

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015 - 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-15 RM'000	Preceding Period 30-Sep-14 RM'000	Current Period 30-Sep-15 RM'000	Preceding Period 30-Sep-14 RM'000
Revenue	14,352	249,169	172,670	831,062
Cost of sales	(20,529)	(245,734)	(185,935)	(816,584)
Gross (loss)/profit	(6,177)	3,435	(13,265)	14,478
Other income	145	162	2,013	491
Operating expenses	(12,739)	(4,563)	(39,338)	(12,699)
Finance cost (Lease payable interest)	-	(9)	-	(26)
	(12,594)	(4,410)	(37,325)	(12,234)
(Loss)/Profit before tax	(18,771)	(975)	(50,590)	2,244
Taxation	-	-	-	-
(Loss)/Profit for the period	(18,771)	(975)	(50,590)	2,244
Other comprehensive income/(expense):				
Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising from translation of foreign operations	84,555	11,637	137,394	(7,018)
Total comprehensive income/(expense) for the period	65,784	10,662	86,804	(4,774)
(Loss)/Profit attributable to equity holders of the Company	(18,771)	(975)	(50,590)	2,244
Total comprehensive income/(expenses) attributable to equity holders of the Company	65,784	10,662	86,804	(4,774)
(Loss)/Earnings per share (sen)				
- basic (sen)	(1.67)	(0.09)	(4.51)	0.20
- 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 2014.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 30-Sep-15 RM'000	Audited as at 31-Dec-14 RM'000
Non Current Assets		
Land lease payment - long-term	36,041	30,019
Property, plant and equipment	435,818	355,593
Goodwill	108,697	107,985
	580,556	493,597
Current Assets		
Land lease payment - short-term	1,224	994
Inventories	53,106	72,530
Trade receivables	52,076	36,427
Other receivables, deposits and prepayments	5,923	13,380
Amount due from related parties	124,609	127,316
Tax recoverable	27,266	17,638
Bank balances and cash	47,638	26,313
	311,842	294,598
Total Assets	892,398	788,195
Shareholders' Fund		
Share capital	561,154	561,154
Reserves	258,067	171,263
	819,221	732,417
Current Liabilities		
Trade payables	47,822	35,288
Other payables and accrued expenses	18,630	20,490
Amount due to related parties	6,725	-
	73,177	55,778
Total Equity and Liabilities	892,398	788,195
Net assets per share (RM)	0.73	0.65

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 2014.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

- 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 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 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 expense							
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
<u>9 months ended 30 September 2015</u>							
Balance as of January 1, 2015	561,154	553,891	49,358	(799,823)	142,549	225,288	732,417
Loss for the period	-	-	-	-	-	(50,590)	(50,590)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	137,394	-	137,394
Balance as of September 30, 2015	561,154	553,891	49,358	(799,823)	279,943	174,698	819,221

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 2014.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

- 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-15	30-Sep-14
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit for the period	(50,590)	2,244
Adjustments for:		
Depreciation of property, plant and equipment	33,040	30,622
Amortisation of lease payments	801	690
Finance costs	-	26
Interest income	(155)	(146)
Asset written off	832	1,419
Operating (loss)/profit before working capital changes	(16,072)	34,855
(Increase) / Decrease in:		
Inventories	19,424	52,434
Trade receivables	(15,649)	(35,673)
Other receivables, deposits and prepayments	7,458	(25,463)
Amount due by related parties	2,708	(33,008)
Increase / (Decrease) in:		
Trade payables	12,534	33,112
Other payables and accrued expenses	(11,487)	(4,493)
Amount due to related company	6,725	
Cash generated from operations	5,641	21,764
Tax paid	-	-
Net cash generated from operating activities	5,641	21,764
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(32,154)	(10,777)
Interest received	155	146
Net cash used in investing activities	(31,999)	(10,631)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of lease payables	-	(281)
Net cash used in financing activity	-	(281)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(26,358)	10,852
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE FINANCIAL PERIOD	26,313	32,198
Effect of changes in exchange rates	47,683	(192)
CASH AND CASH EQUIVALENTS		
AT END OF THE FINANCIAL PERIOD	47,638	42,858

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 2014.

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Notes to the quarterly report – 30 SEPTEMBER 2015

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 2014. 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 2014.

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 2014, 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 2015:-

Amendments to MFRS119 Defined Benefit Plans: Employee Contributions
Annual Improvements to MFRSs 2010 - 2012 Cycle
Annual Improvements to MFRSs 2011 - 2013 Cycle

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 14	Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016

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		<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
Amendments to MFRS101	Disclosure initiative	1 January 2016
Amendment to MFRS 116 and MFRS 138	Clarification on Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS127	Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to MFRSs 2012 - 2014 Cycle		1 January 2016
MFRS 15	Revenue from Contracts with Customers	1 January 2017
MFRS 9	Financial Instruments	1 January 2018

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 2014 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.

