



Media Release – Sapphire EGM

## **Singapore-listed Sapphire Raises Effective Stake in Steel Manufacturer to 51%, Marking A New Chapter With Steel and Vanadium Operations In PRC As New Core Business**

### **EGM follows completion last month of acquisition by Sichuan Shuntong Mining Company of S\$35 million worth of Convertible Bonds**

**Singapore, 8 June 2009** – Shareholders of **Sapphire Corporation Limited** (“**Sapphire**” or the “**Group**”) have approved a proposal to increase its effective stake to 51% in Neijiang Chuanwei Special Steel Co., Ltd 内江川威特殊钢有限公司 (“**Special Steel**”), a leading hot-rolled steel coil (“**HRC**”) producer based in Sichuan province, PRC.

The transaction will turn Singapore Exchange listed Sapphire into a steel manufacturer focusing on HRC and vanadium products in the PRC.

Shareholders approved Sapphire’s proposal to acquire a 56.85% in Lucky Art Holdings Limited (“**Lucky Art**”), a special purpose vehicle which holds 70%-stake in Special Steel. This transaction will give Sapphire an additional indirect equity interests of 39.8% stake in Special Steel. Together with Sapphire’s existing 11.2% indirect stake in Special Steel, this raises the combined interest of Sapphire in the latter to a controlling 51%.

It paves the way for Sapphire to pursue steel-and vanadium-related products which offer potentially higher margins. Special Steel has over ten years’ experience in steel manufacture and is one of Sichuan’s leading HRC producers.



Special Steel's HRC production line and slitting line have an annual production capacity of between 600,000 to 900,000 tonnes, depending on thickness. For FY2006 – FY2008, revenues were RMB1.53 billion, RMB2.16 billion, and RMB1.99 billion with corresponding NPAT of RMB69.93 million, RMB71.51 million and RMB50.51 million (despite the downturn of the HRC market in 2008 and onset of global financial crisis).

Following today's EGM approval, six vendors from Trisonic will account for a total equity stake of 28.72% in Sapphire as a result of the share swap of the enlarged share capital. The six are Messrs Wang Jin (王劲), Shi Yinjun (石银君), Yang Xianlu (杨先露), Wu Wendong (吴文东), Zhang Yuangui (张远贵) and Li Hesheng (李和胜).

The transaction involves the issue of 4.39 billion new Sapphire shares priced at 1.25 Singapore cents. It is based on 39.8% (S\$54.91 million) of the unaudited net tangible asset of Special Steel as at 30 June 2008 of RMB630.94 million.

The six will continue to provide their value added inputs towards the growth of Special Steel, given their extensive experience and domain knowledge in the PRC steel industry. Sapphire in return will provide financial management and Board stewardship in the running of Special Steel.

Commenting on the EGM, Sapphire's Chief Executive Officer, Mr. Teo Cheng Kwee, said, "With today's shareholders' approval, Sapphire will embark on a new chapter in the PRC steel business as its core business. We are extending our collaboration in the last two years with Trisonic to a significantly higher level."

"With the six vendors continuing to be involved in providing domain industry related technical input, Sapphire is assured of continuity of the business through experienced managers with deep knowledge of the PRC steel industry. Together we will chart a new future which will also see the Group venturing into higher-grade steel such as vanadium related products," Mr Teo added.



Special Steel has earmarked RMB296 million to build new vanadium pentoxide and ferro-vanadium production lines. Phase I of the vanadium pentoxide production line for 2,500 metric tonnes has been completed.

Commenting of the EGM approval, Trisonic said in a statement, "Our past collaboration with Sapphire has enabled us to establish mutual trust and we are building on this working relationship such that the six vendors can leverage on their experience in the PRC steel industry to assist Special Steel to become a leading manufacturer of vanadium products."

Today's EGM comes less than a month after Sapphire announced on 7 May, 2009 that Sichuan Shuntong Mine Industry Ltd ("Shuntong") of the PRC has completed its purchase of S\$35 million worth of Convertible Bonds issued by Sapphire from Credit Suisse (Singapore) Limited and Centar Investments (Asia) Ltd.

Shuntong on 13 May 2009 converted S\$30 million worth of the Bonds for 3.13 billion new Sapphire shares, amounting to 20.4% stake in the enlarged share capital base of Sapphire after also taking into account the 4.39 billion new shares to be issued in conjunction with today's EGM.

Shuntong said in a separate statement, "Through our investment in Sapphire, we have gained access to the Sichuan vanadium industry that enables us to gain exposure to the downstream segment of the steel industry."

"To this end, we also strongly believe that Shuntong and Sapphire will be able to jointly tap the international capital markets for future expansion." Shuntong added.

Shuntong has stakes in iron ore and coal operations and its emergence as a substantial shareholder in Sapphire opens up opportunities in natural resources



while opening up opportunities to jointly tap the international capital market for future expansion.

Taking into the account the conversion of S\$30 million of Convertible Bonds and the issue of new shares for the six vendors relating to Special Steel, Sapphire's enlarged share capital base will rise to 15.30 billion from 7.78 billion earlier.

