiary | – | – | 357,624 | 362,438 |
| - associate | – | 7,772 | – | 7,759 |

Loans from other creditors are unsecured, interest-free and repayable on demand. Loan from major shareholder is unsecured and repayable on demand. It bears an interest rate of Nil% (2005: 4.25%) per annum.

# Notes to the financial statements

**Year ended 31 December 2006**

## 19 Other payables

| | Group 2006 $ | Group 2005 $ | Company 2006 $ | Company 2005 $ |
|---|---|---|---|---|
| Other payables | 118,900 | 382,149 | 48,122 | 152,000 |
| Advances from customers | 3,750 | 3,900 | – | – |
| | 122,650 | 386,049 | 48,122 | 152,000 |

## 20 Interest-bearing bank loans

| | <----------- 2006 -----------> | | <----------- 2005 -----------> | |
|---|---|---|---|---|
| | Due within 12 months $ | Total $ | Due within 12 months $ | Total $ |
| **Group** | | | | |
| Secured | | | | |
| - bank loans | – | – | 250,000 | 250,000 |
| Unsecured | | | | |
| - bank loan | – | – | 371,252 | 371,252 |
| | – | – | 621,252 | 621,252 |
| **Company** | | | | |
| Secured | | | | |
| - bank loans | – | – | 250,000 | 250,000 |
| Unsecured | | | | |
| - bank loan | – | – | 371,252 | 371,252 |
| | – | – | 621,252 | 621,252 |

In 2005, interest was charged at 0.75% to 7.75% per annum.

In 2005, the Group's and Company's bank loans of $250,000 were secured by security deposits as disclosed in Note 13 and options were granted to the lenders to convert the borrowing into ordinary shares of the Company.

## 21 Provisions

| | <-------------------- Group --------------------> | | | <------------------ Company ------------------> | | |
|---|---|---|---|---|---|---|
| | Rectification costs $ | Claims and fees $ | Total $ | Rectification costs $ | Claims and fees $ | Total $ |
| **2006** | | | | | | |
| At 1 January 2006 | 1,789,689 | – | 1,789,689 | 1,092,806 | – | 1,092,806 |
| Provision made | 698,156 | 240,000 | 938,156 | 798,702 | – | 798,702 |
| Provision utilised | (923,452) | (34,050) | (957,502) | (720,829) | – | (720,829) |
| At 31 December 2006 | 1,564,393 | 205,950 | 1,770,343 | 1,170,679 | – | 1,170,679 |
| **2005** | | | | | | |
| At 1 January 2005 | 874,088 | – | 874,088 | 647,843 | – | 647,843 |
| Provision made | 1,787,272 | – | 1,787,272 | 1,176,513 | – | 1,176,513 |
| Provision utilised | (732,170) | – | (732,170) | (731,550) | – | (731,550) |
| Disposal of subsidiaries | (139,501) | – | (139,501) | – | – | – |
| At 31 December 2005 | 1,789,689 | – | 1,789,689 | 1,092,806 | – | 1,092,806 |

# Notes to the financial statements

**Year ended 31 December 2006**

## 21 Provisions (cont'd)

The provision for rectification costs is based on estimates from known and expected rectification work and contractual obligation for further work to be performed after completion, as well as historical data for claims for warranty associated with similar work and services. The Group expects to incur the liability within ten years upon completion of the contracts.

The provision for claims and fees relating to a subsidiary's obligations in relation to an industrial accident, has been estimated considering both contractual and commercial factors. The subsidiary expects to incur the liability within the next year.

## 22 Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Revenue | | | | |
| - building maintenance and upgrading | 168,686 | (69,277) | 168,686 | (69,277) |
| - architectural finishing products and services | 1,683,301 | 7,192,337 | (19,922) | (805,895) |
| - construction and formwork design engineering | 1,061,512 | 15,376,618 | 571,223 | 11,686,192 |
| | 2,913,499 | 22,499,678 | 719,987 | 10,811,020 |

Transactions within the Group have been eliminated in arriving at revenue for the Group.

## 23 Loss before income tax

The following items have been included in arriving at loss before income tax:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Interest income | | | | |
| - banks | (7,769) | (15,356) | (2,572) | – |
| - others | (1,183) | (414) | (1,183) | (414) |
| Rental income | – | (84,735) | – | (68,574) |
| Write-back of allowance for foreseeable losses on contracts (net) | – | (2,554,642) | – | (1,779,542) |
| (Write-back)/allowance for doubtful receivables (net) | | | | |
| - trade | (10,650) | (266,102) | (10,425) | (372,632) |
| - other | 1,099,013 | 798,818 | 124,711 | 787,789 |
| - subsidiaries | – | – | 378,288 | 4,526,539 |
| Allowance made for inventory obsolescence | 8,173 | 43,708 | – | – |
| Provision for rectification costs | 698,156 | 1,787,272 | 798,702 | 1,176,513 |
| Bad debts written off | 1,128 | 590,875 | 1,128 | 590,875 |
| Exchange loss/(gain) (net) | 447,348 | (50,997) | 343 | 525 |

# Notes to the financial statements

**Year ended 31 December 2006**

## 23 Loss before income tax (cont'd)

| | Group 2006 $ | Group 2005 $ | Company 2006 $ | Company 2005 $ |
|---|---|---|---|---|
| (Profit)/loss on disposals of | | | | |
| - subsidiaries | (216,272) | (270,291) | 4,620 | 81,559 |
| - associate | 33,292 | – | 7,150 | – |
| - property, plant and equipment | (74,181) | (7,341) | 9,658 | 52,959 |
| Non-audit fees | | | | |
| - auditors of the Company | 16,621 | 29,684 | 7,500 | 20,184 |
| Operating lease expenses | 111,488 | 132,565 | 79,088 | 64,029 |
| Impairment loss on | | | | |
| - property, plant and equipment | – | 128,074 | – | 56,189 |
| - subsidiaries | – | – | 4,200,000 | 271,000 |
| - associate | – | – | 72,572 | 295,808 |
| - other investments | – | 44,894 | – | 44,894 |
| Interest expenses | | | | |
| - banks | 5,936 | 327,245 | 1,670 | 166,504 |
| - major shareholder | – | 3,919 | – | – |
| - finance lease creditors | 2,855 | 2,626 | 1,805 | 1,345 |
| Directors' fees | | | | |
| - directors of the Company | 85,000 | 85,000 | 85,000 | 85,000 |
| Staff costs | 2,465,818 | 3,348,256 | 1,483,097 | 1,139,186 |
| Contributions to defined contribution plans included in staff costs | 131,952 | 204,284 | 88,325 | 86,195 |

## 24 Income tax credit

| | Group 2006 $ | Group 2005 $ | Company 2006 $ | Company 2005 $ |
|---|---|---|---|---|
| Current tax | | | | |
| Overprovided in prior years | (31,740) | (142,614) | (6,893) | – |
| *Reconciliation of effective tax rate* | | | | |
| Loss before income tax | (4,969,559) | (6,141,900) | (7,548,346) | (8,812,648) |
| Income tax using Singapore tax rate at 20% (2005: 20%) | (993,912) | (1,228,380) | (1,509,669) | (1,762,529) |
| Effect of different tax rates in other countries | (128,251) | (80,286) | – | – |
| Expenses not deductible for tax purposes | 187,746 | 865,167 | 890,945 | 830,959 |
| Deferred tax benefit not recognised | 934,417 | 454,365 | 618,724 | 931,570 |
| Utilisation of prior years' unrecognised deferred tax benefit | – | (10,866) | – | – |
| Overprovided in prior years | (31,740) | (142,614) | (6,893) | – |
| | (31,740) | (142,614) | (6,893) | – |

# Notes to the financial statements

**Year ended 31 December 2006**

## 24 Income tax credit (cont'd)

At 31 December 2006, deferred tax assets of the Company have not been recognised in respect of the following temporary differences:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **$** | **$** | **$** | **$** |
| Unutilised capital allowance | 3,080,910 | 2,459,474 | 1,691,506 | 983,896 |
| Other temporary differences | 3,188,029 | 3,233,285 | 1,455,775 | 2,280,517 |
| Tax losses | 69,218,635 | 66,979,436 | 49,860,226 | 46,649,476 |
| | 75,487,574 | 72,672,195 | 53,007,507 | 49,913,889 |

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group or the Company can utilise the benefits therefrom.

