

**SINO HUA-AN INTERNATIONAL BERHAD ("HUAAN")
PROPOSED ACQUISITION OF 20,000 ORDINARY SHARES REPRESENTING THE
ENTIRE EQUITY INTEREST IN HK AEROSPACE BEIDOU NEW ENERGY INDUSTRY
TECHNOLOGY CO LTD ("HK AEROSPACE") FOR A TOTAL PURCHASE
CONSIDERATION OF USD25.0 MILLION**

(The definitions used in this announcement shall have the same meanings as that used in the announcement dated 7 August 2020 unless stated otherwise.)

We refer to the announcement made on 7 August 2020 and the letter dated 11 August 2020 from Bursa Malaysia Securities Berhad ("**Bursa Securities**") requesting for additional information pertaining to the Proposed Acquisition.

The Board of HUAAN wishes to announce the following additional information as requested by Bursa Securities:-

1) To state the reason(s) for the termination of the subscription agreement dated 3 July 2020.

Given the fact that there were some developments within the operating and business environment of HK Aerospace subsequent to the date of the previous Subscription Agreement ("**SA^(old)**") and Share Purchase Agreement ("**SPA^(old)**") on 3 July 2020, HK Aerospace has managed to structure an alternative funding source which would be more synchronous to its business demands. Accordingly, after due deliberations and discussions between the Purchaser and Vendors, both parties have agreed that the subscription by the Purchaser is no longer required and thus deemed it necessary and expedient to terminate the SA^(old) and SPA^(old) and a new SPA be signed instead to reflect the changes to the terms of the transaction and meet objectives and intent of the parties concerned.

2) HK Aerospace and its subsidiaries' date of commencement of business operations.

HK Aerospace is an investment holding company incorporated on 12 May 2017 for the purposes of housing the operating entities in China, namely:

		Shareholding	Date of commencement of business operations
(i)	Guangxi Zhongcheng Huatai Investment Co., Ltd (" GZHI ")	51%	October 2009
(ii)	Guangxi Aerospace Beidou Internet of Things Technology Industry Co., Ltd (" GABIOT ")	100%	May 2014
(iii)	Guangxi Aerospace Beidou New Energy Industry Technology Co., Ltd (" GABNEIT ")	41.8%	August 2014

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- 3) To state the estimated total cost for the purchase, installation and commissioning of the new equipment and the source of fund.**
- 4) To quantify the estimated financial commitment from HUAAN to purchase the new equipment.**
- 5) To state whether the new equipment to be purchased will be installed in HK Aerospace or otherwise.**
- 6) To state the expected production capacity and output of the products before and after the commission of the new equipment.**

We wish to clarify herein that the new SPA executed on 7 August 2020 was, for all intents and purposes, to enable HUAAN to acquire 100% equity interest in HK Aerospace from the existing vendors. It does not contemplate any funding of capex of the said company. Accordingly, questions #3, #4, #5 and #6 above may not be applicable.

- 7) To state whether HK Aerospace has control over Guangxi Aerospace Beidou New Energy Industry Technology Co Ltd.**

Through the 100% owned GABIOT which in turn owns 41.8% equity interest in Guangxi Aerospace Beidou New Energy Industry Technology Co., Ltd ("**GABNEIT**"), all of the Board seats in GABNEIT and signatories are fully controlled by HK Aerospace. As a result, HK Aerospace has full control over GABNEIT.

- 8) The principal markets for the products and services.**

A rapidly emerging and increasingly applied technology, Super-Capacitors are capable of storing and discharging energy very quickly and effectively. Due to their many benefits, Super-Capacitors are currently being utilized in thousands of different applications, and considered in an equally diverse range of future applications. Super-capacitors complement a primary energy source which cannot repeatedly provide quick bursts of power, such as an internal combustion engine, fuel cell or battery. The future horizon looks brilliant for Super-capacitors, which already rank as a powerful alternative energy resource. Given this, the Company principal targeted market is in China's renewable energy space such as transportation, telecommunication, power generation, heavy machineries and others.

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MARKETS & APPLICATIONS OF SUPER-CAPACITOR TECHNOLOGY



Harvest power from regenerative braking systems and release power to help hybrid buses accelerate.



Used in blade pitch systems and to help increase reliability and stability to the energy grid.



Reliably crank semi-trucks in cold weather or when batteries are drained from repetitive starting or in-cab electric loads.



Capture energy and provide burst power to assist in lifting operations.



Capture energy from regenerative braking systems and release power to assist in train acceleration, and used for vehicle power where overhead wiring systems are not available.



Provide energy storage for firming the output of renewable installations and increasing grid stability.



Provide cranking power and voltage stabilization in start/stop systems, backup and peak power for key automotive applications – and serve as energy storage in regenerative braking systems.



