

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

- 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-17 RM'000	Preceding Period 30-Jun-16 RM'000	Current Period 30-Jun-17 RM'000	Preceding Period 30-Jun-16 RM'000
Revenue	259,017	-	345,715	41,874
Cost of sales	(232,958)	-	(316,801)	(56,215)
Gross profit/(loss)	26,059	-	28,914	(14,341)
Other income	41	3,245	1,833	5,311
Operating expenses	(4,115)	(12,861)	(9,774)	(14,219)
	(4,074)	(9,616)	(7,941)	(8,908)
Profit/(Loss) before tax	21,985	(9,616)	20,973	(23,249)
Taxation	-	-	-	-
Profit/(Loss) for the period	21,985	(9,616)	20,973	(23,249)
Other comprehensive expense: Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising from translation of foreign operations	(3,880)	(2,956)	(5,521)	(48,573)
Total comprehensive income/(expense) for the period	18,105	(12,572)	15,452	(71,822)
Profit/(Loss) attributable to equity holders of the Company	21,985	(9,616)	20,973	(23,249)
Total comprehensive income/(expense) attributable to equity holders of the Company	18,105	(12,572)	15,452	(71,822)
Profit/(Loss) per share (sen)				
- basic (sen)	1.96	(0.86)	1.87	(2.07)
- 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 2016.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS

FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Jun-17 RM'000	Audited as at 31-Dec-16 RM'000
Non Current Assets		
Land lease payment	31,701	32,878
Property, plant and equipment	188,629	194,735
	220,330	227,613
Current Assets		
Inventories	63,659	17,181
Trade receivables	54,322	6,085
Other receivables, deposits and prepayments	20,663	8,235
Amount due from related parties	18,718	59,538
Tax recoverable	-	19,981
Bank balances and cash	16,068	21,254
	173,430	132,274
Total Assets	393,760	359,887
Shareholders' Fund		
Share capital	1,115,045	561,154
Reserves	(804,686)	(266,247)
	310,359	294,907
Current Liabilities		
Trade payables	50,736	35,842
Other payables and accrued expenses	32,665	29,138
	83,401	64,980
Total Equity and Liabilities	393,760	359,887
Net assets per share (RM)	0.28	0.26

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 2016.

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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 reserve funds RM'000	Reverse acquisition reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	
<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 income							
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
<u>6 months ended 30 June 2017</u>							
Balance as of January 1, 2017	561,154	553,891	49,358	(799,823)	211,747	(281,420)	294,907
Adjustments for effects of Companies Act 2016 *	553,891	(553,891)	-	-	-	-	-
Profit for the period	-	-	-	-	-	20,973	20,973
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(5,521)	-	(5,521)
Balance as of June 30, 2017	1,115,045	-	49,358	(799,823)	206,226	(260,447)	310,359

* With the Companies Act 2016 ("New Act") coming into effect on 31 January 2017, the credit standing in the share premium account of RM553,891 has been transferred to the share capital account. Pursuant to subsection 618(3) and 618 (4) of the New Act, the Group may exercise its rights to use the credit amount being transferred from share premium within 24 months after the commencement of the New Act. The Board of Directors will make a decision thereon by 31 January 2019.

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 2016.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended	
	30-Jun-17	30-Jun-16
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the period	20,973	(23,249)
Adjustments for:		
Depreciation of property, plant and equipment	10,778	22,563
Amortisation of lease payments	551	545
Interest income	(44)	(54)
Asset written off	1	29
Operating profit/(loss) before working capital changes	32,259	(166)
(Increase) / Decrease in:		
Inventories	(46,480)	26,150
Trade receivables	(48,237)	6,486
Other receivables, deposits and prepayments	(12,428)	7,249
Amount due by related parties	40,820	(24,641)
Increase / (Decrease) in:		
Trade payables	14,894	(13,158)
Other payables and accrued expenses	23,508	(6,138)
Amount due to related company	0	(3,925)
Cash generated/(used) in operations	4,336	(8,143)
Tax paid	-	-
Net cash generated/(used) in operating activities	4,336	(8,143)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(8,384)	(4,091)
Interest received	44	54
Net cash used in investing activities	(8,340)	(4,037)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of lease payables	-	-
Net cash used in financing activity	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,004)	(12,180)
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE FINANCIAL PERIOD	21,254	27,830
Effect of changes in exchange rates	(1,182)	(8,269)
CASH AND CASH EQUIVALENTS		
AT END OF THE FINANCIAL PERIOD	16,068	7,381

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 2016.