The Company's unutilised tax losses and capital allowances which are available for carrying forward and set-off against future taxable profits, are subject to agreement with Comptroller of Income Tax and compliance with the provisions of Section 37 of the Singapore Income Tax Act, Chapter 134 and the agreement by Comptroller of Income Tax.

The subsidiaries' unutilised tax losses and capital allowances which are available to set-off against future taxable income, are subject to agreement by the tax authorities and compliance with tax regulations prevailing in the respective countries.

## 25 Loss per share (The Group)

The calculation of basic and diluted loss per share is based on $4,937,819 (2005: $6,072,214) which represents the consolidated loss attributable to equity holders of the Company divided by the weighted average number of shares in issue during the year of 3,843,705,030 (2005: 2,747,728,884).

The average number of shares in issue during the year includes 9,353,250 shares to be issued in relation to fees payable for the acquisition of land in 2005.

The potential ordinary shares arising from the call and put options are anti-dilutive and the effects are ignored in calculating diluted loss per share. As such, the basic and diluted loss per share is the same.

# Notes to the financial statements

**Year ended 31 December 2006**

## 26 Disposals of subsidiaries

During the financial year, the Company disposed of its entire equity interests in I.R.E. Corporation (H.K.) Limited for a cash consideration of $124,380.

The contribution of the disposed subsidiary to the consolidated results of the Group for the year ended 31 December 2006 is insignificant.

The effect of cash flow arising from the disposal of subsidiary during the year is set out below:

| | 2006<br>$ |
|---|---|
| Current assets (excluding cash and cash equivalents) | 821,859 |
| Cash and cash equivalents | 109,159 |
| Current liabilities | (669,129) |
| Translation adjustment | (353,781) |
| Attributable net liabilities disposed | (91,892) |
| Net profit on disposal of subsidiaries | 216,272 |
| Consideration received | 124,380 |
| Cash and bank balances disposed | (109,159) |
| Net cash inflow | 15,221 |

## 27 Related parties

***Key management personnel compensation***

The key management personnel compensation are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006<br>$ | 2005<br>$ | 2006<br>$ | 2005<br>$ |
| Short-term employee benefits | 877,837 | 813,665 | 639,690 | 620,575 |
| Post-employment benefits | 19,173 | 23,016 | 15,638 | 20,722 |
| | 897,010 | 836,681 | 655,328 | 641,297 |

***Other transactions with key management personnel***

A firm, in which a director of the Company is a partner, provides professional services under the same terms as other customers. Services rendered from this related party to the Group and Company amounted to $18,143 (2005: $210,739) for the year ended 31 December 2006.

# Notes to the financial statements

**Year ended 31 December 2006**

## 27 Related parties (cont'd)

***Other related party transactions***

Other than disclosed elsewhere in the financial statements, the transactions with related parties are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **$** | **$** | **$** | **$** |
| **Subsidiaries** | | | | |
| Contract revenue | – | – | 11,885 | 26,276 |
| Purchase of goods and services | – | – | 84,352 | 1,542,968 |
| Management fee paid | – | – | 144,000 | 73,885 |
| Service and administrative fee | – | – | – | 10,422 |
| **Associates** | | | | |
| Dividend income | – | – | – | 22,000 |
| **Major shareholders and their related corporations** | | | | |
| Contract revenue | 59,070 | 1,286,366 | (19,807) | 39,214 |
| Purchase of goods and services | 81,737 | 2,082,717 | 81,737 | 2,070,651 |
| Service and rental expenses | 90,015 | 104,223 | 90,015 | 62,260 |

## 28 Financial instruments

*Financial risk management objectives and policies*

The Group and the Company are exposed to credit, interest rate and currency risk arising in the normal course of the Group's business. The Group and the Company have risk management policies and guidelines which have been reviewed by the Board of Directors and adhered to in the management of its business.

*Credit risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group and the Company do not require collateral in respect of financial assets.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

*Foreign currency risk*

The Group incurs foreign currency risk on sales, purchases, investments and borrowings that are denominated in a currency other than Singapore dollars. The currencies giving rise to this risk are primarily Renminbi and Ringgit Malaysia. The Group does not use derivative financial instruments to hedge its currency exposure.

## 28 Financial instruments (cont'd)

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

*Interest rate risk*

The Group's and the Company's exposure to market risk for changes in interest rates relates primarily to the Group's and the Company's debt obligations. The Group and the Company do not use derivative financial instruments to hedge its exposure in the fluctuations of interest rates.

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheet date and the periods in which they reprice.

*Effective interest rates and repricing / maturing analysis*

| | <---- 2006 | | | ----> | <---- 2005 | | | ----> |
|---|---|---|---|---|---|---|---|---|
| | **Effective interest rate** | **Total** | **Within 1 year** | **1 to 5 years** | **Effective interest rate** | **Total** | **Within 1 year** | **1 to 5 years** |
| | **%** | **$** | **$** | **$** | **%** | **$** | **$** | **$** |
| **Group** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash in hand and at bank | | | | | | | | |
| – variable rates | 0.25 - 0.72 | 651,116 | 651,116 | – | 0.10 – 3.50 | 937,665 | 937,665 | – |
| Fixed deposits | | | | | | | | |
| – variable rates | 3.27 | 48,493 | 48,493 | – | 2.05 | 51,547 | 51,547 | – |
| **Financial liabilities** | | | | | | | | |
| Bank overdraft | | | | | | | | |
| – variable rates | 6.25 – 9.00 | 798,041 | 798,041 | – | 5.75 | 2,112,388 | 2,112,388 | – |
| Finance leases | | | | | | | | |
| – fixed rates | 3.00 | 2,908 | 2,908 | – | 2.75 – 3.00 | 22,717 | 19,809 | 2,908 |
| Secured bank loans | | | | | | | | |
| – fixed rates | – | – | – | – | 0.75 | 250,000 | 250,000 | – |
| Unsecured bank loan | | | | | | | | |
| – variable rates | – | – | – | – | 3.50 – 5.77 | 371,252 | 371,252 | – |
| Major shareholder | | | | | | | | |
| – fixed rates | – | – | – | – | 4.25 | 88,368 | 88,368 | – |

## 28 Financial instruments (cont'd)

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total $ | Within 1 year $ | 1 to 5 years $ | Effective interest rate % | Total $ | Within 1 year $ | 1 to 5 years $ |
| **Company** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash in hand and at bank | | | | | | | | |
| – variable rates | 0.25 – 0.38 | 457,006 | 457,006 | – | 0.10 | 411,673 | 411,673 | – |
| **Financial liabilities** | | | | | | | | |
| Bank overdraft | | | | | | | | |
| – variable rates | – | – | – | – | 5.75 | 1,113,421 | 1,113,421 | – |
| Finance leases | | | | | | | | |
| – fixed rates | – | – | – | – | 2.75 | 12,807 | 12,807 | – |
| Secured bank loan | | | | | | | | |
| – fixed rate | – | – | – | – | 0.75 | 250,000 | 250,000 | – |
| Unsecured bank loan | | | | | | | | |
| – variable rates | – | – | – | – | 3.50 – 5.77 | 371,252 | 371,252 | – |

*Estimation of fair values*

*Investments in equity securities*

The fair value of available-for-sale financial assets is determined by reference to their quoted bid prices at the reporting date.

