

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

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

- 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-17 RM'000	Preceding Period 30-Sep-16 RM'000	Current Period 30-Sep-17 RM'000	Preceding Period 30-Sep-16 RM'000
Revenue	269,297	-	615,013	41,874
Cost of sales	(227,370)	-	(544,171)	(56,216)
Gross profit/(loss)	41,927	-	70,842	(14,342)
Other income	233	2,216	2,065	7,527
Operating expenses	(8,013)	(12,412)	(17,786)	(26,631)
	(7,780)	(10,196)	(15,721)	(19,104)
Profit/(Loss) before tax	34,147	(10,196)	55,121	(33,446)
Taxation	-	-	-	-
Profit/(Loss) for the period	34,147	(10,196)	55,121	(33,446)
Other comprehensive expense: Items that will be reclassified subsequently to profit or loss: Exchange difference arising from translation of foreign operations	263	12,751	(5,258)	(35,822)
Total comprehensive income/(expense) for the period	34,410	2,555	49,863	(69,268)
Profit/(Loss) attributable to equity holders of the Company	34,147	(10,196)	55,121	(33,446)
Total comprehensive income/(expense) attributable to equity holders of the Company	34,410	2,555	49,863	(69,268)
Profit/(Loss) per share (sen)				
- basic (sen)	3.04	(0.91)	4.91	(2.98)
- 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 SEPTEMBER 2017

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Sep-17 RM'000	Audited as at 31-Dec-16 RM'000
Non Current Assets		
Land lease payment	31,471	32,878
Property, plant and equipment	185,924	194,735
	217,395	227,613
Current Assets		
Inventories	113,587	17,181
Trade receivables	53,063	6,085
Other receivables, deposits and prepayments	40,282	8,235
Amount due from related parties	15,575	59,538
Tax recoverable	-	19,981
Bank balances and cash	22,129	21,254
	244,636	132,274
Total Assets	462,031	359,887
Shareholders' Fund		
Share capital	1,115,045	561,154
Reserves	(770,275)	(266,247)
	344,770	294,907
Current Liabilities		
Trade payables	61,526	35,842
Other payables and accrued expenses	30,376	29,138
Short term bank loan	25,359	-
	117,261	64,980
Total Equity and Liabilities	462,031	359,887
Net assets per share (RM)	0.31	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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- 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	Share premium RM'000	Statutory common reserves funds RM'000	Reverse acquisition reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	
9 months ended 30 September 2016							
Balance as of January 1, 2016	561,154	553,891	49,358	(799,823)	235,007	(53,961)	545,626
Loss for the period	-	-	-	-	-	(33,446)	(33,446)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	(35,821)	-	(35,821)
Balance as of September 30, 2016	561,154	553,891	49,358	(799,823)	199,186	(87,407)	476,359
9 months ended 30 September 2017							
Balance as of January 1, 2017	561,154	553,891	49,358	(799,823)	211,747	(281,420)	294,907
Transition to no-par value *	553,891	(553,891)	-	-	-	-	-
Profit for the period	-	-	-	-	-	55,121	55,121
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(5,258)	-	(5,258)
Balance as of September 30, 2017	1,115,045	-	49,358	(799,823)	206,489	(226,299)	344,770

* 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 SEPTEMBER 2017 - THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended	
	30-Sep-17	30-Sep-16
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the period	55,121	(33,446)
Adjustments for:		
Depreciation of property, plant and equipment	16,191	32,960
Amortisation of lease payments	831	796
Interest income	(64)	(69)
Asset written off	1	29
Operating profit before working capital changes	72,080	270
(Increase) / Decrease in:		
Inventories	(96,406)	25,995
Trade receivables	(46,978)	9,952
Other receivables, deposits and prepayments	(32,048)	10,123
Amount due by related parties	43,963	(25,566)
Increase / (Decrease) in:		
Trade payables	25,684	(25,038)
Other payables and accrued expenses	21,218	(7,039)
Amount due to related company	0	(3,925)
Cash used in operations	(12,487)	(15,228)
Tax paid	-	-
Net cash used in operating activities	(12,487)	(15,228)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(10,800)	(2,483)
Interest received	64	69
Net cash used in investing activities	(10,736)	(2,414)
CASH FLOWS USED IN FINANCING ACTIVITY		
Drawdown from bank loan	25,359	-
Net cash generated from financing activity	25,359	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,136	(17,642)
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE FINANCIAL PERIOD	21,254	27,830
Effect of changes in exchange rates	(1,261)	(5,693)
CASH AND CASH EQUIVALENTS		
AT END OF THE FINANCIAL PERIOD	22,129	4,495

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 September 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
IC Interpretations 23	Uncertainty over Income Tax Treatments	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.

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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 2017		Financial period ended 30 September 2017	
	External Revenue RM'000	Profit/(loss) before tax RM'000	External Revenue RM'000	Profit/(loss) before tax RM'000
Manufacturing	269,297	34,535	615,013	56,470
Investment Holdings	-	(388)	-	(1,349)
	<u>269,297</u>	<u>34,147</u>	<u>615,013</u>	<u>55,121</u>

	Third quarter ended 30 September 2016		Financial period ended 30 September 2016	
	External Revenue RM'000	Loss before tax RM'000	External Revenue RM'000	Loss before tax RM'000
Manufacturing	-	(9,808)	41,874	(32,092)
Investment Holdings	-	(388)	-	(1,354)
	<u>-</u>	<u>(10,196)</u>	<u>41,874</u>	<u>(33,446)</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.

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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 transactions 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 recorded a consolidated revenue of RM269.3 million compared to the corresponding quarter of the preceding year which registered nil revenue by virtue of the fact that the Group's operationalised coke ovens were subject to a leasing arrangement spanning over that material period of time.