Provide energy to data center between power failures and initiation of backup power systems, such as diesel generators or fuel cells.

The company is currently selling only in China, and export activities are hampered due to Covid-19 pandemic. The company has already been approached by foreign clients and is looking to exporting overseas in the near future.

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- 9) HK Aerospace Group's audited financial information (past 3 years or since incorporation, whichever is the later) and the latest interim results, if available, stating the turnover, profit before tax, profit after tax and non-controlling interest and where there is any material fluctuation in turnover or profits in any of the years, an explanation for the fluctuation.**

HK Aerospace is primarily an investment holding company which will hold all the China related entities. According to the vendors of HK Aerospace, the audited financial reports of the Company has yet to be filed, due to the lack of business activity. Notwithstanding that, the proforma consolidated financials of HK Aerospace are as follows:

	FY2017	FY2018	FY2019	2020 (YTD @ 31.05.20)
	RM	RM	RM	RM
Turnover	-	327,080	166,050	834,542
PBT	-	(4,710,324)	(1,276,333)	177,361
PATMI	-	(2,402,265)	(650,930)	37,810

- 10) The basis of arriving at the total purchase consideration of USD25 million.**

The abovementioned Purchase Consideration was arrived at based on a willing-buyer-willing seller basis, as well as drawing reference to, amongst others, the order books of approximately USD300 million and a profit guarantee of USD3.0 million. Notwithstanding the above, considerations were also made for the intrinsic value of its intellectual properties, particularly the 28 patents (8 in the US, 15 in Taiwan and 5 in China).

These however will be reassessed and confirmed pursuant to the due diligence process to be conducted by the relevant professional firms.

- 11) The justifications for the total purchase consideration of USD25 million.**

Energy storage is one of the fastest growing industry and a viable solution to address peak oil demand. Based on the Lux Research report, this market segment could to grow to USD546 billion in annual revenue by 2035.

HK Aerospace is the leader in ultra capacitor and the energy solutions space and as such is poised to benefit from the huge potential and prospects of this market space.

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12) A statement as to whether the profit guarantee provided is realistic, taking into consideration the historical performance and future prospects of HK Aerospace.

Based on information presented to the Board of HUAAN in evaluating the feasibility of the proposed acquisition of the AB Group, it is of the opinion that the profit guarantee provided by the vendors of the AB Group is realistic taking into consideration of HK Aerospace's existing order books and its future prospects as described above.

13) Details of HUAAN's rights of recourse in the event the profit guarantee is not met.

In the event of the profit guarantee is not met, pursuant to Clause 4.3 of the new SPA dated 7 August 2020, the Purchase Consideration shall be reduced accordingly, based on the following formula:

$$\left[1 - \frac{\text{Actual Profit}}{\text{Guaranteed Profit}}\right] \times \text{Purchase Consideration to Vendors}$$

14) In relation to the liabilities to be assumed, to elaborate/clarify on "except those incurred in the ordinary course of business".

"Liabilities incurred in the ordinary course of business" relates primarily to those revolving liabilities attributed to trade/other creditors of AB Group upon the completion of the proposed acquisition, whereby the AB Group's financials are consolidated into that of HUAAN's.

15) To state the details of the risks associated with the business and operations of HK Aerospace Group and its mitigating factors.

Risk factors associated with the business and operations of HK Aerospace are as follows:

(i) Competition

HK Aerospace is the only factory in the world producing rare metal Ruthenium based Super Capacitor. This technology was previously used only in military and space missions because Ruthenium is an expensive metal and production was costly. This company has been able to use its patented technology processes to bring down the costs to a commercially viable venture. Naturally the competitors will try to imitate the technology in due time. The mitigating action that has to be taken is to quickly enter the market aggressively while it is still the only Ruthenium based Super Capacitor producer. It is estimated that the company has at least 5 years lead time over its competitors. The Company also continues to invest in R&D to keep itself ahead of the competition at all times. The demand for quality Super Capacitors will always be there so long as humans need to use batteries for reliable energy storage.

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(ii) Political, economic and regulatory risks

Like all other business entities, changes in political, economic and regulatory conditions in China, could materially and adversely affect the financial and business prospects of the Company. Amongst the political, economic and regulatory uncertainties are the changes in political leadership, expropriation, nationalisation, re-negotiation or nullification of existing sales orders and contracts, etc. Despite these uncertainties, albeit remote, the Company continues to focus on its core business and conducts its businesses in a professional manner and adhering to all the relevant rules, regulations and policies governing the industry. While the Company will seek to limit the impact of such risk to its business, there is no assurance that any change in the above factors will not have a material adverse effect on the business and operations of the Company.