The fair value of unquoted equity shares cannot be measured reliably because the range of possible fair value estimates is wide and the probabilities of the various estimates within the range cannot be reasonably assessed. The Group is also unable to disclose the range of estimates within which a fair value is highly likely to lie.

*Other financial assets and liabilities*

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

# Notes to the financial statements

**Year ended 31 December 2006**

## 29 Contingent liabilities

| | Company | |
|---|---|---|
| | 2006 | 2005 |
| | $ | $ |
| ***Corporate Guarantees*** | | |
| Unsecured guarantees given to banks for issuance of performance bonds on behalf of the following: | | |
| - subsidiaries | 5,186,320 | 13,970,967 |
| - associate | – | 836,262 |
| | 5,186,320 | 14,807,229 |

***Continuing Financial Support***

The Company has given formal undertakings, which are unsecured, to provide financial support to its subsidiaries. As at 31 December 2006, the net current liabilities and deficits in shareholders' funds of these subsidiaries amounted to approximately $3,596,210 (2005: $7,260,123) and $3,559,213 (2005: $6,280,768) respectively.

## 30 Commitments

***Capital commitment***

During the year ended 31 December 2006, the Group entered into a conditional sale and purchase agreement with P.J. Holdings Inc. and Ariel Singapore Pte Ltd to acquire the entire issued and paid-up share capital of P.J. Services Pte Ltd for an aggregate consideration of $6,400,000.

The consideration of $6,400,000 shall be satisfied by allotment and issuance of 640,000,000 new ordinary shares in the Company at an issue price of $0.01 each. The completion for the proposed acquisition shall be on 30 April 2007 or the date falling 5 business days from the Company's Annual General Meeting for the financial year 2006 (whichever is earlier).

***Lease commitments***

At 31 December 2006, the Group and the Company have commitments for future minimum lease payments in respect of non-cancellable operating leases with terms of more than one year as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Payable: | | | | |
| Within 1 year | 138,024 | 124,090 | 98,397 | 84,131 |
| Within 2 to 5 years | 125,216 | 42,065 | 125,216 | 42,065 |
| | 263,240 | 166,155 | 223,613 | 126,196 |

The Group and the Company lease a number of warehouse and offices under operating leases. The leases typically run for an initial period of two years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

# Notes to the financial statements

**Year ended 31 December 2006**

## 31 Subsequent events

Subsequent to the financial year end,

(i) the Company issued 538,819,000 placement shares at a subscription price of $0.0143 per placement share for an aggregate subscription price of $7,705,112; and

(ii) the Company entered into debt conversion agreements with certain creditors of the Company and a subsidiary for the conversion of an aggregate of $5,727,855 owing by the Company and a subsidiary into 381,857,000 ordinary shares at a conversion price of $0.015 per ordinary share.

## 32 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on mutually agreed terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise other investments and related revenue, interest-bearing loans, borrowings and expenses, and corporate assets, related income and corporate expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

*Business Segments*

The main business segments of the Group comprise building maintenance and upgrading, architectural finishing products and services, construction and formwork design engineering and property development.

*Geographical Segments*

The above business segments are managed mainly in two principal geographical areas: Singapore and overseas, namely China and Malaysia. During the year, the Company disposed of its entire equity interests in I.R.E. Corporation (H.K.) Limited. The results in overseas segments included the Hong Kong subsidiary in 2005.

In presenting information on the basis of geographical segments, segment revenue is based on a geographical location of the assets.

# Notes to the financial statements

**Year ended 31 December 2006**

## 32 Segment reporting (cont'd)

| | Building maintenance and upgrading $'000 | Architectural finishing products and services $'000 | Construction and formwork design engineering $'000 | Property development $'000 | Elimination $'000 | Group consolidated $'000 |
|---|---|---|---|---|---|---|
| **Revenue and expenses** | | | | | | |
| **2006** | | | | | | |
| Total revenue from external customers | 169 | 1,683 | 1,061 | – | – | 2,913 |
| Inter-segment revenue | – | 266 | – | – | (266) | – |
| Total revenue | 169 | 1,949 | 1,061 | – | (266) | 2,913 |
| Segment results | (346) | (1,057) | (1,097) | (308) | – | (2,808) |
| Unallocated expenses | | | | | | (2,053) |
| Loss from operations | | | | | | (4,861) |
| Finance costs | | | | | | (9) |
| Share of loss of associates | | | | | | (99) |
| Income tax credit | | | | | | 31 |
| Loss for the year | | | | | | (4,938) |
| **2005** | | | | | | |
| Total revenue from external customers | (69) | 7,192 | 15,377 | – | – | 22,500 |
| Inter-segment revenue | – | – | 1,569 | – | (1,569) | – |
| Total revenue | (69) | 7,192 | 16,946 | – | (1,569) | 22,500 |
| Segment results | (221) | 67 | (2,463) | (23) | – | (2,640) |
| Unallocated expenses | | | | | | (3,027) |
| Loss from operations | | | | | | (5,667) |
| Finance costs | | | | | | (334) |
| Share of loss of associates | | | | | | (141) |
| Income tax credit | | | | | | 143 |
| Loss for the year | | | | | | (5,999) |

# Notes to the financial statements

**Year ended 31 December 2006**

## 32 Segment reporting (cont'd)

| | Building maintenance and upgrading $'000 | Architectural finishing products and services $'000 | Construction and formwork design engineering $'000 | Property development $'000 | Group consolidated $'000 |
|---|---|---|---|---|---|
| **Assets and Liabilities** | | | | | |
| **2006** | | | | | |
| Segment assets | 579 | 1,611 | 1,406 | 12,698 | 16,294 |
| Unallocated assets | | | | | 452 |
| Interests in associates | | | | | 1,669 |
| Total assets | | | | | 18,415 |
| Segment liabilities | 1,239 | 4,013 | 6,220 | 8 | 11,480 |
| Unallocated liabilities | | | | | – |
| Total liabilities | | | | | 11,480 |
| **2005** | | | | | |
| Segment assets | 989 | 3,997 | 4,174 | 12,892 | 22,052 |
| Unallocated assets | | | | | 406 |
| Interests in associates | | | | | 2,026 |
| Total assets | | | | | 24,484 |
| Segment liabilities | 1,465 | 4,814 | 7,345 | 8 | 13,632 |
| Unallocated liabilities | | | | | 1,754 |
| Total liabilities | | | | | 15,386 |
| **Other Segmental Information** | | | | | |
| **2006** | | | | | |
| Capital expenditure | – | – | 3 | – | 3 |
| Depreciation | – | 17 | 55 | – | 72 |
| Allowance for | | | | | |
| - doubtful receivables (net) | 74 | 218 | 796 | – | 1,088 |
| - inventory obsolescence (net) | – | 8 | – | – | 8 |
| Bad debts written off | 1 | – | – | – | 1 |
| **2005** | | | | | |
| Capital expenditure | 2 | 21 | 3 | – | 26 |
| Depreciation | 4 | 56 | 270 | – | 330 |
| (Write-back)/allowance for | | | | | |
| - doubtful receivables (net) | 85 | 130 | 317 | – | 532 |
| - foreseeable losses (net) | (302) | (118) | (2,135) | – | (2,555) |
| - inventory obsolescence (net) | – | 44 | – | – | 44 |
| Bad debts written off | – | 591 | – | – | 591 |
| Impairment loss | 22 | 45 | 106 | – | 173 |

