

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

## QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2007

- THE FIGURES HAVE NOT BEEN AUDITED

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Second Quarter		Cumulative Quarter	
	Unaudited Current Period 30-Jun-07 RM'000	Preceding Period 30-Jun-06 RM'000	Unaudited Current Period 30-Jun-07 RM'000	Preceding Period 30-Jun-06 RM'000
Revenue	210,018	182,531	395,378	357,664
Cost of sales	(165,672)	(148,128)	(315,737)	(290,894)
Gross profit	44,346	34,403	79,641	66,770
Other income	173	79	386	119
Operating expenses	(5,635)	(4,687)	(8,795)	(7,280)
	(5,462)	(4,608)	(8,409)	(7,161)
Restructuring expenses *	0	0	(8,871) *	0
Finance costs	(464)	(1,126)	(1,603)	(2,295)
Profit before tax	38,420	28,669	60,758	57,314
Taxation	(5,916)	0	(10,558)	0
Profit for the year	32,504	28,669	50,200	57,314
Profit attributable to equity holders of the Company	32,504	28,669	50,200	57,314
Earnings per share (sen)				
- basic (sen)	2.90	3.58	5.10	7.16
- fully diluted (sen)	n/a	n/a	n/a	n/a

\* Restructuring expenses are attributable to "one-off" expenses incurred arising from the implementation of the Restructuring Scheme of Antah / IPO of Hua-An which has been charged to the 1st Quarter's Income Statement.

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### CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited as at 30-Jun-07 RM'000	Audited as at 31-Dec-06 RM'000
<b>Non Current Assets</b>		
Land lease payment - long-term	29,895	9,838
Property, plant and equipment	309,790	220,471
Investment property	17,400	-
Goodwill	107,237	2,351
	464,321	232,660
<b>Current Assets</b>		
Land lease payment - short-term	782	364
Inventories	55,781	42,728
Trade receivables	47,896	40,193
Other receivables, deposits and prepayments	25,718	42,626
Bank balances and cash	137,449	9,687
	267,627	135,598
<b>Total Assets</b>	731,948	368,258
<b>Shareholders' Fund</b>		
Share capital	561,154	177
Reserves	73,559	268,328
	634,713	268,505
<b>Current Liabilities</b>		
Trade payables	29,928	23,664
Receipts in advance	1,415	1,048
Accruals and other payables	29,729	2,882
Amount due to a shareholder	2,946	-
Tax payable	10,474	4,301
Bank loans - secured	22,742	67,857
	97,235	99,753
<b>Total Equity and Liabilities</b>	731,948	368,258
Net assets per share (RM)	0.57	n/a

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### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<----- Non-distributable reserves ----->					Distributable reserve	
	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	Total RM'000
<b>Balance as of January 1, 2006</b>	177	-	28,420	-	4,886	235,023	268,506
Legal entity adjustment in accordance with FRS 3	(177)			(799,823)			(800,000)
Issue of shares:		-	-	-	-	-	-
Acquisition of PIPO Group	400,000	400,000					800,000
Scheme of arrangement with shareholders of Antah	42,454	42,454					84,908
Acquisition of investment property	8,700	8,700					17,400
Scheme of arrangement with creditors of Antah	10,000	10,000					20,000
Private placement	100,000	100,000					200,000
Share issue expense	-	(7,263)					(7,263)
Net profit for the period	-	-				50,200	50,200
Transfer to common fund reserve	-	-	5,983			(5,983)	-
Exchange differences	-	-			962	-	962
<b>Balance as of June 30, 2007</b>	561,154	553,891	34,403	(799,823)	5,848	279,240	634,713

