

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Third quarter ended		Financial period ended	
	Unaudited		Unaudited	
	Current Period 30-Sep-19 RM'000	Preceding Period 30-Sep-18 RM'000	Current Period 30-Sep-19 RM'000	Preceding Period 30-Sep-18 RM'000
Revenue	199,751	238,825	672,449	744,680
Cost of sales	(212,000)	(225,055)	(688,324)	(712,340)
Gross (loss)/profit	(12,249)	13,770	(15,875)	32,340
Other income	108	393	310	781
Operating expenses	(15,140)	(7,277)	(23,409)	(17,660)
Finance cost	-	(179)	(21)	(669)
	(15,032)	(7,063)	(23,120)	(17,548)
(Loss)/Profit before tax	(27,281)	6,707	(38,995)	14,792
Taxation	-	-	-	-
(Loss)/Profit for the period	(27,281)	6,707	(38,995)	14,792
Other comprehensive expense: Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising from translation of foreign operations	(9,495)	(3,711)	(8,433)	(12,798)
Total comprehensive expense/(income) for the period	(36,776)	2,996	(47,428)	1,994
(Loss)/Profit attributable to equity holders of the Company	(27,281)	6,707	(38,995)	14,792
Total comprehensive expenses/(income) attributable to equity holders of the Company	(36,776)	2,996	(47,428)	1,994
(Loss)/Earnings per share (sen)				
- basic (sen)	(2.43)	0.60	(3.47)	1.32
- 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 2018.

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**QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Sep-19 RM'000	Audited as at 31-Dec-18 RM'000
Non Current Assets		
Land lease payment	27,074	28,540
Property, plant and equipment	162,268	168,877
Deferred tax asset	6,183	6,338
	195,525	203,755
Current Assets		
Inventories	83,401	97,114
Trade receivables	80,352	119,294
Other receivables, deposits and prepayments	9,912	36,736
Bank balances and cash	14,066	19,366
	187,731	272,510
Total Assets	383,256	476,265
Shareholders' Fund		
Share capital	1,115,045	1,115,045
Reserves	(781,580)	(734,152)
	333,465	380,893
Current Liabilities		
Trade payables	39,240	54,887
Other payables and accrued expenses	10,551	16,430
Short term bank loan	-	24,055
	49,791	95,372
Total Equity and Liabilities	383,256	476,265
Net assets per share (RM)	0.30	0.34

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 2018.

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**QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019****- THE FIGURES HAVE NOT BEEN AUDITED****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<----- Non-distributable reserves ----->			Distributable reserve		Total RM'000
	Share capital RM'000	Statutory common reserve funds RM'000	Reverse acquisition reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	
<u>9 months ended 30 September 2018</u>						
Balance as of January 1, 2018	1,115,045	49,358	(799,823)	200,735	(200,613)	364,702
Profit for the period	-	-	-	-	14,792	14,792
Other comprehensive expense						
Exchange difference arising from translation of foreign operations	-	-	-	(12,798)	-	(12,798)
Balance as of September 30, 2018	1,115,045	49,358	(799,823)	187,937	(185,821)	366,696
<u>9 months ended 30 September 2019</u>						
Balance as of January 1, 2019	1,115,045	49,358	(799,823)	187,331	(171,018)	380,893
Loss for the period	-	-	-	-	(38,995)	(38,995)
Other comprehensive income						
Exchange difference arising from translation of foreign operations	-	-	-	(8,433)	-	(8,433)
Balance as of September 30, 2019	1,115,045	49,358	(799,823)	178,898	(210,013)	333,465