# Notes to the financial statements

**Year ended 31 December 2006**

## 32 Segment reporting (cont'd)

*Geographical Segments*

| | Singapore $'000 | China and Malaysia $'000 | Group consolidated $'000 |
|---|---|---|---|
| **2006** | | | |
| Total revenue from external customers | 1,198 | 1,715 | 2,913 |
| Segment assets | 4,769 | 13,646 | 18,415 |
| Capital expenditure | 3 | – | 3 |
| **2005** | | | |
| Total revenue from external customers | 14,502 | 7,998 | 22,500 |
| Segment assets | 8,338 | 16,146 | 24,484 |
| Capital expenditure | 6 | 21 | 27 |

## 33 New accounting standards and interpretations not yet adopted

The Group has not applied the following accounting standards and interpretations that have been issued as of the balance sheet date but are not yet effective:

| | |
|---|---|
| FRS 40 | *Investment Property* |
| FRS 107 | *Financial Instruments: Disclosures and the Amendment to FRS 1 Presentation of Financial Statements: Capital Disclosures* |
| INT FRS 107 | *Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies* |
| INT FRS 108 | *Scope of FRS 102 Share-based Payment* |
| INT FRS 109 | *Reassessment of Embedded Derivatives* |
| INT FRS 110 | *Interim Financial Reporting and Impairment* |

FRS 107 and amended FRS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital. This standard does not have any impact on the recognition and measurement of the Group's financial statements.

INT FRS 110 prohibits the reversal of an impairment loss recognised in an interim period during the financial year in respect of goodwill, an investment in an equity instrument or financial asset carried at cost. INT FRS 110 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date the Group first applied the measurement criteria of FRS 36 and FRS 39 respectively (i.e. 1 January 2005).

The initial application of these standards and interpretations are not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.

# Additional Information

**For the year ended 31 December 2006**

## 1. Interested Persons Transactions

Interested person transactions carried out during the financial year pursuant to the shareholders' mandate obtained under Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX") by the Group as follows:

| Name of Interested Persons and Transactions | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | | Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual (excluding transactions less than $100,000) | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| **(a) General transactions** | | | | |
| Sales of goods and services - Nippon Paint Group of Companies | - | - | 59 | 1,286 |
| Purchases of goods and services - Nippon Paint Group of Companies | - | - | 82 | 2,083 |
| **(b) Treasury Transactions** | | | | |
| Loan from Nippon Paint (Singapore) Company Private Limited | - | - | - | - |
| Loan from Yenom Holdings Pte Ltd | - | - | - | - |
| Loan from Teo Cheng Kwee | - | - | - | - |
| Interest expense to Teo Cheng Kwee | - | - | - | - |
| Interest Expense to Yenom/ Nippon Paint Group of Companies* | - | - | - | - |
| **(c) Others** | | | | |
| Professional and other fees paid to Hee Theng Fong & Co | 18 | 211 | - | - |

*Nippon Paint (Singapore) Company Private Limited and its related corporations

# Additional Information

**For the year ended 31 December 2006**

## 2. Utilisation of Proceeds from Private Placement

The Company issued 80,000,000 and 166,675,111 placement shares at subscription price of $0.01 and $0.009 per placement share respectively in January and November 2006 respectively. The Company received an aggregate proceeds of $2,300,076 from the private placement, of which utilisation as at 31 December 2006 were as follows:

| | | $ |
|---|---|---|
| (i) | Payment of stamp duties incurred in connection with the Group's acquisition of the 2 parcels of vacant land located at Lots PT 1191 and PT1197 in Kota Laksamana in the State of Malacca in Malaysia ("Acquisition") | 404,000 |
| (ii) | Payment of professional fees and other disbursements incurred in relation to Acquisition | 94,000 |
| (iii) | Payment of placement fees to OCBC Securities Private Limited | 25,200 |
| (iv) | Working capital | 1,414,565 |
| | | 1,937,765 |

Subsequent to financial year end, the Company has fully utilised the balance of placement proceeds of $362,311 for general working capital of the Group.

# Statistics of Shareholdings

**as at 12 March 2007**

## SHARE CAPITAL

| | | |
|---|---|---|
| No. of shares | - | 4,542,548,627 |
| Class of shares | - | Ordinary shares |
| Voting rights | - | 1 vote per ordinary share |

## ANALYSIS OF SHAREHOLDINGS

| Range of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 - 999 | 117 | 1.65 | 51,195 | 0.00 |
| 1,000 - 10,000 | 1,296 | 18.22 | 5,812,066 | 0.13 |
| 10,001 - 1,000,000 | 5,464 | 76.83 | 933,159,447 | 20.54 |
| 1,000,001 and above | 235 | 3.30 | 3,603,525,919 | 79.33 |
| | 7,112 | 100.00 | 4,542,548,627 | 100.00 |

## TOP 21 SHAREHOLDERS

| No. | Name | No. of Shares | % |
|---|---|---|---|
| 1 | United Overseas Bank Nominees Pte Ltd | 556,799,350 | 12.26 |
| 2 | Kim Eng Securities Pte. Ltd. | 548,504,518 | 12.07 |
| 3 | Nippon Paint (Singapore) Company Private Limited | 508,263,690 | 11.19 |
| 4 | Tan Boy Tee | 226,000,000 | 4.98 |
| 5 | Nippon Paint (H.K.) Company Limited | 136,282,000 | 3.00 |
| 6 | Tian Investments Group Ltd | 111,138,000 | 2.45 |
| 7 | Zhao Yan Shi | 111,111,111 | 2.45 |
| 8 | Lim Chye Seng | 94,907,250 | 2.09 |
| 9 | Cheng Theng Kee | 85,209,000 | 1.88 |
| 10 | Teo Cheng Kwee | 82,591,625 | 1.82 |
| 11 | Ong Hoo Eng | 57,500,000 | 1.27 |
| 12 | Sin Hong Thai Holdings Pte Ltd | 56,000,000 | 1.23 |
| 13 | Tan Hoo Lang | 37,038,000 | 0.82 |
| 14 | Paromay Limited | 37,038,000 | 0.82 |
| 15 | Tan Kim Seng | 37,038,000 | 0.82 |
| 16 | Sun Spirit International Limited | 30,700,000 | 0.68 |
| 17 | Chua Hong Huay | 29,630,000 | 0.65 |
| 18 | DBS Nominees Pte Ltd | 26,121,750 | 0.58 |
| 19 | Low Chui Heng | 22,230,000 | 0.49 |
| 20 | Cheong Wee Hup | 22,226,000 | 0.49 |
| 21 | Phua Hua Seng | 22,226,000 | 0.49 |
| | | 2,838,554,294 | 62.53 |

