

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS

FOR THE SECOND QUARTER AND SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 2014

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Second quarter ended		Financial period ended	
	Unaudited		Unaudited	
	Current Period 30-Jun-14 RM'000	Preceding Period 30-Jun-13 RM'000	Current Period 30-Jun-14 RM'000	Preceding Period 30-Jun-13 RM'000
Revenue	261,380	302,108	581,893	636,270
Cost of sales	(255,874)	(310,061)	(570,850)	(634,744)
Gross profit/(loss)	5,506	(7,953)	11,043	1,526
Other income	149	122	329	217
Operating expenses	(3,027)	(3,178)	(8,136)	(9,409)
Finance cost (Lease payable interest)	(8)	(8)	(17)	(16)
	(2,886)	(3,064)	(7,824)	(9,208)
Profit/(Loss) before tax	2,620	(11,017)	3,219	(7,682)
Taxation	-	-	-	-
Profit/(Loss) for the period	2,620	(11,017)	3,219	(7,682)
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising from translation of foreign operations	(8,220)	18,511	(18,655)	29,717
Total comprehensive (expense)/income for the period	(5,600)	7,494	(15,436)	22,035
Profit/(Loss) attributable to equity holders of the Company	2,620	(11,017)	3,219	(7,682)
Total comprehensive (expense)/income attributable to equity holders of the Company	(5,600)	7,494	(15,436)	22,035
Profit/(Loss) per share (sen)				
- basic (sen)	0.23	(0.98)	0.29	(0.68)
- fully diluted (sen)	n/a	n/a	n/a	n/a

The above Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2013.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Jun-14 RM'000	Audited as at 31-Dec-13 RM'000
Non Current Assets		
Land lease payment - long-term	27,957	29,333
Property, plant and equipment	341,728	364,937
Goodwill	107,727	107,819
	477,412	502,089
Current Assets		
Land lease payment - short-term	911	941
Inventories	56,183	104,917
Trade receivables	41,985	62,155
Other receivables, deposits and prepayments	25,613	16,849
Amount due from related parties	97,368	34,951
Tax recoverable	13,875	15,137
Bank balances and cash	38,774	32,198
	274,709	267,148
Total Assets	752,121	769,237
Shareholders' Fund		
Share capital	561,154	561,154
Reserves	119,914	135,350
	681,068	696,504
Current Liabilities		
Trade payables	57,323	53,749
Other payables and accrued expenses	8,502	18,701
Amount due to related parties	5,118	-
Lease payable	110	283
	71,053	72,733
Total Equity and Liabilities	752,121	769,237
Net assets per share (RM)	0.61	0.62

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2013.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	←----- Non-distributable reserves ----->					Distributable reserve	Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory common reserves RM'000	Reverse acquisition reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	
<u>6 months ended 30 June 2013</u>							
Balance as of January 1, 2013	561,154	553,891	49,358	(799,823)	48,361	207,946	620,887
Loss for the period	-	-	-	-	-	(7,682)	(7,682)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	29,717	-	29,717
Balance as of June 30, 2013	561,154	553,891	49,358	(799,823)	78,078	200,264	642,922
<u>6 months ended 30 June 2014</u>							
Balance as of January 1, 2014	561,154	553,891	49,358	(799,823)	108,634	223,290	696,504
Profit for the period	-	-	-	-	-	3,219	3,219
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(18,655)	-	(18,655)
Balance as of June 30, 2014	561,154	553,891	49,358	(799,823)	89,979	226,509	681,068

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2013.