(iii) Business risks

HK Aerospace's group business activities are subject to certain risks inherent to the technology industry. These may include changes in general economic conditions and political conditions, inflation, taxation, change in business conditions such as technology obsolescence, deterioration in prevailing market conditions, labour and material supply shortages, increase in cost of labour. Notwithstanding the above, the Company seeks to minimise its business risks through careful selection of contracts and contractual terms and adopting prudent credit policy. The Company also seeks to keep itself abreast with the development of the relevant technology and remained abreast with what its competitors are doing.

(iv) Dependence on key personnel

The success HK Aerospace is dependent to a significant extent upon the abilities and continued efforts of its current management team and expertise. The loss of any key member of its management team and expertise may have an impact on its business operations. The future continued success of the Company will also depend upon its ability to attract and retain skilled personnel. In order to mitigate these risks, initiatives have been put in place to tie-in the key management staff and expertise over a period of time, as well as efforts will be made to continuously attract skilled and experienced staff through attractive remuneration and incentives and good human resource management for continual future performance.

16) To incorporate the prospects of HK Aerospace Group.

The Proposed Acquisition is both timely and well placed for HUAAN, as the digital technology business is envisaged to be the Group's focus area of growth moving forward. According to the Global and China Super-Capacitor Industry Report 2019-2025, with a higher penetration in transportation and consumer electronics, the global market size of Super-Capacitors has mushroomed, especially Asia-Pacific Region sees the highest growth rate. The global Super-Capacitor market valued USD1.01 billion in 2018, and it is expected to garner USD4.09 billion by 2025, with a CAGR of 22.1%. In the upcoming five years, Super-Capacitors will be largely

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utilized in transportation and consumer electronics. From a geographical perspective, Asia-Pacific consumed the most Super- Capacitors worldwide in 2018, and the consumption herein will increase at the highest rate in the next few years. Super-Capacitors were initially used by the US military in the field of electronic equipment due to instantaneous high power, fast charging and discharging. Later, it finds wider application in transportation, industrial equipment, electric power, and new energy. 38% of the Super-Capacitor market size is forecast to be triggered by transportation, about 30% by the industrial sector, and 21% by the new energy sector.

Insofar as energy storage is concerned, according to Global Energy Storage Market 2019 by Lux Research, the total energy storage market is expected to grow to USD546 billion in annual revenue by 2035. It also indicates that the commercialization of five new technologies, namely that of (i) battery recycling, (ii) electric aviation, (iii) flow batteries, (iv) thin-film batteries, and (v) solid-state battery improvements, could drive growth. Lux Research concludes that revenue and deployment growth for the energy storage market will vary drastically over the next three years. Plug-in light-duty vehicles will likely remain the largest market with a predicted USD24 billion increase in revenue by the end of 2022. Next, medium and heavy-duty vehicles are estimated to grow from USD600 million a year in 2019 to USD3.6 billion per year in 2022. Residential storage follows with a projected CAGR of 76% and USD8 billion revenue increase over the next three years. Personal mobility will also be affected with a CAGR of 49% and USD4.6 billion revenue increase.

Through 2035, it was identified that the major driver for growth and demand of energy storage is mobility applications, as personal mobility devices are expected to increase to USD43.7 billion from their current USD2 billion in revenue. Stationary storage is also expected to grow to USD111.8 billion in revenue by 2035, marking a significant increase from its USD9.1 billion revenue in 2019.

The energy storage industry is poised for a massive increase in annual revenue and deployment capacity as key innovative technologies, such as solid-state batteries and flow batteries, reach commercialization. Electric mobility applications, primarily light-duty passenger vehicles, is expected to be the principal long-term driver of energy storage annual revenue and demand, with a total market share of 74% by annual revenue and 91% by annual deployed GWh by the year 2035, according to Lux Research.

17) To state the effect on earnings per share for the financial year ending 31 December 2020 and 2021.

The effects to the earnings per share of HUAAN for the financial year ending 31 December 2020 is expected to be negligible as the proposed acquisition of HK Aerospace is expected to be completed only towards the end of the financial year. Notwithstanding that, the effects to the earnings per share of HUAAN for the financial ending 31 December 2021 is expected to be improved by 1.09 sen.

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18) To state whether the proposed acquisition of HK Aerospace will trigger diversification in operations pursuant to Paragraph 10.13 of the Main Market Listing Requirements.

At this juncture, the Proposed Acquisition does not trigger the diversification in operations pursuant to Paragraph 10.13 of the Main Market Listing Requirements. Notwithstanding that, the Board of HUAAN expects the earnings from the Proposed Acquisition of HK Aerospace to grow and therefore is contemplating procuring shareholder's approval for Diversification (in advance) vis-à-vis approval for the proposed acquisition of HK Aerospace in an Extraordinary General Meeting, to be scheduled in the near future.

This announcement is dated 12 August 2020.