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 2018.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended 30-Sep-19 RM'000	30-Sep-18 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit for the period	(38,995)	14,792
Adjustments for:		
Depreciation of property, plant and equipment	16,987	13,829
Amortisation of lease payments	786	787
Finance costs	21	669
Interest income	(80)	(80)
Fixed assets written off	638	357
Operating (loss)/profit before working capital changes	(20,643)	30,354
(Increase) / Decrease in:		
Inventories	13,713	(5,429)
Trade receivables	38,942	(33,033)
Other receivables, deposits and prepayments	26,823	7,158
Amount due by related parties	-	8,081
Increase / (Decrease) in:		
Trade payables	(15,647)	7,277
Other payables and accrued expenses	(5,879)	(10,158)
Cash generated from operations	37,309	4,250
Interest paid	(21)	(669)
Net cash generated from operating activities	37,288	3,581
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(14,276)	(3,933)
Interest received	80	80
Net cash used in investing activities	(14,196)	(3,853)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of bank loan	(24,055)	-
Net cash used in financing activity	(24,055)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(963)	(272)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	19,366	20,472
Effect of changes in exchange rates	(4,337)	(2,299)
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	14,066	17,901

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 2018.

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Notes to the quarterly report – 30 September 2019

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 2018. 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 2018.

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 2018, 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 2019:-

MFRS 16	Leases
Amendments to MFRS 3	Business Combinations (Annual Improvements to MFRS 2015-2017 Cycle)
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 11	Joint Arrangements (Annual Improvements to MFRS 2015-2017 Cycle)
Amendments to MFRS 112	Income Taxes (Annual Improvements to MFRS 2015-2017 Cycle)
Amendments to MFRS 119	Employee Benefits – Plan Amendments, curtailment or settlement
Amendments to MFRS 123	Borrowing Costs (Annual Improvements to MFRS 2015-2017 Cycle)
Amendments to MFRS 128	Long term interests in Associates and Joint Venture (Annual Improvements to MFRS 2015-2017 Cycle)
IC Interpretations 23	Uncertainty over Income Tax Treatments

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 2	Share-based Payment	1 January 2020
Amendments to MFRS 3	Business Combinations	1 January 2020

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		Effective dates for financial periods beginning on or after
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020
Amendments to MFRS 14	Regulatory Deferral Accounts	1 January 2020
Amendments to MFRS 101	Presentation of Financial Statements	1 January 2020
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 134	Interim Financial Reporting	1 January 2020
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020
Amendments to MFRS 138	Intangible Assets	1 January 2020
Amendments to IC Interpretations 12	Service Concession Arrangements	1 January 2020
Amendments to IC Interpretations 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
Amendments to IC Interpretations 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020
Amendments to IC Interpretations 22	Foreign Currency Transactions and Advance Consideration	1 January 2020
Amendments to IC Interpretations 132	Intangible Assets - Web Site Costs	1 January 2020
MFRS 17	Insurance Contracts	1 January 2021
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.

A2. Audit report

The auditors' report on the audited financial statements for the year ended 31 December 2018 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.

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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.

A8. Segmental information

Segment results by business activities

	Third quarter ended 30 September 2019		Financial period ended 30 September 2019	
	External Revenue RM'000	Loss before tax RM'000	External Revenue RM'000	Loss before tax RM'000
Manufacturing	199,751	(26,391)	672,449	(36,947)
Investment Holdings	-	(890)	-	(2,048)
	<u>199,751</u>	<u>(27,281)</u>	<u>672,449</u>	<u>(38,995)</u>

	Third quarter ended 30 September 2018		Financial period ended 30 September 2018	
	External Revenue RM'000	Profit/(loss) before tax RM'000	External Revenue RM'000	Profit/(loss) before tax RM'000
Manufacturing	238,825	7,162	744,680	16,284
Investment Holdings	-	(455)	-	(1,492)
	<u>238,825</u>	<u>6,707</u>	<u>744,680</u>	<u>14,792</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.

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

The Company has completed the proposed acquisition of the entire equity interest in Bistromalones (PJ) Sdn Bhd on 15 October 2019, in pursuant to the Share Purchase Agreement dated 3 April 2019.

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.