SINO HUA-AN INTERNATIONAL BERHAD

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER AND SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 2014 - THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended	For the financial period ended
	30-Jun-14	30-Jun-13
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the period	3,219	(7,682)
Adjustments for:		
Depreciation of property, plant and equipment	20,951	19,785
Amortisation of lease payments	464	430
Finance costs	17	16
Interest income	(99)	(78)
Asset written off	(21)	-
Operating profit before working capital changes	24,531	12,471
(Increase) / Decrease in:		
Inventories	48,734	(9,713)
Trade receivables	20,171	10,527
Other receivables, deposits and prepayments	(14,516)	16,622
Amount due by related parties	(62,419)	(39,713)
Increase / (Decrease) in:		
Trade payables	3,574	27,360
Other payables and accrued expenses	(8,937)	(2,308)
Amount due to related company	5,118	(289)
Cash generated from operations	16,256	14,957
Tax paid	-	-
Net cash generated from operating activities	16,256	14,957
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(8,837)	(3,674)
Interest received	99	78
Net cash used in investing activities	(8,738)	(3,596)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of lease payables	(191)	(145)
Net cash used in financing activity	(191)	(145)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,327	11,216
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE FINANCIAL PERIOD	32,198	16,467
Effect of changes in exchange rates	(751)	553
CASH AND CASH EQUIVALENTS		
AT END OF THE FINANCIAL PERIOD	38,774	28,236

The above Condensed Consolidated Statement of Cash Flow should be read in conjunction with the the Audited Financial Statements for the financial year ended 31 December 2013.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

A. EXPLANATORY NOTES PURSUANT TO MFRS 134 - INTERIM FINANCIAL REPORTING

A1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and Chapter 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“BMSB”).

The interim financial report should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2013. These explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the financial year ended 31 December 2013.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2013, except for the adoption of the following Malaysian Financial Reporting Standards (“MFRSs”), Issues Committee (“IC”) Interpretations and amendments to MFRS for financial periods beginning on or after 1 January 2014:-

Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Impairment of assets
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to MFRS 10, 12 and 127	Investment entities
IC Interpretation 21	Levies

The adoption of the above pronouncements does not have any material impact on the financial statements of the Group.

As at the date of authorisation of the interim financial report, the following new MFRSs, revised MFRSs, IC Interpretations, amendments to MFRSs and IC Interpretations were issued but not yet effective and have not been adopted by the Group:-

		<u>Effective dates for financial periods beginning on or after</u>
MFRS 9	Financial Instruments	To be announced by Malaysian Accounting Standards Board (“MASB”)
Amendments to MFRS119	Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010 - 2012 Cycle		1 July 2014
Annual Improvements to MFRSs 2011 - 2013 Cycle		1 July 2014

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

		<u>Effective dates for financial periods beginning on or after</u>
MFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendment to MFRS 116 and MFRS 138	Clarification on Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendment to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have a material impact to the financial statements of the Group upon their initial recognition other than the adoption of MFRS 9 *Financial Instruments*. The Group will assess the financial implications of MFRS 9 *Financial Instruments* when the full standard is issued.

A2. Audit report

The auditors' report on the audited financial statements for the year ended 31 December 2013 was not qualified.

A3. Seasonal or cyclical factors

The operations of the Group generally move in tandem with the performance of the steel industry and the overall economic landscape.

A4. Unusual items

During the quarter under review, there were no items or events that arose, which affected assets, liabilities, equity, net income or cash flows, that are unusual by reason of their nature, size or incidence.

A5. Changes in estimates

There were no changes in the estimates of amounts reported that have a material effect on the results in the quarter under review.

A6. Issuance, cancellations, repurchases, resale and repayments of debts and equity securities

There were no other issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the quarter under review.

A7. Dividends paid

There was no dividend paid during the quarter under review.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

A8. Segmental information

Segment results by business activities

	Second quarter ended		Financial period ended	
	30 June 2014		30 June 2014	
	External Revenue	Profit/(loss) before tax	External Revenue	Profit/(loss) before tax
	RM'000	RM'000	RM'000	RM'000
Manufacturing	261,380	3,257	581,893	4,269
Investment Holdings	-	(637)	-	(1,050)
	<u>261,380</u>	<u>2,620</u>	<u>581,893</u>	<u>3,219</u>

	Second quarter ended		Financial period ended	
	30 June 2013		30 June 2013	
	External Revenue	Loss before tax	External Revenue	Loss before tax
	RM'000	RM'000	RM'000	RM'000
Manufacturing	302,108	(10,463)	636,270	(6,684)
Investment Holdings	-	(554)	-	(998)
	<u>302,108</u>	<u>(11,017)</u>	<u>636,270</u>	<u>(7,682)</u>

A9. Valuation of Property, Plant and Equipment

The property, plant and equipment of the Group have not been revalued during the quarter under review.

