

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

- 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-16 RM'000	Preceding Period 30-Jun-15 RM'000	Current Period 30-Jun-16 RM'000	Preceding Period 30-Jun-15 RM'000
Revenue	-	3,570	41,874	158,318
Cost of sales	-	(3,736)	(56,215)	(165,406)
Gross loss	-	(166)	(14,341)	(7,088)
Other income	3,245	228	5,311	1,868
Operating expenses	(12,861)	(20,672)	(14,219)	(26,599)
	(9,616)	(20,444)	(8,908)	(24,731)
Loss before tax	(9,616)	(20,610)	(23,249)	(31,819)
Taxation	-	-	-	-
Loss for the period	(9,616)	(20,610)	(23,249)	(31,819)
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising from translation of foreign operations	(2,956)	12,740	(48,573)	52,839
Total comprehensive (expense)/income for the period	(12,572)	(7,870)	(71,822)	21,020
Loss attributable to equity holders of the Company	(9,616)	(20,610)	(23,249)	(31,819)
Total comprehensive (expense)/income attributable to equity holders of the Company	(12,572)	(7,870)	(71,822)	21,020
Loss per share (sen)				
- basic (sen)	(0.86)	(1.84)	(2.07)	(2.84)
- 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 2015.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Jun-16 RM'000	Audited as at 31-Dec-15 RM'000
Non Current Assets		
Land lease payment	31,233	34,925
Property, plant and equipment	349,630	405,287
	380,863	440,212
Current Assets		
Inventories	16,571	42,722
Trade receivables	16,331	22,818
Other receivables, deposits and prepayments	12,867	20,116
Amount due from related parties	96,899	72,258
Tax recoverable	18,661	20,520
Bank balances and cash	7,381	27,830
	168,710	206,264
Total Assets	549,573	646,476
Shareholders' Fund		
Share capital	561,154	561,154
Reserves	(87,350)	(15,528)
	473,804	545,626
Current Liabilities		
Trade payables	49,574	62,732
Other payables and accrued expenses	26,195	34,193
Amount due to related parties	-	3,925
	75,769	100,850
Total Equity and Liabilities	549,573	646,476
Net assets per share (RM)	0.42	0.49

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 2015.

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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 2015</u>							
Balance as of January 1, 2015	561,154	553,891	49,358	(799,823)	142,549	225,288	732,417
Loss for the period	-	-	-	-	-	(31,819)	(31,819)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	52,839	-	52,839
Balance as of June 30, 2015	561,154	553,891	49,358	(799,823)	195,388	193,469	753,437
<u>6 months ended 30 June 2016</u>							
Balance as of January 1, 2016	561,154	553,891	49,358	(799,823)	235,007	(53,961)	545,626
Loss for the period	-	-	-	-	-	(23,249)	(23,249)
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(48,573)	-	(48,573)
Balance as of June 30, 2016	561,154	553,891	49,358	(799,823)	186,434	(77,210)	473,804

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 2015.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended	
	30-Jun-16	30-Jun-15
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(23,249)	(31,819)
Adjustments for:		
Depreciation of property, plant and equipment	22,563	22,631
Amortisation of lease payments	545	523
Interest income	(54)	(93)
Asset written off	29	815
Operating loss before working capital changes	(166)	(7,943)
(Increase) / Decrease in:		
Inventories	26,150	14,663
Trade receivables	6,486	(9,195)
Other receivables, deposits and prepayments	7,249	24,990
Amount due by related parties	(24,641)	29,728
Increase / (Decrease) in:		
Trade payables	(13,158)	4,317
Other payables and accrued expenses	(6,138)	(17,369)
Amount due to related company	(3,925)	3,287
Cash (used in)/generated from operations	(8,143)	42,478
Tax paid	-	-
Net cash (used in)/generated from operating activities	(8,143)	42,478
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(4,091)	(20,275)
Interest received	54	93
Net cash used in investing activities	(4,037)	(20,182)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of lease payables	-	-
Net cash used in financing activity	-	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(12,180)	22,296
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE FINANCIAL PERIOD	27,830	26,313
Effect of changes in exchange rates	(8,269)	2,030
CASH AND CASH EQUIVALENTS		
AT END OF THE FINANCIAL PERIOD	7,381	50,639

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the the Audited Financial Statements for the financial year ended 31 December 2015.

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Notes to the quarterly report – 30 JUNE 2016

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 Group for the year ended 31 December 2015. 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 Group since the financial year ended 31 December 2015.