A13. Related party transactions

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

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of performance

During the quarter under review, the Group turned into gross loss of approximately RM12.2 million compared to gross profit of approximately RM13.8 million in the preceding year corresponding quarter. This is mainly due to lower average coke price, sales volume and contribution from by-products couple with higher average coal price during the quarter under review.

By going into details, the Group recorded a consolidated revenue of RM199.8 million compared to the corresponding quarter in the preceding year of RM238.8 million. Such reduction in revenue can be primarily attributed to an 18% lower sales volume compared to that achieved in the corresponding quarter of 2018. This was brought about by the on-going sporadic local government directive to curb production of heavy industries during certain periods over the quarter under review in an attempt to address and manage the pollution level affecting the area/region.

By virtue of the abovementioned across the board production curb on heavy industries, the average selling price of metallurgical coke was somewhat affected which saw an approximate 2% decline to RMB1,858 per tonne in the current quarter from RMB1,889 per tonne recorded in the preceding year corresponding quarter. Coupled with significantly lower contribution margin from its by-products by approximately 31% during the current quarter, the Group ended up registering an overall reduction in its total consolidated revenue in the current quarter under review of approximately 16%, compared to the preceding year corresponding quarter.

Moving in tandem with the reduction in sales volume, the Group's cost of sales saw a decrease of approximately 6% from about RM225.1 million in the previous year corresponding quarter reduced to about RM212.0 million in the current quarter under review. This was despite the fact that the average coal price saw an increase of approximately 5% from RMB1,263 per tonne in the previous year corresponding quarter to RMB1,331 per tonne in the current quarter under review.

Other income included sales of scraps and penalties/fines imposed on staff and employees who violated the company's prescribed rules and standard operating procedures during the quarter under review.

Operating expenses incurred by the Group were much higher at approximately RM15.1 million in the current quarter under review compared to approximately RM7.3 million in the same quarter last year. This was mainly due to the additional expenses incurred relation to the dry quenching facility in the current quarter under review. Other operating expense included staff salary, depreciation, minor repair and maintenance, electricity charges, etc.

After taking into consideration of the operating expenses incurred, the Group recorded a net loss of approximately RM27.3 million in the current quarter under review compared to a net profit of approximately RM6.7 million in the preceding year corresponding quarter.

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B2. Variation of results against preceding quarter

The consolidated revenue registered by the Group during the quarter under review was lower at approximately RM199.8 million compared to RM235.1 million recorded during the immediate preceding quarter ended 30 June 2019. This was primarily attributed to lower average coke price and sales volume. We saw a reduction of coke price from approximately RMB1,886 per tonne during the last quarter ended 30 June 2019 to approximately RMB1,858 per tonne in the current quarter under review. The sales volume also decreased by approximately 7% in comparison between the two quarters in question.

The cost of sales recorded by the Group during the quarter under review was approximately RM212.0 million as compared to RM239.8 million during the immediate preceding quarter ended 30 June 2019. The reduction was attributed to lower sales volume and average coal price. The average coal price was lower at approximately RMB1,331 per tonne during the quarter under review compared to approximately RMB1,371 per tonne during the immediate preceding quarter. Couple with much lower contribution margin from the by-products, the Group registered a bigger gross loss of approximately RM12.2 million in the current quarter under review compared to approximately RM4.8 million in the immediate preceding quarter ended 30 June 2019.

The Group recorded much higher operating expenses of approximately RM15.1 million during the quarter under review compared to RM2.9 million in the immediate preceding quarter ended 30 June 2019. The much higher operating expenses was mainly attributed to the payment of land use tax, property tax, environment protection tax incurred as well as the additional expenses incurred relation to the dry quenching facility during the quarter under review.

After taking into consideration of the other income and operating expenses, the Group recorded a net loss of approximately RM27.3 million during the quarter under review as compared to approximately RM7.5 in the immediate preceding quarter ended 30 June 2019.