# ENDS #

*This document is intended to be read in conjunction with the circular to shareholders dated 14 May 2009 which can be downloaded from SGX website.*

### **Media & Investor Relations Contacts:**

#### **WeR1 Consultants Pte Ltd**

29 Scotts Road

Tel: (65) 6737 4844 Fax: (65) 6737 4944

Mona Leong, Principal Consultant

Hp: (65) 8200 9339; [monaleong@wer1.net](mailto:monaleong@wer1.net)

Eric Wong, Senior Associate Consultant

Hp: (65) 9875 6283; [ericwong@wer1.net](mailto:ericwong@wer1.net)

#### **Sapphire Corporation Limited**

123 Genting Lane

Tel: (65) 6843 6802 Fax: (65) 6253 8585

Angeline Lim

Marketing Communications Manager

[angelinelim@sapphirecorp.com.sg](mailto:angelinelim@sapphirecorp.com.sg)

### **About Sapphire Corporation**

*Sapphire Corporation Limited (Sapphire) is principally engaged in the manufacture of steel and vanadium products, mainly hot rolled coil (HRC), vanadium pentoxide ( $V_2O_5$ ) & ferrovandium (FeV80) and trading of minerals as well as investments in mining operations.*

*Our steel making subsidiary, Neijiang Chuanwei Special Steel Co., Ltd is part of Trisonic International Limited, an integrated steel-making group that is one of the largest steel producers in Sichuan. Trisonic owns two iron ore mines, two steel plants and a coke plant which are all located in Sichuan province.*

*Our mineral trading arm supports the group's value chain in the procurement of raw materials from the global market as well as supplying to steel producers in the PRC.*



# Neijiang Chuanwei Special Steel Co., Ltd

## 内江川威特殊钢有限公司

### Business Overview

- Special Steel was established in 1998 to manufacture steel products
- Commenced manufacturing hot-rolled steel coils ('HRC') products in 2006
- Converted into a Sino-foreign equity joint venture in 2006; licensed to operate from 2006 - 2036
- Registered capital of RMB200mil
- Production plant located at Lianjie Town, Weiyuan County, Neijiang city, Sichuan Province, PRC
- Processes steel billets into mid-width HRC with thickness of 1.2mm-20mm & width of 430mm-862mm
- Product applications – steel pipes, automotive beams, carbon structural steel & freight containers
- Major end-customers are from Sichuan, Chongqing, Guangzhou, Shanghai, Tianjin, Baoji, & Wuhan

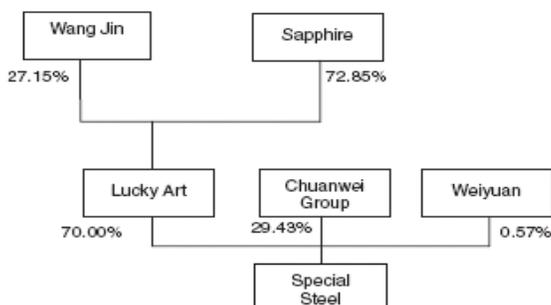
### Production Facilities

- 1 hot rolling production line and 1 slitting line with annual capacity of between 600,000 to 900,000 tonnes depending on thickness of HRC products
- Entire production process system uses Siemens AG German control systems technology
- Production utilisation: FY06 ~ FY08: 76%, 89%, 70%

### Key Competitive Strengths

- Established operating track record & reputation of more than 10 years in steel industry (6 years in HRC)
- Established market presence and market recognition of "Chuanwei" brand name
- HRC reputation: product quality & reliable delivery - "Golden Cup Award for Actual Quality of Metallurgical Product Quality Exempt from State Inspection"
- Strategic location: next to sister company, Weiyuan Steel Co – 15-year supply agreement for key raw material steel billets & vanadium slag; thus lower supply and lead time, transportation costs
- Wide product range – able to meet the needs of the construction, manufacturing and oil & gas industries
- High Barriers to Entry: significant capital investment required to establish plant & equipment for hot rolling production line & slitting line.

### Post-completion Shareholding Structure



### Future Plans

#### (a) Enhancement of HRC production line's furnace

- Invest RMB57 mil in 2010 to upgrade furnace
- Achieve greater consistency in heat distribution, to produce to more exacting specifications, thus increasing product range and production yield

#### (b) Development of new vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) production line

- Invest RMB202 mil to leverage on PRC's expected increase in V<sub>2</sub>O<sub>5</sub>; total 5,000 tonnes annual capacity
- Phase I has completed trial runs, commercial production and sales to commence in June 2009
- Phase II construction to begin in June 2009 and targeted for completion by December 2009

#### (c) Development of new ferro-vanadium (FeV80) production line

- A steel alloy additive used to enhance the strength and hardness of steel products; mainly in aerospace, automotive & aerospace industries
- Invest RMB94mil to establish FeV80 line with 3,000 tonnes annual capacity. Construction to start in 2Q 2011 & complete by end 2011; production from 1Q2012

Financial Highlights (RMB)	Audited FY06	Audited FY07	Unaudited FY08
Revenue	1.528 bil	2.163 bil	1.987 bil
Net PAT	69.92 mil	71.51 mil	50.51 mil
Cash flow (operating)	179.50 mil	213.60 mil	97.79 mil

### Trends & Prospects

#### (a) Demand for high-grade HRC products in PRC

- Applications in automobile and home appliances
- New business opportunity - steel production in south-western region mainly low-grade steel products; high-grade products largely imported from other regions

#### (b) Reconstruction for Sichuan earthquake in PRC

- Reconstruction expected to take 3 years; emphasis on earthquake -resistant structures

#### (c) Use of HRC in oil and gas ("O&G") pipelines

- PRC government announced plans in Oct 2008 for 150,000kms of O&G pipelines in next 12 years; also considering a crude O&G pipeline from Russia

#### (d) Increasing use of Vanadium Pentoxide in PRC for steel production

- To increase tensile strength, heat durability & pliability, e.g., automobiles & construction industries

#### (e) Implementation of PRC's stimulus package

- PRC government's economic stimulus package estimated to be RMB4 trillion by end 2010