During this quarter under review, the average coke price was approximately RMB2,043 per tonne and the total cumulative sales volume stood at approximately 210,000 tonnes. Contribution from the by-products accounted for approximately 13% of the total revenue of the Group during the quarter under review as the Group was still in the process of ramping up its production. The Group has recorded a cost of sales amounting to approximately RM227.4 million during the current quarter under review with the average coal price recorded at approximately RMB1,198 per tonne. Following therefrom, the Group recorded a gross profit of approximately RM41.9 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 RM8.0 million in the current quarter compared to approximately RM12.4 million in the same quarter last year. Operating expense for the current quarter under review includes staff salary, depreciation, minor repair and maintenance, electricity, 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 RM34.1 million in the current quarter under review compared to a net loss of approximately RM10.2 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 RM269.3 million as compared to RM259.0 million during the immediate preceding quarter ended 30 June 2017. This was attributed to the improvement in average coke price from approximately RMB1,968 per tonne during the last quarter ended 30 June 2017 to RMB2,043 per tonne despite marginally lower sale volume during the quarter under review.

The cost of sales recorded by the Group during the quarter under review was approximately RM227.4 million as compared to RM233.0 million during the immediate preceding quarter ended 30 June 2017. This was due to lower sales volume with the slightly higher average coal price at approximately RMB1,198 per tonne compared to RMB1,167 per tonne during the immediate preceding quarter ended 30 June 2017.

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The Group recorded its operating expenses of approximately RM8.0 million (out of which approximately RM3.7 million was attributable to the property and land use tax) during the quarter under review compared to approximately RM4.1 million in the immediate preceding quarter ended 30 June 2017.

After taking into consideration of other income and operating expenses, the Group recorded a net profit of approximately RM34.1 million during the quarter under review, compared to approximately RM22.0 million in the immediate preceding quarter ended 30 June 2017.

B3. Current year prospects

Chinese economy has continued to beat expectations with the growth rate coming in slightly ahead of analysts' forecasts. From 6.9% growth in the first six months of the year, China's Central Bank governor, Mr Zhu Xiaochuan, forecasts that the economy could grow at a rate of 7.0% for the second half of the year. Such economic growth are envisaged to be achieved through continued robust public and private sector infrastructure projects as well as real estate development pursuits particularly in the third tiered cities, all of which will provide an impetus to the steel and coke industry. According to a steel industry consensus, the domestic steel demand is expected to continue to be robust and sustainable through the rolling out of several socio-economic initiatives, more notably the expected RMB2 trillion steel consumption required to realise China's high-speed rail project from 2017 to 2030 as well as the spin-off effects of the massive One-Belt-One-Road (OBOR) initiative which will be spearheaded by China. All these may be seen as a catalyst to provide a compelling case on the prospect of the steel and coke industry, moving forward.

Notwithstanding the above, cognisance is taken on the fact the Chinese Government has at the same time instituted stricter environmental regulation and its approach in dealing with pollution concerns in the country. Local governments continue to shut down many illegal establishments as well as factories that fail to comply with the environment protection standards and policies. Besides addressing the perennial pollution issues besetting the nation, such initiatives also serve to stem the perceived oversupply situation in the steel industry by cutting domestic capacity of steel with the aim at improving prices and industry-wide profitability, with the aim to ensuring a more robust and stainable industry prospect. The above situation augurs well with those subsisting and compliant plants (such as ours) as operating environment will tend to improve and become more favourable in the years to come.

In view of the above, the Group remains optimistic with the recovery seen in the steel industry and will continue to be vigilant to relevant consequential circumstances that may have perceivable effect on the metallurgical coke business, to which necessary action steps will be taken to face those challenges as and when they arise.

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:

	Third quarter ended		Financial period ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before taxation	<u>34,147</u>	<u>(10,196)</u>	<u>55,121</u>	<u>(33,446)</u>
Taxation at statutory tax rate of 24%	8,195	(2,447)	13,229	(8,027)
Different tax rates in other countries	345	(98)	565	(321)
Expenses not deductible for tax purposes	95	95	331	331
Income not subject to tax	(2)	(2)	(8)	(6)
Utilization of previously unrecognized deferred tax assets	(8,633)	-	(14,117)	-
Changes in unrecognized deferred tax asset	<u>-</u>	<u>2,452</u>	<u>-</u>	<u>8,023</u>
Tax expense for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	Third quarter ended		Financial period ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
Basic profit/(loss) per share				
Profit/(Loss) for the period attributable to equity holders (RM'000)	34,147	(10,196)	55,121	(33,446)
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>3.04</u>	<u>(0.91)</u>	<u>4.91</u>	<u>(2.98)</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 Sep 2017 RM'000	As at 30 Sep 2016 RM'000
Accumulated Losses of the Group and its Subsidiaries		
- Realised	(226,299)	(87,407)
- Unrealised	<u>51,287</u>	<u>48,021</u>
	(175,012)	(39,386)
Less: Consolidation adjustment	<u>(51,287)</u>	<u>(48,021)</u>
Total accumulated losses as per consolidated accounts	<u><u>(226,299)</u></u>	<u><u>(87,407)</u></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. Profit/(Loss) before tax

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

	Third quarter ended		Financial period ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Interest income	(20)	(14)	(64)	(69)
Other income	(213)	(2,202)	(2,001)	(7,458)
Depreciation of property, plant and equipment	5,413	10,397	16,191	32,960
Amortisation of lease payments	280	251	831	796
Fixed assets written off	-	-	1	29

By Order of the Board
Chua Siew Chuan
Secretary

30 October 2017