A10. Material Events Subsequent to the end of the Reporting Period

There were no material events subsequent to the end of the quarter under review.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year to-date.

A12. Changes in contingent liabilities or contingent assets

There were no changes in the contingent liabilities or contingent assets of the Group during the quarter under review.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

A13. Related party transactions

	Second quarter ended 30 Jun 2014 RM'000	Financial period ended 30 Jun 2014 RM'000
Sales of goods to related parties		
Linyi Jiangxin Steel Co., Ltd.	114,742	210,131
Shandong Jiangquan Industrial Co., Ltd Thermoelectricity	16,439	38,527
Shandong Jiangquan Industrial Co., Ltd. - Jiangxin Construction Use Ceramic Factory	3,447	5,918
Electricity expense paid/payable		
Shandong Huasheng Jiangquan Thermoelectricity Co., Ltd.	9,247	21,581
Storage expense paid/payable		
Shandong Jiangquan Industrial Co., Ltd. Railroad	541	1,091

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

The consolidated revenue of the Group for the current quarter under review was lower by approximately 13% to RM261.4 million compared to RM302.1 million in the preceding year corresponding quarter. Such reduction in revenue during the current quarter under review was due to lower average selling price of the metallurgical coke notwithstanding a relatively higher sale volume. The average selling price of metallurgical coke has declined by approximately 25% to RMB1,032 during this current quarter from RMB1,373 in the preceding year corresponding quarter. In contrast, the sales volume was higher by approximately 4% in the second quarter of 2014 compared to previous year corresponding quarter which in itself was insufficient to negate the effects of the abovementioned decline in the selling price. In addition, the overall contribution from the by-products also saw a reduction of approximately 8% during the current quarter compared to that of the preceding quarter. This was primarily attributed to the fall in the prices of crude benzene, ammonium sulphate, tar oil and coal gas of 2%, 41%, 3% and 11% respectively.

In tandem with the decline in prices of metallurgical coke, the Group recorded a reduction in its cost of sales in the current quarter under review. The average coking coal price saw a reduction of approximately 25% to RMB792 in the current quarter compared to RMB1,050 recorded in the same quarter last year. Such reduction in cost of sales was partly negated by higher sales volume during the quarter under review. The cost of sales recorded in the second quarter of 2014 was approximately RM255.9 million compared to RM310.1 million in the preceding year corresponding quarter, representing a reduction of approximately 17%.

As a result of the extent of the coke-coal pricing movement dynamics as mentioned above, the Group was able to report a higher gross profit of approximately RM5.5 million during the quarter under review compared to a gross loss of approximately RM8.0 million in the preceding year corresponding quarter. After accounting for other income, operational expenses and finance costs, the Group recorded a net profit before tax of approximately RM2.6 million in the current quarter under review compared to a net loss of approximately RM11.0 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

The Group's consolidated revenue of approximately RM261.4 million registered during the current quarter under review represents a reduction of approximately 18% from RM320.5 million recorded in the immediate preceding quarter ended 31 March 2014. This reduction in revenue was primarily attributed to an approximately 16% drop in the average price of metallurgical coke as well as lower sales volume of approximately 3% during the current quarter under review compared to that of the immediate preceding quarter. On top of that, there was an approximately 8% reduction in the contribution from the by-products during the current quarter as compared to that of the immediate preceding quarter.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

The cost of sales in the current quarter under review was therefore also lower by approximately 19% to RM255.9 million compared to the immediate preceding quarter ended 31 March 2014 of RM315.0 million. This was mainly due to lower average coking coal price by approximately 11% as well as the reduction in sales volume during the current quarter under review compared to those recorded in the immediate preceding quarter.