B3. Current year prospects

As the result of the trade war with the United States, China's growth dropped last quarter to its lowest level in nearly three decades. The gross domestic product only grew by 6% in the third quarter, the weakest quarterly growth rate since 1992, which evidenced the continued slide in the China's economy from 6.2% recorded in the second quarter of 2019.

The Chinese statistical authority had admitted that the economy would continue to face "severe and complex external environment". In view of such circumstances, it is generally expected that the Chinese government would step up stimulus measures to avert any drastic and/or abrupt economic slowdown by way of inducing more investment in infrastructure projects, an initiative which will be implemented vis-à-vis its continued aspiration to encourage a shift towards consumption and technology to drive the economy, moving forward.

Notwithstanding the continued downward pressures besetting the steel and coke industry stemming from the abovementioned continued slowdown in China's economy, the Group

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shall continue to be vigilant to relevant consequential circumstances that may have perceivable effect on the metallurgical coke business.

Due to the lack of visibility of the coke business, the Group has to venture into and continue looking for new potential business ventures to give different revenue stream to complement the existing coke business moving forward. The Group is hopeful that the pursued new business ventures will complement well and fit into its business expansion in the coming months.

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. Current year taxation

No taxation was provided during the quarter under review.

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

	Third quarter ended		Financial period ended	
	30 Sep 2019	30 Sep 2018	30 Sep 2019	30 Sep 2018
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit before taxation	<u>(27,281)</u>	<u>6,707</u>	<u>(38,995)</u>	<u>14,792</u>
Taxation at statutory tax rate of 24%	(6,547)	1,610	(9,359)	3,550
Different tax rates in other countries	(264)	72	(369)	163
Expenses not deductible for tax purposes	6,814	113	9,740	368
Income not subject to tax	(3)	(4)	(12)	(10)
Utilization of previously unrecognized deferred tax asset	<u>-</u>	<u>(1,791)</u>	<u>-</u>	<u>(4,071)</u>
Taxation for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

B6. Corporate proposals

Shareholders of the Company, have via the Extraordinary General Meeting on 4 September 2019, approved the proposed issuance of Redeemable Convertible Notes with an aggregate principal amount of up to RM150 million.

B7. Lease payable

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

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B8. Borrowings

	30 Sep 2019 RM'000	30 Sep 2018 RM'000
Secured Term loan	-	24,079
Analysed as Repayable within twelve months	-	24,079

The above credit facility obtained from a licensed bank is guaranteed by Huasheng Jiangquan Group Co., Ltd. ("Jiangquan"). Jiangquan is related to the Group and the Company by virtue of Mr. Liu Guodong, a Director of the Company, being the brother-in-law of Mr. Wang Wen Tao, a director and shareholder of Jiangquan.

B9. 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.

B10. Dividends

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

B11. Earnings per share

	Third quarter ended		Financial period ended	
	30 Sep 2019	30 Sep 2018	30 Sep 2019	30 Sep 2018
Basic earnings per share				
(Loss)/Profit for the period attributable to equity holders (RM'000)	(27,281)	6,707	(38,995)	14,792
Number / Weighted average number of shares in issue ('000)	1,122,308	1,122,308	1,122,308	1,122,308
Basic (loss)/earnings per share (sen)	(2.43)	0.60	(3.47)	1.32

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

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B12. (Loss)/Profit before tax

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

	Third quarter ended		Financial period ended	
	30 Sep 2019	30 Sep 2018	30 Sep 2019	30 Sep 2018
	RM'000	RM'000	RM'000	RM'000
Interest income	(22)	(23)	(80)	(80)
Other income	(85)	(370)	(230)	(701)
Depreciation of property, plant and equipment	7,811	4,546	16,987	13,829
Amortisation of lease payments	256	247	786	787
PPE written off	-	-	638	357

By Order of the Board
Chua Siew Chuan
Secretary
29 November 2019