SINO HUA-AN INTERNATIONAL BERHAD ("HUA-AN" OR "THE COMPANY")
- Lease Agreement entered between Linyi Yehua Coking Co. Ltd ("Yehua") and Linyi Xin Jiang Quan Metal Material Technology Co. Ltd ("XJQ")

1. INTRODUCTION

The Board of Directors of Hua-An wishes to announce that its wholly-owned subsidiary, Yehua had entered into a Lease Agreement ("**the Agreement**") with XJQ ("**Leasee**") on 29 January 2016, for the leasing of some of its coking ovens, namely ovens #1, #2 and #3 and its ancillary facilities located at Yehua to the Leasee at a lease rental of RMB20.0 million [Renminbi: Twenty Million only (approximately RM13.0 million)] per annum payable in advance on monthly basis. The lease shall be for a period of one (1) year commencing 1 February 2016, with an option to renew subject to mutual agreement between both parties ("**the Lease**").

2. INFORMATION ON LEASEE

XJQ is a company incorporated in the People's Republic of China with a paid up capital of RMB100.0 million (approximately RM65.0 million). The principal activities of XJQ include the sales of steel products and metallurgical coke, and carrying out of research and development and providing management services for metal material technology and for heat and power supplies.

3. SALIENT TERMS OF THE LEASE

a) The Leasee shall assume all costs which are incidental to the operation of the coking ovens.

b) The Leasee has no rights over the leased facilities in terms of the transfer and assignment and etc.

c) The Leasee shall operate the coking ovens in accordance with all the applicable prevailing laws and regulations of the People's Republic of China.

d) The Leasee shall obtain written approval from Yehua for any addition of equipment to be invested by the Leasee during the Lease term. If such addition of equipment is permitted and fully invested by the Leasee, upon the expiry of the lease term, the Leasee reserves the right to dismantle the invested equipment or grant an option to Yehua o purchase such equipment at net book value based on the national depreciation policy.

e) The lease term can be terminated by Yehua [upon serving two (2) written warning letters] if the Leasee fails to observe the terms and conditions of the Agreement.

4. RATIONALE FOR THE LEASE

Emerging economies particularly those in this region are currently faced with tremendous challenges and tribulations and that China is no exception. Its economy has slowed down considerably over the few recent years to register at 6.9% in the fourth quarter 2015, the lowest since 1990. As a result of that, the steel industry and that of coke (as well as other peripheral industries) therein are currently undergoing a notably challenging period.

This predicament stems primarily from the significant slowdown in the China economy, the continuously weak manufacturing activities and lackluster exports. Consequently there is a real oversupply situation for steel and coke during this prevailing period and accordingly the prices of these hard commodities are faced with significant downward pressure making it unviable to business concerns at this prevailing period of time.

With the current detrimental pricing dynamics as mentioned above, the Group have taken proactive steps to explore alternative avenues to stem and mitigate the extent of the anticipated losses moving forward for the benefit of the shareholders. One potential feasible opportunity that became available to us at this juncture was to lease out of some of the Group's Coke ovens (i.e. ovens #1, #2 and #3). This will give the Group a fixed stream of income, relieve it off the burden of incurring all costs and expenses directly attributed to the production operations and more importantly does not require any huge capex outlays. The lease arrangement shall be on a yearly renewal basis and should the markets sufficiently improve then, the Group can always take back possession of those ovens. In any case the Group still have the remaining Coke ovens, ie ovens #4 and #5 with total production capacity of 900,000 tonnes (which are not subject to the lease in question) which we have deliberately delayed the "firing-up" given the prevailing unfavourable market condition but could do so when situation warrants it. Given the above circumstances, the Group is cautiously hopeful that the current challenging landscape in the steel and coke industry would not persist over a too protracted period of time.

5. FINANCIAL EFFECTS

5.1 Earnings Per Share

The leasing arrangement is expected to contribute positively to Hua-An Group and accordingly will serve to mitigate the unfavourable financial impact anticipated on the consolidated earnings/(loss) and earnings/(loss) per share of Hua-An for the financial year ending 31 December 2016.

5.2 Net Assets and Gearing

The leasing arrangement is not expected to have any material effect on the consolidated net assets of Hua-An Group for the financial year ending 31 December 2016. Hua-An Group does not have any gearing as at 31 December 2015 nor is expected to have any moving forward, barring any unforeseen circumstances.

5.3 Share Capital and Substantial Shareholders' Shareholdings

The Lease will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings of Hua-An.

6. INTEREST OF DIRECTORS AND/OR MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders and/or persons connected with the Directors and major shareholders of Hua-An have any interests, direct or indirect, in the Lease.

7. STATEMENT BY DIRECTORS

The Board of Directors of Hua-An, having considered all aspects of the Lease, is of the opinion that the Lease is in the best interest of Hua-An.

This announcement is dated 29 January 2016