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 2015, except for the adoption of the following Malaysian Financial Reporting Standards (“MFRSs”) and amendments to MFRS for financial periods beginning on or after 1 January 2016:-

MFRS 14	Regulatory Deferred Accounts
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment entities: Applying the Consolidation Exception
Amendment to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS101	Disclosure initiative
Amendment to MFRS 116 and MFRS 138	Clarification on Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants
Amendments to MFRS127	Equity Method in Separate Financial Statements
Annual Improvements to MFRSs 2012 - 2014 Cycle	

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, 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>
Amendments to MFRS 107	Disclosure Initiative	1 January 2017
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
MFRS 9	Financial Instruments	1 January 2018

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		<u>Effective dates for financial periods beginning on or after</u>
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date yet to be determined by the Malaysian Accounting Standards Board

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* and MFRS 15 *Revenue from Contracts with Customers*. The Group is currently assessing the impact of these standards and plans to adopt these standards on the respective effective dates.

A2. Audit report

The auditors' report on the audited financial statements for the year ended 31 December 2015 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.

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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.

A8. Segmental information

Segment results by business activities

	Second quarter ended 30 June 2016		Financial period ended 30 June 2016	
	External Revenue RM'000	Loss before tax RM'000	External Revenue RM'000	Loss before tax RM'000
Manufacturing	-	(9,069)	41,874	(22,283)
Investment Holdings	-	(547)	-	(966)
	<u>-</u>	<u>(9,616)</u>	<u>41,874</u>	<u>(23,249)</u>

	Second quarter ended 30 June 2015		Financial period ended 30 June 2015	
	External Revenue RM'000	Profit/(loss) before tax RM'000	External Revenue RM'000	Profit/(loss) before tax RM'000
Manufacturing	3,570	(20,023)	158,318	(30,816)
Investment Holdings	-	(587)	-	(1,003)
	<u>3,570</u>	<u>(20,610)</u>	<u>158,318</u>	<u>(31,819)</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

The application of the waiver to comply with Bursa Listing Requirement Paragraph 8.03(A) was rejected during the quarter under review. The Group is now classified as a Paragraph 8.03(A) Company.

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.

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Notes to the quarterly report – 30 JUNE 2016

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.

A13. Related party transactions

	Second quarter ended 30 Jun 2016 RM'000	Financial period ended 30 Jun 2016 RM'000
Sales of goods to related parties		
Linyi Jiangxin Steel Co., Ltd.	-	9,547
Electricity expense paid/payable		
Shandong Huasheng Jiangquan Thermoelectricity Co., Ltd.	-	1,664

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

Revenue was nil for the current quarter under review as the Group's coking ovens, in particular ovens #1, #2 and #3 (with a total production capacity of 900,000 tonnes) were leased out to a third party in February 2016, whilst the remaining ovens #4 and #5 (with a total production capacity of another 900,000 tonnes) were still deliberately kept inactive due to the continued unfavourable market environment besetting the industry at the prevailing juncture. Such strategic moves taken by the management serves to provide an alternative avenue for the Group to mitigate the extent of the anticipated losses arising from the prolonged unfavourable market conditions which will immensely impact the financial position of the Group. Notwithstanding the fact that the leasing arrangement will span over a one year tenure, the Group's remaining 900,000 production capacity (which were not subjected to the said lease) are all primed and ready to be fired-up and restart commercial operations once the timing and situation warrants it.

The lease rental income received from the abovementioned leasing arrangement has been captured under Other Income for the current quarter under review. Operating expenses were significantly lower compared to the same quarter last year as the leasing arrangement enabled the Group to cede all major relevant production and operating costs attributed to the operations of ovens #1, #2 and #3 to the lessee. The operating expenses of approximately RM12.9 million incurred by the Group during the current quarter under review refers primarily to the assets depreciation which accounted for about 81% of the said amount whilst the remaining of 19% was attributed to the amortisation of lease payment, back office staff salary, office administrative expenses, etc.

As a result thereof, the Group recorded a much lower net loss before tax of RM9.6 million in the current quarter under review compared to that of approximately RM20.6 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

As mentioned above, there was no revenue recorded for the current quarter under review due to the commencement of strategic move by the Group to lease out three of its coke ovens for a period of one year commencing 1 February 2016. The Group's consolidated revenue of approximately RM41.9 million recorded in the immediate preceding quarter ended 31 March 2016 was attributed to the coke operations in January generated prior to the said leasing arrangement.

Whilst there were no gross profit or loss during the quarter under review as a consequence of the lease, the immediate preceding quarter ended 31 March 2016 saw the Group registering a cost of sales of approximately RM56.2 million and an ensuing gross loss of approximately RM14.3 million, all of which were generated by the operations in the month of January prior to the advent of the said lease.

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After taking into consideration of the other income and operating expenses, the Group recorded a net loss for the period of RM9.6 million for the current quarter compared to that of approximately RM13.6 million in the immediate preceding quarter ended 31 March 2016.