# Statistics of Shareholdings

**as at 12 March 2007**

## SUBSTANTIAL SHAREHOLDERS

| Name | Direct Interest Number of Shares | Direct Interest % | Deemed Interest Number of Shares | Deemed Interest % | Direct and Deemed Interests Number of Shares | Direct and Deemed Interests % |
|---|---|---|---|---|---|---|
| United Overseas Bank Limited | 528,876,600 | 11.64 | - | - | 528,876,600 | 11.64 |
| Nippon Paint (Singapore) Company Private Limited (1) | 508,263,690 | 11.19 | 136,282,000 | 3.00 | 644,545,690 | 14.19 |
| Pembinaan Kota Laksamana (Melaka) Sdn. Bhd. | 513,551,250 | 11.31 | - | - | 513,551,250 | 11.31 |
| Nippon Paint (H.K.) Co.,Ltd(2) | 136,282,000 | 3.00 | 508,263,690 | 11.19 | 644,545,690 | 14.19 |
| Yenom Holdings Pte Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint Co., Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Wuthelam Holdings Limited(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nipsea Holdings International Limited(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nipsea Chemical Co Ltd (S.K.)(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nipsea Chemical (Shanghai) Co Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Exim 66 Enterprise Pte Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint Philippines Inc(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint (Thailand) Co Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint (Vietnam) Co Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Hua Joo Seng Enterprise Bhd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint (M'sia) Sdn. Bhd.(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nipsea Hardware (M) Sdn. Bhd.(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Regional Business Publication Sdn. Bhd.(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Quality Polymer Sdn. Bhd.(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Desa Baiduri Sdn. Bhd. (3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Paint Marketing Co (M) Sdn. Bhd. (3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nipsea Pte Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint (China) Co Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Langfang Nippon Paint Co Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Suzhou Nippon Paint Co., Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint (ChongQing) Chemical Co Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nippon Paint Guangdong Co Ltd(4)3 | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Yenom Labelstocks (Sydney) Pty Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Wuthelam International Investment Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Suzhou Nippon Paint Yashili Co., Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Guangzhou Nippon Paint Co., Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Wuthelam Industries (S) Pte Ltd (In members' voluntary liquidation) (3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Delteq (M) Sdn Bhd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Wuthelam Holdings Pte Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Nipsea Technologies Pte Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| PCTS Specialty Chemicals Pte Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Jonesworld Industries Ltd(3) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |

# Statistics of Shareholdings

**as at 12 March 2007**

**SUBSTANTIAL SHAREHOLDERS (cont'd)**

| Name | Direct Interest Number of Shares | Direct Interest % | Deemed Interest Number of Shares | Deemed Interest % | Direct and Deemed Interests Number of Shares | Direct and Deemed Interests % |
|---|---|---|---|---|---|---|
| Ritsuji Co Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Castle Development Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Quality Colour Cards Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Yenom Industries Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Grace Technologies Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Kureoka Enterprise Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Sea Farer Venture Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Yenomland Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Eastside Development Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Northland Industries Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| SMP Investments Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Red Star Development Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Skyland Venture Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Paint Marketing Co Philippines Inc[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| PMC (TU) Inc[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Yenom Labelstocks Pty Limited[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Yenom (Thailand) Co. Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Yenom Industries Malaysia Sdn. Bhd.[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| First Industries Corp[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Pianissimo Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Thurloe Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Wuthelam Management Services (M) Sdn Bhd[3] (In liquidation) | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Wigetworks Pte Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Rainbow Light Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |
| Epimetheus Ltd[3] | - | - | 644,545,690 | 14.19 | 644,545,690 | 14.19 |

**Notes:-**

(1) Nippon Paint (Singapore) Company Private Limited is deemed to be interested in the Shares held by Nippon Paint (H.K.) Co., Ltd by virtue of Section 7 of the Companies Act (Cap 50).

(2) Nippon Paint (H.K.) Co., Ltd is deemed to be interested in the Shares held by Nippon Paint (Singapore) Company Private Limited by virtue of Section 7 of the Companies Act (Cap 50).

(3) These companies are deemed to be interested in the Shares held by Nippon Paint (Singapore) Company Private Limited and Nippon Paint (H.K.) Co., Ltd by virtue of Section 7 of the Companies Act (Cap 50).

## Shareholdings Held in Hands of Public

Based on information available to the Company as at 12 March 2007, 72**%** of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual is complied with.

# Notice of Annual General Meeting

**SAPPHIRE CORPORATION LIMITED**

NOTICE IS HEREBY GIVEN that the **Twenty First Annual General Meeting** of **SAPPHIRE CORPORATION LIMITED** will be held at **123 Genting Lane, #07-01 Yenom Industrial Building, Singapore 349574** on **Friday, 20 April 2007 at 10.00 a.m.** for the following purposes:-

**ORDINARY BUSINESS**

1. To receive the audited accounts for the year ended 31 December 2006 and the Reports of the Directors and Auditors.

2. To approve Directors' Fees of $85,000 for the year ended 31 December 2006 (2005: $85,000).

3. To re-elect the following Directors who retire in accordance with the Company's Articles of Association and who, being eligible, offer themselves for re-election:-

   (a) Dr Tan Eng Liang
   (b) Mr Goh Hup Jin
   (c) Mr Foo Tee Heng
   (d) Mr Mohd Iskandar Bin Mohd Isa

4. To pass the following resolution:-

   "That, pursuant to Section 153(6) of the Companies Act Cap 50, Mr Goh Kaw Kern @ Goh Kwang Chay be and is hereby re-appointed as a Director of the Company to hold office until the next Annual General Meeting."

5. To re-appoint Messrs KPMG as Auditors of the Company and to authorise the Directors to fix their remuneration.

**SPECIAL BUSINESS**

6. To consider and, if thought fit, to pass the following as an Ordinary Resolution, with or without modification:-

   "That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, authority be and is hereby given to the directors of the Company to issue shares and convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time to such persons and upon such terms and conditions and for such purposes as the directors may in their absolute discretion deem fit, provided that the aggregate number of shares and convertible securities to be issued pursuant to this resolution does not exceed 50% of the issued share capital of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company. For the purposes of this resolution, the percentage of the issued share capital of the Company shall be based on the issued share capital of the Company at the time this resolution approving the mandate is passed (after adjusting for any new shares arising from the conversion or exercise of convertible securities; or new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution approving the mandate, provided the option or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual; and any subsequent consolidation or subdivision of shares in the Company), and unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier."

# Notice of Annual General Meeting

**SAPPHIRE CORPORATION LIMITED**

7. To consider and, if thought fit, to pass the following as an Ordinary Resolution, with or without modification:-

"(a) That approval be and is hereby given pursuant to Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited, for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the types of Interested Person Transactions, particulars of which are set out in Appendix 1 to this Notice of Annual General Meeting with any party who is an interested person described in the Appendix 1 provided that such transactions are made on an arm's length basis and on normal commercial terms;

(b) the approval given in paragraph (a) above shall, unless revoked or varied by the Company in General Meeting, continue in force until the next Annual General Meeting of the Company; and

(c) the Directors of the Company be and are hereby authorised to complete and do all acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to the approval given in paragraph (a) above and/or this Resolution."

8. To transact any other business that may be transacted at an Annual General Meeting of which due notice shall have been given.