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Notes to the quarterly report – 30 June 2017

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 2016. 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 2016.

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 2016, 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 2017:-

Amendments to MFRS 12	Disclosure of Interest in Other Entities (Annual Improvements 2014-2016 Cycle)
Amendments to MFRS 107	Disclosure Initiative
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses

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:-

		Effective dates for financial periods beginning on or after
Amendments to MFRS 1	First-time Adoption of Financial Malaysian Financial reporting Standards	1 January 2018
Amendments to MFRS 2	Classification and Measurement of Share-Based Payment Transactions	1 January 2018
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contract	1 January 2018

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		Effective dates for financial periods beginning on or after
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRS 2014-2016)	1 January 2018
Amendments to MFRS 140	Transfers of Investment Property	1 January 2018
IC Interpretations 22	Foreign Currency Transactions and Advance Consideration	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 2016 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		Financial period ended	
	30 June 2017		30 June 2017	
	External Revenue	Profit/(loss) before tax	External Revenue	Profit/(loss) before tax
	RM'000	RM'000	RM'000	RM'000
Manufacturing	259,017	22,515	345,715	21,933
Investment Holdings	-	(530)	-	(960)
	<u>259,017</u>	<u>21,985</u>	<u>345,715</u>	<u>20,973</u>

	Second quarter ended		Financial period ended	
	30 June 2016		30 June 2016	
	External Revenue	Loss before tax	External Revenue	Loss before tax
	RM'000	RM'000	RM'000	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>

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.

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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

There was no related party transactions during the quarter under review.

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

With the resumption of coke manufacturing operations from February 2017 onwards following the expiry of the leasing tenure, the Group recorded a consolidated revenue of RM259.0 million for the current quarter under review. As the lease period was from February 2016 to January 2017, there was no revenue recorded during the corresponding quarter in the preceding year. The average coke price amounted to RMB1,968 per tonne during the quarter under review and the sales volume was approximately 214,000 tonnes. The contribution from the by-products accounted for approximately 11% of the total revenue as the Group was still slowly ramping up its production to increase its by-products during the quarter under review.

The Group has recorded a cost of sales amounting to approximately RM233.0 million during the quarter under review. The average coal price recorded for the quarter under review was approximately RMB1,167 per tonne. As such, the Group is reporting a gross profit of approximately RM26.1 million in the current quarter under review.

Other income was lower as the Group no longer derived any lease income upon the expiry of the abovementioned leasing arrangement during the quarter under review as compared to the preceding year corresponding quarter.

Operating expenses incurred by the Group were significantly lower at approximately RM4.1 million in the current quarter compared to approximately RM12.9 million in the same quarter last year. Operating expense for the current quarter under review includes staff salary, depreciation, minor repair and maintenance, electricity and etc. whereas during the tenure of the leasing arrangement, all fixed manufacturing costs were reclassified as operating expenses, thus showing a much larger amount, in the preceding year corresponding quarter.

As a result thereof, the Group recorded a net profit before tax of approximately RM22.0 million in the current quarter under review compared to a net loss of approximately RM9.6 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

The consolidated revenue recorded by the Group during the quarter under review was higher at approximately RM259.0 million as compared to RM86.7 million during the immediate preceding quarter ended 31 March 2017. This was attributed to the fact that the revenue recorded during the immediate corresponding quarter was derived from only two months (i.e. February and March 2017) of operations and the Group then was in a transitional period following the taking back of its coke ovens in February 2017 and that it was still gradually ramping up its production. The Group also saw improvement in average coke price from approximately RMB1,854 per tonne during the last quarter ended 31 March 2017 to RMB1,968 per tonne during the quarter under review.