Premised on the foregoing, the loss mitigation evidences (as depicted in the comparison of financial results of the current quarter and those registered in the immediate preceding quarter as well as the same quarter last year), provides circumstantial validation of the Group's strategic move to enter into the leasing arrangement, particularly during the prevailing volatile and challenging periods besieging the steel and coke industry.

B3. Current year prospects

China economy grew at 6.7% in both first and second quarter of 2016 and that represents the slowest pace in 19 years since the global financial crisis. In addition, private investment growth also shrank to a record low which would suggest future weakness that the government must start to accelerate more support measures to ensure no hard landing in the China's economy, a dire situation that the government is trying to avert.

In recent months however, property investment has somewhat provided an impetuous nudge to the China economy. This had apparently created an increase in the demand for steel and thus appeared to provide a positive sentiment to the industry. However, it is unfortunate that such short term hike in the property investment did not sustain and had started to show signs of slowing down yet again in June. Notwithstanding the above as well as prospective headwinds which are brewing in the foreign front, the China government still possess the financial arsenal within its system to initiate or enhance further any monetary and/or fiscal economic policies it deems necessary to prevent its economy from spiraling downwards uncontrollably whilst its economic and financial structural reform are still in progress. Economists believe that the China GDP growth is likely to slow down in third quarter but may rebound in fourth quarter driven by cogent infrastructure projects and post-flood reconstruction activity.

Given the seemingly still volatile economy and lack of visibility on when the steel and coke industry will turn the corner, it is perceivably fortunate for the Group to have no external borrowings. Additionally, the Group has also taken proactive steps to mitigate the anticipated losses moving forward for the benefit of the shareholders, which among others include the leasing out of some of the Group's coke ovens to generate a fixed stream of income and also to deliberately defer the operationalization of the remaining production capacity during such periods of uncertainties.

Barring any unforeseen circumstances, the Board is optimistic that the Group will be able to get through such tough and challenging time ahead.

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.

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B5. Taxation

No taxation was provided during the quarter under review.

A reconciliation of income tax expense applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

	Second quarter ended		Financial period ended	
	30 Jun 2016	30 Jun 2015	30 Jun 2016	30 Jun 2015
	RM'000	RM'000	RM'000	RM'000
Loss before taxation	<u>(9,616)</u>	<u>(20,610)</u>	<u>(23,249)</u>	<u>(31,819)</u>
Taxation at statutory tax rate of 24% (2015: 25%)	(2,308)	(5,153)	(5,580)	(7,955)
Different tax rates in other countries	(91)	-	(223)	-
Expenses not deductible for tax purposes	133	148	236	254
Income not subject to tax	(2)	(1)	(4)	(3)
Changes in unrecognized deferred tax asset	<u>2,268</u>	<u>5,006</u>	<u>5,571</u>	<u>7,704</u>
Tax expense for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

B6. Corporate proposals

There were no corporate proposals during the quarter under review.

B7. Lease Payable

The Group has no lease payable as at end of the reporting period.

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 dividends had been declared in respect of the current quarter under review.

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B10. Loss per share

	Second quarter ended		Financial period ended	
	30 Jun 2016	30 Jun 2015	30 Jun 2016	30 Jun 2015
Basic loss per share				
Loss for the period attributable to equity holders (RM'000)	(9,616)	(20,610)	(23,249)	(31,819)
Number / Weighted average number of shares in issue ('000)	1,122,308	1,122,308	1,122,308	1,122,308
Basic loss per share (sen)	<u>(0.86)</u>	<u>(1.84)</u>	<u>(2.07)</u>	<u>(2.84)</u>

There are no diluted loss per share as the Company does not have any dilutive potential ordinary shares as at the end of the reporting period.

B11. Realised and Unrealised Profits/Losses Disclosure

	As at 30 Jun 2016 RM'000	As at 30 Jun 2015 RM'000
(Accumulated Losses)/Retained profit of the Group and its Subsidiaries		
- Realised	(77,210)	193,469
- Unrealised	<u>39,228</u>	<u>23,340</u>
	(37,982)	216,809
Less: Consolidation adjustment	<u>(39,228)</u>	<u>(23,340)</u>
Total (accumulated losses)/retained earnings as per consolidated accounts	<u><u>(77,210)</u></u>	<u><u>193,469</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.

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B12. Loss before tax

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

	Second quarter ended		Financial period ended	
	30 Jun 2016	30 Jun 2015	30 Jun 2016	30 Jun 2015
	RM'000	RM'000	RM'000	RM'000
Interest income	(24)	(55)	(54)	(93)
Other income	(3,223)	(173)	(5,259)	(1,775)
Depreciation of property, plant and equipment	10,433	12,135	22,563	22,631
Amortisation of lease payments	265	266	545	523
Fixed assets written off	-	555	29	815

By Order of the Board
Chua Siew Chuan
Secretary

24 August 2016