By Order of the Board

**STELLA CHAN**
Company Secretary

Singapore
4 April 2007

**NOTE**:-

(i) A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the Company's Registered Office, 1 Sophia Road #05-03, Peace Centre, Singapore 228149, not less than 48 hours before the time fixed for holding the Meeting.

(ii) Dr Tan Eng Liang, Non-Executive Director, if re-elected, will remain a Chairman of the Board and Nominating Committee and will be considered independent.

(iii) Mr Goh Hup Jin, Non-Executive Director, if re-elected, will remain a member of Nominating Committee and will be considered non-independent.

**EXPLANATORY NOTES ON SPECIAL BUSINESS TO BE TRANSACTED:-**

**Ordinary Resolution No. 6** is to authorise the Directors of the Company to issue shares and convertible securities up to 50% of the Company's issued share capital, with an aggregate sub-limit of 20% of the Company's share capital for any issue of shares and convertible securities not made on a pro-rata basis to shareholders of the Company.

**Ordinary Resolution No. 7** is to renew the members' mandate for recurrent revenue transactions with interested persons and will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to do all acts necessary to give effect to this ordinary resolution. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company. Please refer to Appendix 1 attached to this Notice.

# Appendix 1

## RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

**Note: The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any statements made, reports contained or opinions expressed in this Appendix.**

## 1. INTRODUCTION

### 1.1 Chapter 9 of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited ("SGX-ST")

Chapter 9 of the Listing Manual (**"Chapter 9"**) applies to transactions between a party that is an entity at risk and a counter party that is an interested person. The objective of Chapter 9 (as stated in Rule 901 of the Listing Manual) is to guard against the risk that interested persons could influence a listed company, its subsidiaries or associated companies to enter into transactions with interested persons that may adversely affect the interests of the listed company or its shareholders.

### 1.2 Main Terms used in Chapter 9

An **"entity at risk"** means:

1.2.1 the listed company;

1.2.2 a subsidiary of the listed company that is not listed on SGX-ST or an approved exchange; or

1.2.3 an associated company of the listed company that is not listed on SGX-ST or an approved exchange, provided that the listed company and/or its subsidiaries (the **"listed group"**), or the listed group and its interested person(s), has control over the associated company.

An **"interested person"** means a director, chief executive officer or controlling shareholder of the listed company or an associate of such director, chief executive officer or controlling shareholder.

An **"associate"** in relation to an interested person who is a director, chief executive officer or controlling shareholder, includes an immediate family member (that is, the spouse, child, adopted child, step-child, sibling or parent) of such director, chief executive officer or controlling shareholder, and any company in which the director/his immediate family, the chief executive officer/his immediate family or controlling shareholder/his immediate family has an aggregate interest (directly or indirectly) of 30 per cent. or more, and, where a controlling shareholder is a corporation, its subsidiary or holding company or fellow subsidiary or a company in which it and/or they have (directly or indirectly) an interest of 30 per cent. or more.

An **"approved exchange"** means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles in Chapter 9.

An **"interested person transaction"** means a transaction between an entity at risk and an interested person.

### 1.3 Materiality Thresholds, Announcement Requirements, and Shareholders' Approval

Except for certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and are hence excluded from the ambit of Chapter 9, immediate announcement, or, immediate announcement and shareholders' approval would be required in respect of transactions with interested persons if certain financial thresholds (which are based on the value of the transaction as compared with the listed company's latest audited consolidated NTA)[1] are reached or exceeded.

In particular, shareholders' approval is required for an interested person transaction of a value equal to, or exceeding:

# Appendix 1

**RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS**

## 1. INTRODUCTION (cont'd)

1.3.1 5 per cent. of the listed company's latest audited consolidated NTA[②]; or

1.3.2 5 per cent. of the listed company's latest audited consolidated NTA[②], when aggregated with the values of other transactions entered into the same interested person and/or its associates during the same financial year.

Notes:

① Based on the audited consolidated accounts of the Company and its subsidiaries for the financial year ended 31 December 2006, the consolidated NTA of the Group was $6.9 million.

② In relation to the Company, for the purposes of Chapter 9, in the current financial year and until such time that the consolidated audited results of the Company and its subsidiaries for the year ended 31 December 2006 are published by the Company, 5 per cent. of the latest audited consolidated NTA of the Group would be $0.35 million.

### 1.4 Shareholders' General Mandates

Chapter 9 allows a listed company to seek a mandate from its shareholders for recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations, which may be carried out with the listed company's interested persons, but not for the purchase or sale of assets, undertakings or businesses.

Pursuant to the then Chapter 9A of the previous Listing Manual, the existing interested person transactions were first disclosed in pages 47 and 115 to 117 of the Company's Prospectus dated 18 October 1999. The Shareholder's Mandate was obtained at the Extraordinary General Meeting held on 12 October 1999. The Mandate was subsequently renewed on an annual basis in accordance with their terms thereof and was last modified and renewed at the 20th Annual General Meeting held on 24 April 2006. The Mandate is set out below in paragraph 4.

## 2. RATIONALE FOR INTERESTED PERSON TRANSACTIONS

Nippon Paint (Singapore) Company Private Limited ("NPS") ceased as a controlling shareholder of Sapphire Corporation Limited ("Sapphire") after the financial year ended 31 December 2006, having direct and indirect interest of 14.19% of the total number of issued shares of the Company. NPS will become a controlling shareholder again on the completion of the proposed debt conversion exercise, subject to shareholder' approval at the forthcoming Extraordinary General Meeting.

Due to the size of NPS's group of companies, it is very likely that Sapphire Group would in the ordinary course of business enter into transactions with the classes of Interested Persons as set out herein. NPS is a reputable and established paint manufacturer in the market while Sapphire Group's strength is in its application, i.e. painting and coating. The synergetic effect of our co-operation with NPS will create a competitive edge over the existing competitors. However, all Interested Person Transactions between Sapphire Group and its Interested Persons are made at arm's length and on normal commercial terms.

# Appendix 1

**RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS**

## 3 BENEFIT TO SHAREHOLDERS

**3.1** The Shareholders' Mandate and the renewal of the Shareholders' Mandate on an annual basis will eliminate the need to convene separate general meetings from time to time to seek the approval of shareholders of the Company as and when potential Interested Person Transactions with a specific class of Interested Persons arise, thereby reducing substantially administrative time and expenses in convening such meetings, without compromising the corporate objectives and adversely affecting the business opportunities available to the Group.

**3.2** The Shareholders' Mandate will facilitate transactions in the normal course of business of the Group which are transacted from time to time with the specified classes of Interested Persons, provided that they are carried out at arm's length and on the Group's normal commercial terms and are not prejudicial to shareholders.

**3.3** Disclosure will be made in the annual report of the Company of the aggregate value of Interested Person Transactions conducted pursuant to the Shareholders' Mandate during the current financial year, and in the annual reports for the subsequent financial year during which a shareholders' mandate is in force. In addition, the Company will announce the aggregate value of transactions conducted with the Interested Persons for the financial periods which the Company is required to report on pursuant to the Listing Manual and within the time required for the announcement of such report.

## 4. SHAREHOLDERS' MANDATE

### 4.1 Background

4.1.1 The Shareholders' Mandate was obtained at the Extraordinary General Meeting of the Company held on 12 October 1999 and last modified and renewed at the 20th Annual General Meeting held on 24 April 2006 as the Group would, in the ordinary course of its business, enter into certain transactions with its Interested Persons. Such transactions will occur with some degree of frequency and could arise at any time and from time to time. Such transactions include the transactions described in paragraph 4.3 below.

