

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS

FOR THE THIRD QUARTER AND NINE MONTHS FINANCIAL PERIOD ENDED 30 SEPTEMBER 2014

- 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-14 RM'000	Preceding Period 30-Sep-13 RM'000	Current Period 30-Sep-14 RM'000	Preceding Period 30-Sep-13 RM'000
Revenue	249,169	336,304	831,062	972,574
Cost of sales	(245,734)	(326,149)	(816,584)	(960,893)
Gross profit	3,435	10,155	14,478	11,681
Other income	162	192	491	409
Operating expenses	(4,563)	(3,491)	(12,699)	(12,900)
Finance cost (Lease payable interest)	(9)	(9)	(26)	(25)
	(4,410)	(3,308)	(12,234)	(12,516)
(Loss)/Profit before tax	(975)	6,847	2,244	(835)
Taxation	-	-	-	-
(Loss)/Profit for the period	(975)	6,847	2,244	(835)
Other comprehensive income/(expense): Items that will be reclassified subsequently to profit or loss: Exchange difference arising from translation of foreign operations	11,637	15,629	(7,018)	45,346
Total comprehensive income/(expense) for the period	10,662	22,476	(4,774)	44,511
(Loss)/Profit attributable to equity holders of the Company	(975)	6,847	2,244	(835)
Total comprehensive income/(expense) attributable to equity holders of the Company	10,662	22,476	(4,774)	44,511
(Loss)/Profit per share (sen)				
- basic (sen)	(0.09)	0.61	0.20	(0.07)
- 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 2013.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Sep-14 RM'000	Audited as at 31-Dec-13 RM'000
Non Current Assets		
Land lease payment - long-term	28,289	29,333
Property, plant and equipment	339,122	364,937
Goodwill	107,784	107,819
	475,195	502,089
Current Assets		
Land lease payment - short-term	929	941
Inventories	52,483	104,917
Trade receivables	97,828	62,155
Other receivables, deposits and prepayments	40,438	16,849
Amount due from related parties	67,958	34,951
Tax recoverable	12,799	15,137
Bank balances and cash	42,858	32,198
	315,293	267,148
Total Assets	790,488	769,237
Shareholders' Fund		
Share capital	561,154	561,154
Reserves	130,576	135,350
	691,730	696,504
Current Liabilities		
Trade payables	86,861	53,749
Other payables and accrued expenses	11,869	18,701
Lease payable	28	283
	98,758	72,733
Total Equity and Liabilities	790,488	769,237
Net assets per share (RM)	0.62	0.62

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 2013.

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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 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 2013</u>							
Balance as of January 1, 2013	561,154	553,891	49,358	(799,823)	48,361	207,946	620,887
Loss for the period	-	-	-	-	-	(835)	(835)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	45,346	-	45,346
Balance as of September 30, 2013	561,154	553,891	49,358	(799,823)	93,707	207,111	665,398
<u>9 months ended 30 September 2014</u>							
Balance as of January 1, 2014	561,154	553,891	49,358	(799,823)	108,634	223,290	696,504
Profit for the period	-	-	-	-	-	2,244	2,244
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(7,018)	-	(7,018)
Balance as of September 30, 2014	561,154	553,891	49,358	(799,823)	101,616	225,534	691,730

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 2013.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND NINE MONTHS FINANCIAL PERIOD ENDED 30 SEPTEMBER 2014 - THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended	For the financial period ended
	30-Sep-14	30-Sep-13
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the period	2,244	(835)
Adjustments for:		
Depreciation of property, plant and equipment	30,622	30,383
Amortisation of lease payments	690	659
Finance costs	26	25
Interest income	(146)	(117)
Asset written off	1,419	-
Operating profit before working capital changes	34,855	30,115
(Increase) / Decrease in:		
Inventories	52,434	(10,475)
Trade receivables	(35,673)	(6,844)
Other receivables, deposits and prepayments	(25,463)	7,294
Amount due by related parties	(33,008)	(24,278)
Increase / (Decrease) in:		
Trade payables	33,112	16,920
Other payables and accrued expenses	(4,493)	10,848
Amount due to related company	0	(289)
Cash generated from operations	21,764	23,291
Tax paid	-	655
Net cash generated from operating activities	21,764	23,946
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(10,777)	(3,788)
Interest received	146	117
Net cash used in investing activities	(10,631)	(3,671)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of lease payables	(281)	(224)
Net cash used in financing activity	(281)	(224)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,852	20,051
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	32,198	16,467
Effect of changes in exchange rates	(192)	904
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	42,858	37,422

The above Condensed Consolidated Statement of Cash Flow should be read in conjunction with the the Audited Financial Statements for the financial year ended 31 December 2013.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

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 Company for the year ended 31 December 2013. 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 2013.