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### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited current period to date 30-Jun-07 RM'000	Preceding period to date 30-Jun-06 RM'000
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>		
Profit for the year	50,199	57,314
Adjustments for:		
Depreciation of property, plant and equipment	9,228	8,378
Amortisation of lease payments	353	186
Finance costs	1,602	2,374
Interest income	(378)	(105)
Income tax recognised in income statement	10,558	-
	<hr/>	<hr/>
Operating profit before working capital changes	71,563	68,147
(Increase)/Decrease in:		
Inventories	(13,053)	(9,555)
Trade receivables	(7,703)	(11,994)
Other receivables, deposits and prepayments	12,153	5,150
Increase/(Decrease) in:		
Trade payables	6,264	(4,389)
Other payables and accrued expenses	26,847	(1,568)
Receipt in advance	367	(1,324)
Amount due to shareholder	2,946	-
	<hr/>	<hr/>
Cash generated from operations	99,384	44,467
Income tax paid	(4,385)	-
Net cash from/(used in) operating activities	<hr/> <u>94,999</u>	<hr/> <u>44,467</u>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(92,821)	-
Land lease paid	(20,770)	-
Interest received	378	105
Net cash from/(used in) investing activities	<hr/> <u>(113,213)</u>	<hr/> <u>105</u>

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- CONTINUE -

	Unaudited current period to date 30-Jun-07 RM'000	Preceding period to date 30-Jun-06 RM'000
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		
Issuance of shares	200,000	-
Share issue cost paid	(7,263)	-
Finance costs paid	(1,602)	(2,374)
Increase/(Decrease) in bank borrowings/intercompany loan	(45,115)	(12,206)
Net cash from/(used in) financing activities	<u>146,019</u>	<u>(14,580)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	127,805	29,992
<b>CASH AND CASH EQUIVALENTS</b>		
AT BEGINNING OF THE FINANCIAL PERIOD	9,687	11,670
Effect of changes in exchange rate	(43)	(757)
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	<u>137,449</u>	<u>40,905</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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## **A. EXPLANATORY NOTES AS PER FRS 134 - INTERIM FINANCIAL REPORTING**

### **A1. Basis of preparation**

The interim financial report is unaudited and has been prepared in accordance with the requirements of FRS 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 Company for the year ended 31 December 2006. 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 Company since the financial year ended 31 December 2006.

The significant accounting policies and methods of computation adopted by the Company and its subsidiaries ("the Group") in this interim financial report are consistent with those adopted in the annual financial report for the year ended 31 December 2006.

#### **FRS 3: Business Combinations**

After completion of the acquisition of PIPO Overseas Limited ("PIPO") and its subsidiary company ("PIPO Group") as disclosed in Note A11, the Company becomes the legal parent company of PIPO Group. Due to relative values of the companies, the former shareholders of PIPO became the majority shareholders of the Company. Accordingly, the substance of the business combination is that PIPO acquires the Company in a reverse acquisition. Under FRS 3, as a result of the reverse acquisition, the financial statements which were assumed to have been prepared in the name of the legal parent, the Company, represents a continuation of the balance sheet of the legal subsidiary, PIPO, which is deemed as the acquirer.

In accordance with the FRS 3, the amount recognised as issued equity instruments in those consolidated financial statements shall be determined by adding to the issued equity of the legal subsidiary immediately before the business combination the cost of the combination determined. However, the equity structure appearing in those consolidated financial statements shall reflect the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.

The financial statements of the Group and of the Company are presented in Ringgit Malaysia. The individual financial statements of the subsidiary companies are presented in the currency of the primary economic environment in which the entity operates (their functional currency). The functional currency of the foreign subsidiary companies, PIPO and Linyi Yehua Coking Co. Ltd., are Hong Kong Dollars and Chinese Renminbi, respectively, while the functional currency of the local subsidiary companies is Ringgit Malaysia.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Ringgit Malaysia using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case

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the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the income statements in the period in which the foreign operations is disposed of.

## **A2. Audit report**

The auditors' report on the audited financial statements for the year ended 31 December 2006 was not qualified.

## **A3. Seasonal or cyclical factors**

The operations of the Group during the quarter have not been affected by any material seasonal or cyclical factors.

## **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**

The Group operates predominantly in one industry and country. In this regard, segmental information is not applicable.