4.1.2 Due to the time-sensitive nature of commercial transactions, the Shareholders' Mandate will enable the Group, in its normal course of business, to enter into the following categories of transactions ("Interested Person Transactions") with certain classes of Interested Persons (as set out in paragraph 4.2 below), provided such Interested Person Transactions are made at arm's length and on normal commercial terms.

4.1.3 The Shareholders' Mandate does not cover an Interested Person Transaction (as described below) which has a value of below $100,000 as the threshold and aggregate requirements contained in Chapter 9 of the Listing Manual would not apply to such an Interested Person Transaction.

4.1.4 The Shareholders' Mandate is effective until the next Annual General Meeting of the Company. Thereafter, approval from the shareholders of the Company for a subsequent renewal of the Shareholders' Mandate will be sought at each subsequent Annual General Meeting of the Company.

# Appendix 1



## 4. SHAREHOLDERS' MANDATE (cont'd)

### 4.2 Classes of Interested Persons

The Shareholders' Mandate will apply to the following classes of Interested Persons:

4.2.1 Nippon Paint (Singapore) Company Private Limited and its associates as defined in the Listing Manual (excluding Sapphire and its associates);

4.2.2 Directors, Chief Executive Officers(s) and controlling shareholders of the Company (other than controlling shareholders described in paragraphs 4.2.1 above) and their respective associates.

Transactions with Interested Persons which do not fall within the ambit of the Shareholders' Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/ or other applicable provisions of the Listing Manual.

### 4.3 Interested Person Transactions

4.3.1 The Interested Person Transactions with the Interested Persons (as described in paragraph 4.2.1 and 4.2.2 above) which are covered by the Shareholders' Mandate and the benefits to be derived therefrom (as described in paragraph 3 above) are set out below:-

**(a) General Transactions**

This category relates to general transactions ("General Transactions") by the Group relating to the provision to, or the obtaining from, Interested Persons of products and services in the normal course of the business of the Group comprising:-

(i) the sale or purchase of paint and paint-related products;

(ii) the provision of building maintenance and upgrading services, comprising repainting, repairs, redecoration and upgrading works, and administrative services relating thereto;

(iii) the lease (as lessor and lessee) of office premises;

(iv) lease of gondolas.

The Group will benefit from having access to competitive quotes from the Interested Persons in addition to obtaining quotes from, or transacting with, non-Interested Persons.

**(b) Treasury Transactions**

Treasury transactions ("Treasury Transactions") comprise (i) the placement of funds with any Interested Person on a short-term basis (up to a maximum of 12 months), (ii) the borrowing of funds from any Interested Person on a short-term basis and (iii) the payment of fees in respect of guarantees issued in favour of the Group by any Interested Person.

The Group can benefit from competitive rates and quotes in an expedient manner on the placement of funds with, borrowings from and the payment of fees in respect of guarantees issued by, any Interested Person.

# Appendix 1

**RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS**

## 4. SHAREHOLDERS' MANDATE (cont'd)

### 4.4 Review Procedures for Interested Person Transactions

4.4.1 The Group has established the following procedures to ensure that Interested Person Transactions are undertaken on an arm's length basis and on normal commercial terms:-

**(a) General Transactions**

Procedures have been established by the Group to ensure that General Transactions with Interested Persons are undertaken on an arm's length basis and on normal commercial terms consistent with the Group's usual business practices and policies, which are generally no more favorable to the Interested Persons than those extended to unrelated third parties. The Group will obtain at least two quotes from external parties.

The Group will monitor the General Transactions entered into by the Group by categorising the transactions as follows:-

(i) a Category 1 General Transaction is one where the value thereof is in excess of $200,000; and

(ii) a Category 2 General Transaction is one where the value is below or equal to $200,000.

Category 1 General Transactions must be approved by the Audit Committee prior to their entry.

Category 2 General Transactions need not have the prior approval of the Audit Committee but shall be reviewed on every half yearly basis by the Audit Committee.

**(b) Treasury Transactions**

*Placements*

In relation to the placement with any Interested Person by the Group of its funds, the Company will require that quotations shall be obtained from such Interested Person and at least two of the principal bankers of the Group for rates for deposits with such bankers of an equivalent amount, and for the equivalent period, of the funds to be placed by the Group. The Group will only place its funds with such Interested Person, provided that the interest rate quoted is not less than the highest of the rates quoted by such principal bankers.

In addition, where the aggregate value of funds placed with the same Interested Person (as such term is construed under Chapter 9 of the Listing Manual) shall at any time exceed an amount equivalent to the consolidated shareholders' funds of the Company (based on its latest consolidated audited accounts), each subsequent placement of funds with the same Interested Person shall require the prior approval of the Audit Committee. Placements of funds with the same Interested Person which do not in the aggregate exceed the limits set out above will not require the prior approval of the Audit Committee but shall be reviewed on every half yearly basis by the Audit Committee.

# Appendix 1

**RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS**

## 4. SHAREHOLDERS' MANDATE (cont'd)

### 4.4 Review Procedures for Interested Person Transactions (cont'd)

**(b) Treasury Transactions (cont'd)**

*Borrowings*

In relation to the borrowing of funds from any Interested Person by the Group, the Company will require that quotations shall be obtained from such Interested Person and at least two of the principal bankers of the Group for rates on loans from such bankers of an equivalent amount, and for the equivalent period, of the funds to be borrowed. The Group will only borrow funds from such Interested Persons, provided that the interest rate quoted is not more than the lowest rates quoted by such principal bankers.

*Guarantees issued in favour of the Group*

In relation to the payment of fees in respect of the issue of guarantees in favour of the Group by any Interested Person, the Company will require that quotations shall be obtained from such Interested Person and at least two of the principal bankers of the Group. The Group will only pay such fees to such Interested Person, provided that the fee quoted is not more than the lowest of the fees quoted by such principal bankers.

4.4.2 A register will be maintained by the Group to record all Interested Person Transactions (and the basis including the quotations obtained to support such basis, on which they are entered into) which are entered into pursuant to the Shareholders' Mandate. The annual internal audit plan shall incorporate a review of all Interested Person Transactions and on the review procedures entered into pursuant to the Shareholders' Mandate.

4.4.3 The Audit Committee shall review the internal audit reports to ascertain that the guidelines and procedures established to monitor Interested Person Transactions have been complied with.

4.4.4 The Audit Committee has the overall responsibility for determining the review procedures with the authority to delegate to individuals within the Company as they deem appropriate. For the purpose of review and approval process, if any member of the Review Committee or the Chairman has an interest in the transaction to be reviewed by the said Committee, such member or the Chairman (as the case may be) shall abstain from any decision making by the Review Committee in respect of that transaction. If a member of the Audit Committee has an interest in a transaction to be reviewed by the Audit Committee, he will abstain from any decision-making by the Audit Committee in respect of that transaction. Accordingly, where each of two members of the Audit Committee has an interest in the transaction to be reviewed by the Audit Committee, the review and approval of that transaction will be undertaken by the remaining member(s) of the Audit Committee.

4.4.5 Generally, the Review Committee, the Chairman and the Audit Committee will only approve an Interested Person Transaction if the terms of the transaction are no more favourable than the terms offered to unrelated third parties, or in accordance with published or prevailing rates/prices or otherwise in accordance with prevailing industry norms. The Review Committee, the Chairman and the Audit Committee may, as each of them deems fit, request for additional information pertaining to the transaction from independent sources or advisers, including the obtaining of valuations from professional valuers.