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 2013, except for the adoption of the following Malaysian Financial Reporting Standards (“MFRSs”), Issues Committee (“IC”) Interpretations and amendments to MFRS for financial periods beginning on or after 1 January 2014:-

Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to MFRS 10, 12 and 127	Investment entities
IC Interpretation 21	Levies

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, revised MFRSs, IC Interpretations, amendments to MFRSs and IC Interpretations were issued but not yet effective and have not been adopted by the Group:-

		<u>Effective dates for financial periods beginning on or after</u>
MFRS 9	Financial Instruments	To be announced by Malaysian Accounting Standards Board (“MASB”)
Amendments to MFRS119	Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010 - 2012 Cycle		1 July 2014
Annual Improvements to MFRSs 2011 - 2013 Cycle		1 July 2014
MFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendment to MFRS 116 and MFRS 138	Clarification on Acceptable Methods of Depreciation and Amortisation	1 January 2016

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

		<u>Effective dates for financial periods beginning on or after</u>
Amendment to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
MFRS 15	Revenue from contracts with customers	1 January 2017
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants	1 January 2017

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*. The Group will assess the financial implications of MFRS 9 *Financial Instruments* when the full standard is issued.

A2. Audit report

The auditors' report on the audited financial statements for the year ended 31 December 2013 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.

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.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

A8. Segmental information

Segment results by business activities

	Third quarter ended 30 September 2014		Financial period ended 30 September 2014	
	External Revenue RM'000	Loss before tax RM'000	External Revenue RM'000	Profit/(loss) before tax RM'000
Manufacturing	249,169	(591)	831,062	3,679
Investment Holdings	-	(384)	-	(1,435)
	<u>249,169</u>	<u>(975)</u>	<u>831,062</u>	<u>2,244</u>

	Third quarter ended 30 September 2013		Financial period ended 30 September 2013	
	External Revenue RM'000	Profit/(loss) before tax RM'000	External Revenue RM'000	Profit/(loss) before tax RM'000
Manufacturing	336,304	7,258	972,574	575
Investment Holdings	-	(411)	-	(1,410)
	<u>336,304</u>	<u>6,847</u>	<u>972,574</u>	<u>(835)</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.

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.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

A13. Related party transactions

	Third quarter ended 30 Sep 2014 RM'000	Financial period ended 30 Sep 2014 RM'000
Sales of goods to related parties		
Linyi Jiangxin Steel Co., Ltd.	(65,477)	(275,608)
Shandong Jiangquan Industrial Co., Ltd Thermoelectricity	(15,849)	(54,376)
Shandong Jiangquan Industrial Co., Ltd. - Jiangxin Construction Use Ceramic Factory	(3,394)	(9,312)
Electricity expense paid/payable		
Shandong Huasheng Jiangquan Thermoelectricity Co., Ltd.	8,544	30,125
Storage expense paid/payable		
Shandong Jiangquan Industrial Co., Ltd. Railroad	1,022	2,113

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

The consolidated revenue of the Group for the current quarter under review amounted to RM249.2 million, representing a decrease of approximately 26% from the amount registered in the preceding year corresponding quarter of RM336.3 million. The decline in the said revenue was due to the lower average selling price of metallurgical coke and its sales volume. The average selling price of metallurgical coke has declined by approximately 20% to RMB1,053 during this current quarter from RMB1,309 in the preceding year corresponding quarter. As for the sales volume, the Group saw a decline of approximately 7% in the third quarter of 2014 compared to previous year corresponding quarter. In addition to the lacklustre performance of the metallurgical coke business, the overall contribution from the by-products also suffered a reduction of approximately 13% during the current quarter culminated by the fall in the prices of ammonium sulphate, tar oil and coal gas of approximately 5%, 2% and 10% respectively notwithstanding the slight price increase seen in crude benzene by a meagre 1%.

In tandem with the general decline in prices of commodities, the average price of coking coal also dropped and this led to a reduction in the Group's cost of sales in the current quarter under review. The average coking coal price saw a reduction of approximately 17% to RMB787 in the current quarter compared to RMB949 recorded in the same quarter last year. The cost of sales recorded in the third quarter of 2014 was approximately RM245.7 million compared to RM326.1 million in the preceding year corresponding quarter, representing a reduction of approximately 25%.

As a result of the pricing movement dynamics of metallurgical coke and coking coal as mentioned above, the Group recorded a gross profit of approximately RM3.4 million during the quarter under review compared to approximately RM10.2 million in the preceding year corresponding quarter. However, after accounting for other income, operational expenses and finance costs, the Group turned in a small net loss before tax of RM975,000 in the current quarter under review compared to a net profit before tax of approximately RM6.8 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

The Group's consolidated revenue of approximately RM249.2 million registered during the current quarter under review represents a reduction of approximately 5% from RM261.4 million recorded in the immediate preceding quarter ended 30 June 2014. This reduction in revenue was primarily attributed to an approximately 5% drop in the sales volume despite an approximately 2% increase seen in the average price of metallurgical coke during the current quarter under review compared to that of the immediate preceding quarter. On top of that, there was an approximately 6% reduction in the contribution from the by-products during the current quarter as compared to that of the immediate preceding quarter.