## **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 other than the following:

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- ***Proposed disposal of 100% equity interest in Extra Charm Sdn Bhd, a wholly-owned subsidiary company, for a cash consideration of RM18,000,000.***

Extra Charm Sdn Bhd is special purpose vehicle used by Sino Hua-An International Berhad to hold a property comprising approximately 61,312.50 sq.ft. in floor area of level 1 to level 9 and 119 car park bays on a piece of freehold land held under Geran 49604, Lot No. 52981, District and Mukim of Kuala Lumpur, State of Wilayah Persekutuan, known as "Wisma Antah".

The share purchase agreement which was entered into on 13 July 2007 is expected to be completed within 3 months from the date of the said share purchase agreement. Upon completion of the proposed disposal of Extra Charm Sdn Bhd, the Group is expected to record a gain of approximately RM0.6 million.

- ***Proposed acquisition of 49% equity interest in Linyi Jiangxin Steel Co., Ltd.***

The board of directors of Hua-An have, on 20 August 2007, agreed in principal to acquire 49% equity interest in Linyi Jiangxin Steel Co., Ltd ("the Steel Plant"), subject to the following:

- Satisfactory completion and outcome of legal and financial due diligence on the Steel Plant;
- Independent valuation on the Steel Plant;
- Satisfactory completion and outcome of the Independent Market Research report on the China steel industry;
- Profit guarantee by the vendors of the Steel Plant; and
- Management and financial control on the Steel Plant.

The Steel Plant was established in the People Republic of China in September 2003 jointly by Huasheng Jiangquan Group and Shandong Wen Ting Investment Co., Ltd. It commenced operations in May 2004 and is principally involved in the production and sales of pig iron, ferro-alloy products and other steel products.

It is located in the Jiangquan Industrial Park covering approximately 350,000 sq.m. and is currently Shandong's largest independent pig iron producer commanding approximately 27% market share in the Shandong Province.

The purchase consideration for the 49% equity interest in the Steel Plant has not been finalised but is estimated to be in the region of RM500 million. The purchase consideration will be subject to an independent valuation.

## **A11. Changes in the composition of the Group**

There were no other changes in the composition of the Group for the current quarter under review other than the proposed disposal of Extra Charm Sdn Bhd as disclosed in note A10 above.

## **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.



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## **B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS**

### **B1. Review of Performance**

For the second quarter ended 30 June 2007, the Group recorded a consolidated revenue of approximately RM210.0 million and consolidated profit before tax of approximately RM38.4 million. These were attributed to the continued robust and positive pricing of the metallurgical coke and the by-products enjoyed by the Group in the current quarter. The average price of metallurgical coke and coal gas during the current quarter under review has increased by approximately 7.3% and 20% respectively compared with those of the preceding year corresponding quarter.

As a result of the increase in the price of metallurgical coke and coal gas as well as the reduction in the net cost of production due to the commissioning of the coal washing facility in May 2007, the Group enjoyed an improvement in gross margin to approximately 21% in the current quarter from an average of approximately 18% in the preceding year.

### **B2. Variation of results against preceding quarter**

The Group's consolidated revenue increased by RM27.5 million to RM210.0 million for the current reporting quarter from RM182.5 million reported in the preceding year corresponding quarter due to the increase in the price of metallurgical coke and by-products as well as additional revenue from two new by-products, namely coal slime and middlings, extracted from the coal washing process.

Correspondingly, the gross profit has increased by approximately 28.9% to RM44.3 million during the current quarter from RM34.4 million in the preceding year corresponding quarter. Despite experiencing an increase in the average price of coal by approximately 5% from the preceding year corresponding quarter, such increase was at a relatively smaller magnitude compared to the increase in the price of metallurgical coke and by-products during the same period. Additionally, with the commissioning of the coal washing facility on 1 May 2007, the Company was able to purchase raw coal which is relatively cheaper as opposed to pre-washed coal which it previously purchased.

The Group's consolidated profit for the year also registered an improvement by approximately 13.4% to RM32.5 million in the current quarter from RM28.7 million in the preceding year corresponding quarter.