The cost of sales recorded by the Group during the quarter under review was approximately RM233.0 million as compared to RM83.8 million during the immediate preceding quarter ended 31 March 2017. The average coal price was lower at

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approximately RMB1,167 per tonne compared to RMB1,235 per tonne during the immediate preceding quarter ended 31 March 2017.

The Group recorded its operating expenses of approximately RM4.1 million during the quarter under review compared to approximately RM5.7 million in the immediate preceding quarter ended 31 March 2017.

After taking into consideration of other income and operating expenses, the Group recorded a net profit of approximately RM22.0 million during the quarter under review, reversing its net loss position of approximately RM1.0 million in the immediate preceding quarter ended 31 March 2017.

B3. Current year prospects

Earlier this year, the Chinese Government announced that it will start to reduce its domestic capacity by 100-150 million tonnes of crude steel in 5 year time. However, based on the latest China's GDP growth rate, which saw a similar growth rate of 6.9% in the first and second quarter of 2017, indicating the Chinese economy has continued to churn and beat expectations, with the growth rate coming in slightly ahead of analysts' forecast. Such respected economic growth are generally achieved through robust public and private sector infrastructure projects as well as real estate development pursuits, all of which provide an impetus to the steel and coke industry.

China's steel production hit record high in June, breaking the record in April, as construction demand and prices picked up. This goes rather contradictory to the government policy to cut the domestic capacity of steel as the cuts are aimed at improving prices and industrial profits, as well as reshaping the economy. When the excess capacity is not being reduced as planned, it may imply that the industry's recovery progress may be faced with some possible speedbumps, unless there are catalysts present and/or policy alterations instituted to negate such an impact. These are conceivable possibilities insofar as the Central Government's effort to manage the economic growth of China is concerned as evidenced by past endeavors and turn of events.

In view of the above, the Group maintains a cautious position but remains optimistic and vigilant to relevant consequential circumstances that may affect the metallurgical coke business and that of the industry in order to stay prepared to face any challenges that come its way.

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 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
Profit/(Loss) before taxation	21,985	(9,616)	20,973	(23,249)
Taxation at statutory tax rate of 24%	5,276	(2,308)	5,033	(5,580)
Different tax rates in other countries	225	(91)	219	(223)
Expenses not deductible for tax purposes	130	133	236	236
Income not subject to tax	(3)	(2)	(5)	(4)
Utilization of tax losses	(5,483)	-	(5,483)	-
Changes in unrecognized deferred tax asset	(145)	2,268	-	5,571
Tax expense for the financial year	-	-	-	-

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. Profit/(Loss) per share

	Second quarter ended		Financial period ended	
	30 Jun 2017	30 Jun 2016	30 Jun 2017	30 Jun 2016
Basic profit/(loss) per share				
Profit/(Loss) for the period attributable to equity holders (RM'000)	21,985	(9,616)	20,973	(23,249)
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>1.96</u>	<u>(0.86)</u>	<u>1.87</u>	<u>(2.07)</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 2017 RM'000	As at 30 Jun 2016 RM'000
Accumulated Losses of the Group and its Subsidiaries		
- Realised	(260,447)	(77,210)
- Unrealised	<u>56,479</u>	<u>39,228</u>
	(203,968)	(37,982)
Less: Consolidation adjustment	<u>(56,479)</u>	<u>(39,228)</u>
Total accumulated losses as per consolidated accounts	<u>(260,447)</u>	<u>(77,210)</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 2017	30 Jun 2016	30 Jun 2017	30 Jun 2016
	RM'000	RM'000	RM'000	RM'000
Interest income	(22)	(24)	(44)	(54)
Other income	(19)	(3,221)	(1,789)	(5,257)
Depreciation of property, plant and equipment	5,254	10,433	10,778	22,563
Amortisation of lease payments	269	265	551	545
Fixed assets written off	<u>1</u>	<u>-</u>	<u>1</u>	<u>29</u>

By Order of the Board
Chua Siew Chuan
Secretary

29 August 2017