The cost of sales in the current quarter under review was also lower by approximately 4% to RM245.7 million compared to the immediate preceding quarter ended 30 June 2014 of RM255.9 million. This was mainly due to lower average coking coal price of approximately 1% as well as the reduction in sales volume during the current quarter under review compared to those recorded in the immediate preceding quarter.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

The Group recorded a relatively lower gross profit of approximately RM3.4 million in the current quarter under review compared to approximately RM5.5 million in the immediate preceding quarter. However, in the current third quarter under review, a marginally higher operating expenses resulted in the Group reporting a net loss for the period of RM975,000 compared to a net profit of approximately RM2.6 million in the previous quarter ended 30 June 2014.

B3. Current year prospects

Based on a slew of economic data, China's economy has indeed slowed down considerably in the recent months with its GDP hovering at 7.3% in this current third quarter, its slowest pace since the depth of the worldwide downturn. This is primarily due to the continued structural and socio-economic conditions besetting its domestic economy. The continuing fervors by the Government to structurally reform and rebalance its economy as well as its initiatives to control the ill-effects of the burgeoning shadow banking industry, inflation and heightened real estate prices had dampened the growth trajectory of its economy. Accordingly the steel industry, which rides in tandem with the health of the economy, had to bear the brunt with oversupply situations and pricing pressures resulting in negative effects on all the relevant industries along its entire value-chain, the metallurgical coke industry included.

Macroeconomic and geopolitical headwinds in the foreign front does not help either. Global economic recovery remains fragile with downside risks still existing as evidenced by the precarious economies in Europe and Latin America. The US Federal Reserve tapering programme and its intention to hike its domestic interest rates pose a further blow to the global economic recovery, particularly that of emerging markets and underdeveloped/developing nations. Further the global weakening of commodity prices, the Ebola outbreak in West Africa and political instability characterized by the rise of the Islamic State group and the conflict in Ukraine have all stifled the global economic recovery, to which China is still unfortunately very much dependent on.

Notwithstanding the above challenges, it is not all doom and gloom for China in its path ahead. Admittedly, China still possesses considerable amount of financial muscles and clout to prevent its economy from going into a free-fall. As and when deemed necessary, the Government will periodically turn on its fiscal tap to inject liquidity into the system to stimulate the economy. This can be evidenced by the several mini stimulus programmes previously instituted by the Government to meet its objectives. In a fairly recent announcement, the National Development and Reform Commission (NDRC) of China has approved construction of five airports and three railway projects worth RMB150 billion, the latest move to speed up infrastructure projects to boost growth. Additionally, China's Premier Li Keqiang has also recently promised to launch major investment projects in information networks, water conservancy and environmental protection to support the economy. All this augurs well for the China economy and thus the steel industry and its related industries like that of the metallurgical coke.

Barring any unforeseen circumstances and/or major turn of events, the Group is cautiously optimistic that gradual recovery in the economy will bring about positive impact to the financial performance of the Group in the coming financial years.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

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Notes to the quarterly report – 30 SEPTEMBER 2014

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. 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 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit before taxation	<u>(975)</u>	<u>6,847</u>	<u>2,244</u>	<u>(835)</u>
Taxation at statutory tax rate of 25%	(244)	1,712	561	(209)
Expenses not deductible for tax purposes	97	104	362	355
Income not subject to tax	(1)	(1)	(3)	(2)
Deferred tax assets not recognized	148	-	-	-
Utilization of previously unrecognized deferred tax asset	-	(1,815)	(920)	(144)
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's lease payable as at end of the reporting period are as follows:

	As at	As at
	30 Sep 2014	30 Sep 2013
	RM'000	RM'000
Secured lease payable		
- Short term	28	331
- Long term	-	28
Total lease payable	<u>28</u>	<u>359</u>

Lease payable is denominated in RMB.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

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 dividend had been declared in respect of the current quarter under review.

B10. Earnings per share

	Third quarter ended		Financial period ended	
	30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
Basic profit per share				
(Loss)/Profit for the period attributable to equity holders (RM'000)	(975)	6,847	2,244	(835)
Number / Weighted average number of shares in issue ('000)	1,122,308	1,122,308	1,122,308	1,122,308
Basic (loss)/profit per share (sen)	(0.09)	0.61	0.20	(0.07)

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

B11. Realised and Unrealised Profits/Losses Disclosure

	As at 30 Sep 2014 RM'000	As at 30 Sep 2013 RM'000
Retained profit of the Group and its subsidiaries		
- Realised	225,534	207,111
- Unrealised	(10,602)	(13,655)
	214,932	193,456
Less: Consolidation adjustment	10,602	13,655
Total retained earnings as per consolidated accounts	225,534	207,111

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.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes to the quarterly report – 30 SEPTEMBER 2014

B12. Profit/(Loss) before tax

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

	Third quarter ended		Financial period ended	
	30 Sep 2014	30 Sep 2013	30 Sep 2014	30 Sep 2013
	RM'000	RM'000	RM'000	RM'000
Interest income	(47)	(38)	(146)	(117)
Other income	(115)	(154)	(345)	(292)
Depreciation of property, plant and equipment	9,671	10,598	30,622	30,383
Amortisation of lease payments	226	229	690	659
Fixed assets written off	1,398	-	1,419	-
Finance cost	9	9	26	25

By Order of the Board
Chua Siew Chuan
Secretary

26 November 2014