### **B3. Current year prospects**

The Group will continue to focus on its core activities and barring any unforeseen circumstances, the directors are optimistic of achieving its targeted results for the current financial year.

The Group is expected to continue to benefit from the buoyant steel industry, particularly that in China, thus providing it with sustainable and healthy demand for its metallurgical coke and by-products. This is expected to be the principal driving force for the Group to attain its targeted results for the current financial year.

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Further, the Group's recently commissioned coal washing facility has begun to contribute positively towards the profitability of the Group whilst also enabling the Group to ensuring consistent quality of its raw material which ultimately translated to consistent quality of its metallurgical coke produced.

## B4. Variation on Forecast Profit / Profit Guarantee

Profit Forecast : N/A  
Profit Guarantee : N/A

The Group did not issue any profit forecast nor profit guarantee during the current financial period to date.

## B5. Taxation

Taxation based on profit for the current quarter are as follows:

	Individual quarter ended		Cumulative quarter ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	RM'000	RM'000	RM'000	RM'000
In respect of the current period				
Income tax	5,916	N/A	10,558	N/A
Deferred tax	-	N/A	-	N/A
	<u>5,916</u>	<u>N/A</u>	<u>10,558</u>	<u>N/A</u>

The tax exemption enjoyed by Yehua (operating company in China) by virtue of its WOFE status, as originally granted, ended on 31 December 2006. As such, Yehua shall commence paying tax this financial year but at a reduced rate of 15% p.a. (i.e. half of the national corporate tax rate of 30% p.a.) for the next 3 financial years ending 31 December 2009. Notwithstanding the above, the Company had applied to the relevant tax authorities and is currently awaiting for further confirmation/documentation (albeit already having procured confirmation from the Linyi City, Luozhuang District National Tax Bureau) for the granting of a further two years of total tax exemption (i.e. for 2007 and 2008) by virtue of the fact that the Company had met certain criteria which would entitle it for the said tax exemption. For prudent reasons, tax is continued to be provided in this quarter under review.

Given the discounted tax rate as mentioned above, the effective tax rate for the current quarter ended 30 June 2007 was lower compared to the national corporate tax rate of 30%.

## B6. Sale of unquoted investments and/or properties

There was no disposal of unquoted investments or properties during the quarter under review.

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## B7. Quoted and marketable securities

There was no purchase or disposal of quoted and marketable securities during the quarter under review.

## B8. Corporate proposals

There were no corporate proposals during the quarter under review other than the proposed disposal of Extra Charm Sdn Bhd as disclosed in note A10.

## B9. Borrowings

	Denominated in local currency as at 30 June 2007 RM'000	Denominated in foreign currency as at 30 June 2007 RM'000	Total as at 30 June 2007 RM'000
<b>Short term</b>			
Term loan	-	22,742	22,742

Borrowings denominated in foreign currency:

	Renminbi (‘000)	Ringgit (‘000)
Chinese Renminbi	51,395	22,742

## B10. Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of this quarterly report.

## B11. 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.

## B12. Dividends

There was no dividend declared during the quarter under review.

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## B13. Earnings per share

	Individual quarter ended		Cumulative period ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
<b>Basic earnings per share</b>				
Profit for the period attributable to equity holders (RM'000)	32,504	28,669	50,200	57,314
Number / Weighted average number of shares in issue* ('000)	1,122,308	800,000	983,413	800,000
Basic earnings per share (sen)	<u>2.90</u>	<u>3.58</u>	<u>5.10</u>	<u>7.16</u>

\* The number of shares of Hua-An in issue as of 1 January 2006 is deemed to be the number of shares issued by the legal parent to the owners of the legal subsidiary (Appendix B, Paragraph B13(a) of FRS 3), ie at 800,000,000.

There is no diluted earnings per share as the Company does not have any share option in issue at the current quarter under review.

By Order of the Board  
Chua Siew Chuan  
Secretary

28 August 2007