# Appendix 1

**RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS**

## 4. SHAREHOLDERS' MANDATE (cont'd)

### 4.4 Review Procedures for Interested Person Transactions (cont'd)

4.4.6 In the event that it is not possible to obtain quotations from unrelated third parties or to determine whether the terms of the Interested Person Transactions with the Interested Person are more or less favourable than the aggregate terms quoted by unrelated third parties, the Review Committee will evaluate and weigh the benefits of and rationale for transacting with the Interested Person before submitting a written recommendation to the Audit Committee. In its evaluation, the Review Committee will include, but will not be limited to, considerations of the efficiencies and flexibility derived by the Company in transacting with the Interested Person as compared with transacting with unrelated third parties. The Audit Committee will evaluate the recommendation from the Review Committee in respect of the Interested Person Transactions before deciding to approve or reject the Interested Person Transaction. In determining the terms of the transaction, the Audit Committee will evaluate such terms in accordance with prevailing industry norms (including, the reasonableness of the terms).

4.4.7 The Audit Committee shall review the terms of the Interested Person Transactions and the review procedures adopted on every half yearly basis. If during a review by the Audit Committee, the Audit Committee is of the view that the established guidelines and procedures are not sufficient to ensure that the Interested Person Transactions will be on Sapphire Group's normal commercial terms and will not be prejudicial to the interests of the Shareholders, it will take such actions as it deems appropriate and/or institute additional procedures as necessary to ensure that future transactions of a similar nature are on commercial terms and the Company will revert to Shareholders for a fresh mandate based on new guidelines and procedures for transactions with Interested Persons.

## 5 DISCLOSURE IN ANNUAL REPORT

**5.1** Disclosure has been made in Note 1 ("Interested Persons Transactions") of the Additional Information in the Company's Annual Report for the financial year ended 31 December 2006 of the aggregate value of transactions in excess of $100,000 conducted with Interested Persons pursuant to the Shareholders' Mandate during the financial year ended 31 December 2006 and disclosure shall be made in the Annual Reports for subsequent financial years that the Shareholders' Mandate continues in force. Disclosure will also be made for the financial periods which the Company is required to report on pursuant to the Listing Manual and within the time required for the announcement of such report.

## 6. AUDIT COMMITTEE'S STATEMENTS

**6.1** The Audit Committee had reviewed the terms of the Shareholders' Mandate and is satisfied that the review procedures for Interested Person Transactions, as well as the reviews to be made every half yearly by the Audit Committee (with internal audit assistance) in relation thereto, are sufficient and accordingly confirms that (i) the review procedures for determining the prices of the Interested Person Transactions have not changed since approval for the Mandate was last given; and (ii) the review procedures set out in paragraph 4.4 are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

**6.2** If, during the periodic reviews by the Audit Committee, the Audit Committee is of the view that the established guidelines and procedures are not sufficient to ensure that the Interested Person Transactions will be on the Group's normal commercial terms and will not be prejudicial to the interests of Shareholders, the Company will revert to Shareholders for a fresh mandate based on new guidelines and procedures for transactions with Interested Persons.

# Appendix 1

**RENEWAL OF SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS**

## 7. ABSTENTION FROM VOTING

**7.1** NPS and its associates will abstain from voting on Resolution 7 and will not accept nominations as proxy or otherwise for voting at this AGM in respect of Resolution 7.

**7.2** Mr Goh Hup Jin who holds directorship in NPS will abstain from voting and will not accept nomination as proxy or otherwise for voting at this AGM in respect of Resolution 7.

**7.3** Mr Wang Chyang who holds directorship and executive position in NPS will abstain from voting and will not accept nomination as proxy or otherwise for voting at this AGM in respect of Resolution 7.

## 8 DIRECTORS' RECOMMENDATION

**8.1** The Independent Directors, namely Dr Tan Eng Liang, Mr Roger Chan Kum Onn, Mr Goh Chee Whui and Mr Hee Theng Fong are of the opinion that the entry of the Interested Person Transactions between the Interested Persons (as described in paragraph 4.2 of this Appendix) in the ordinary course of business will be entered into to enhance the competitive edge of Sapphire Group and are in the best interests of the Company. For the reasons set out in paragraphs 2 and 3 of this Appendix, the Independent Directors recommend that Shareholders vote in favour of Resolution 7, being the Ordinary Resolution relating to the proposed modifications to, and renewal of the Shareholders' Mandate.

## 9 DIRECTORS' RESPONSIBILITY STATEMENT

**9.1** The Directors collectively and individually accept responsibility for the accuracy of the information given in this Appendix herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed herein are fair and accurate and that there are no material facts the omission of which would make any statement in this Appendix misleading.

## 10 ACTION TO BE TAKEN BY SHAREHOLDERS

**10.1** If a Shareholder is unable to attend the AGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached Proxy Form 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 at 1 Sophia Road #05-03 Peace Centre, Singapore 228149 not later than 10.00 a.m. on 18 April 2007. Completion and return of the Proxy Form by a Shareholder will not prevent him from attending and voting at the AGM if he so wishes.

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

**PROXY FORM**
(Please see notes overleaf before completing this Form)

**IMPORTANT**
1. For investors who have used their CPF monies to buy the Company's shares, this Report is forwarded to them at the request of the 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 timeframe specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the timeframe 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 | | | |

as my/our proxy/proxies to vote for me/us and on my/our behalf and, if necessary, to demand a poll, at the **21st Annual General Meeting** of the Company to be held at **123 Genting Lane #07-01, Yenom Industrial Building, Singapore 349574** on **Friday, 20 April 2007 at 10.00 a.m.** and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions to be proposed at the Meeting as indicated hereunder. In the absence of specific directions, the proxy/ proxies will vote or abstain as he/ they may think fit, as he/ they will on any other matter arising at the Meeting.)

| No. | Resolutions relating to | For | Against |
|---|---|---|---|
| 1 | Adoption of Reports and Accounts | | |
| 2 | Approval of Directors' Fees | | |
| 3 | (a) Re-election of Dr Tan Eng Liang as a Director | | |
| | (b) Re-election of Mr Goh Hup Jin as a Director | | |
| | (c) Re-election of Mr Foo Tee Heng as a Director | | |
| | (d) Re-election of Mr Mohd Iskandar Bin Mohd Isa as a Director | | |
| 4. | Re-appointment of Director, Mr Goh Kaw Kern @ Goh Kwang Chay | | |
| 5 | Re-appointment of Auditors | | |
| 6 | Authority to Issue Shares (General) | | |
| 7 | Renewal of Shareholders' Mandate for Interested Person Transactions | | |
| 8 | Other Business | | |

Dated this ______ day of __________________ 2007

| Total number of shares in: | No. of Shares |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

____________________________________
Signature(s) of Member(s)/Common Seal

**IMPORTANT: Please read notes overleaf**

**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 Singapore Companies Act, Chapter 50), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote instead of him.

3. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 1 Sophia Road #05-03, Peace Centre, Singapore 228149, not less than 48 hours before the time appointed for the Annual General Meeting.

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 either under its seal or under the hand of an officer or attorney duly authorised.

6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Singapore Companies Act, Chapter 50.

**GENERAL:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Sapphire Corporation limited
Registration number : 198502465W

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