Given the decrease in the Group's revenue and cost of sales over the two periods in question of an almost proportionate degree, the Group turned in a gross profit of approximately RM5.5 million in both the said periods. However, in the current second quarter under review, a relatively lower operating expenses resulted in the Group reporting a higher profit for the period of approximately RM2.6 million compared to merely RM0.6 million recorded in the previous quarter ended 31 March 2014.

B3. Current year prospects

China's economy grew at 7.5% in the second quarter of 2014 which was slightly higher than its first quarter's growth of 7.4%. China's export and factory output also rebounded and rose since the beginning of second quarter in 2014. This is believed to be the positive impact stemming from the various "targeted measures" implemented by the China government which was announced in April, which amongst others included tax cuts for small firms, speeding up investments in railways, continued infrastructural developments in rural areas and reducing the reserve requirement ratio for banks.

The concerted engagement of these "targeted measures" to lift China's flagging economic growth by the government is a testimony that it is aware of the importance of maintaining a certain level of economic growth moving forward and that the economy cannot be allowed to vitiate despite its fervor in instituting the necessary structural and economic reforms. This is seen as a boon to the overall domestic China economy and is indeed a telling sign of the direction in which the steel and metallurgical coke industries are heading in the near future.

Barring any unforeseen circumstances and/or major turn of events, the Group is cautiously optimistic that gradual recovery in the economy will bring about positive impact to the financial performance of the Group in the coming financial years.

B4. Variation on Forecast Profit / Profit Guarantee

The Group did not issue any profit forecast nor profit guarantee during the current financial period to date.

B5. Taxation

No taxation was provided during the quarter under review.

B6. Corporate proposals

There were no corporate proposals during the quarter under review.

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(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

B7. Lease Payable

The Group's lease payable as at end of the reporting period are as follows:

	As at 30 Jun 2014 RM'000	As at 30 Jun 2013 RM'000
Secured lease payable		
- Short term	110	322
- Long term	-	107
Total lease payable	<u>110</u>	<u>429</u>

Lease payable is denominated in RMB.

B8. Material litigation

As at the date of this report, the Group is not engaged in any material litigation which in the opinion of the Board of Directors will have a material effect on the financial position or the business of the Group.

B9. Dividends

No dividend had been declared in respect of the current quarter under review.

B10. Earnings per share

	Second quarter ended		Financial period ended	
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
Basic profit per share				
Profit/(Loss) for the period attributable to equity holders (RM'000)	2,620	(11,017)	3,219	(7,682)
Number / Weighted average number of shares in issue ('000)	1,122,308	1,122,308	1,122,308	1,122,308
Basic profit/(loss) per share (sen)	<u>0.23</u>	<u>(0.98)</u>	<u>0.29</u>	<u>(0.68)</u>

There are no diluted earnings per share as the Company does not have any share option in issue at the current quarter under review.

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(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 JUNE 2014

B11. Realised and Unrealised Profits/Losses Disclosure

	As at 30 Jun 2014 RM'000	As at 30 Jun 2013 RM'000
Retained profit of the Group and its subsidiaries		
- Realised	226,509	200,264
- Unrealised	(14,477)	(18,116)
	<u>212,032</u>	<u>182,148</u>
Less: Consolidation adjustment	14,477	18,116
Total retained earnings as per consolidated accounts	<u><u>226,509</u></u>	<u><u>200,264</u></u>

The disclosure of realised and unrealised profits/losses above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.

B12. Profit/(Loss) before tax

Profit/(Loss) before tax is derived after charging/(crediting):

	Second quarter ended		Financial period ended	
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
Interest income	(54)	(45)	(99)	(78)
Other income	(95)	(77)	(230)	(138)
Depreciation of property, plant and equipment	10,293	9,938	20,951	19,785
Amortisation of lease payments	229	216	464	430
Finance cost	<u>8</u>	<u>8</u>	<u>17</u>	<u>16</u>

By Order of the Board
Chua Siew Chuan
Secretary

27 August 2014