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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 2015		Financial period ended 30 September 2015	
	External Revenue RM'000	Loss before tax RM'000	External Revenue RM'000	Loss before tax RM'000
Manufacturing	14,352	(18,401)	172,670	(49,217)
Investment Holdings	-	(370)	-	(1,373)
	<u>14,352</u>	<u>(18,771)</u>	<u>172,670</u>	<u>(50,590)</u>

	Third quarter ended 30 September 2014		Financial period ended 30 September 2014	
	External Revenue RM'000	Profit/(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>

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.

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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

	Third quarter ended 30 Sep 2015 RM'000	Financial period ended 30 Sep 2015 RM'000
Sales of goods to related parties		
Linyi Jiangxin Steel Co., Ltd.	(11,487)	(122,651)
Shandong Jiangquan Industrial Co., Ltd Thermoelectricity	-	(15,236)
Shandong Jiangquan Industrial Co., Ltd. - Jiangxin Construction Use Ceramic Factory	-	(125)
Electricity expense paid/payable		
Shandong Huasheng Jiangquan Thermoelectricity Co., Ltd.	730	10,963
Storage expense paid/payable		
Shandong Jiangquan Industrial Co., Ltd. Railroad	-	848
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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

For the current quarter under review, the Group recorded a consolidated revenue of RM14.4 million compared to RM249.2 million registered in the preceding year corresponding quarter. Such a severe drop in revenue was attributed to the temporary suspension of the Group's major subsidiary, namely Linyi Yehua Coking Co., Ltd. ("Yehua")'s metallurgical coke production plant since March 2015.

To recap, the Ministry of Environmental Protection of the People's Republic of China ("MoEP") had ordered all plants from industries perceived to be polluting to halt production until the newly revised and heightened environmental protection standards (introduced in 2015) is satisfactorily met. In this respect, Yehua had to abide by the said directive to temporarily suspend its operations and to carry out specifically identified rectification works on its production plant. Despite the fact that all the necessary rectification works being successfully completed on 31 May 2015, Yehua found itself being unable to re-start its operations immediately thereafter as its coking ovens had suffered certain degree of damages (an industry-wide predicament resulting from the drastic drop in oven temperature during the period of stoppage). Due to the complexity of the repair work to restore the ovens stemming from the unprecedented nature and manner of the shutdown of the ovens, the restoration of the damaged ovens had taken a protracted period of time. The status of the said restoration leading to the resumption of operations is as follows:

	Capacity (tonnes)	Completion of repair works	Firing-up of ovens	Testing and commissioning	Commencement of commercial production
Oven #1	300,000	01.08.15	01.08.15	23.09.15	04.10.15 
Oven #2	300,000	17.08.15	17.08.15	07.10.15	17.10.15 
Oven #3	300,000	01.09.15	01.09.15	22.10.15	01.11.15 
Oven #4	300,000	20.11.15	KIV *	KIV *	KIV *
Oven #5	600,000	20.11.15	KIV *	KIV *	KIV *
	<u>1,800,000</u>				

* The management has made a strategic decision to defer the firing-up of ovens #4 and #5 due to the still unfavourable market condition besetting the industry at this juncture

In reference to the above, it is evident that the Group's reduced revenue in the current third quarter under review was derived from the sale of metallurgical coke produced during the testing and commissioning period of *Oven #1* as well as supplement from the sale of remaining held coke inventory. Given the said circumstances besetting the Group, contribution from the by-products during the current quarter have also been very much curtailed.

As a result of the suspension of operations and the staggered resumption of production as described above, the corresponding cost of sales were recorded at approximately RM20.5 million during the current quarter under review compared to approximately RM245.7 million recorded in the same quarter last year.

Premised on the above, the Group recorded a gross loss of RM6.2 million for the third quarter of the year compared to a gross profit of RM3.4 million in the preceding year

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corresponding quarter. Relevant fixed manufacturing costs including workers' salaries, depreciation, repair and maintenance, electricity, etc. during the suspension period which still needed to be incurred were reclassified as operating expenses in the relevant quarters accordingly.

After taking into consideration the other income generated by the Group and the operating expenses and finance costs incurred, the Group reported a net loss before tax of RM18.8 million in the current quarter under review compared to approximately RM1 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

The Group's consolidated revenue has increased to approximately RM14.4 million in the current quarter under review compared to approximately only RM3.6 million registered in the immediate preceding quarter ended 30 June 2015. This was due to the fact that restoration work has been completed on some of the ovens, thus enabling some revenue to be derived from coke produced during the testing and commissioning period as well as the sale of the remaining held coke inventory in the current quarter. In comparison, there were no operations in the immediate preceding quarter and almost non-existent sale of coke inventory during that period as a result of the stop-order directive from the MoEP in March 2015 (i.e. the period covering the entire immediate preceding quarter) which had affected not only coke producers but also our customers, the steel manufacturers.

As a consequence of the above, the cost of sales registered in the current quarter under review also increased in tandem with the increased revenue to approximately RM20.5 million compared to that in the immediate preceding quarter ended 30 June 2015 of only RM3.7 million.

For the current quarter under review, the Group recorded a gross loss of approximately RM6.2 million compared to a loss of approximately RM166,000 in the immediate preceding quarter. This relatively larger loss was due to the unfavourable pricing dynamics of coke and coal, emanating from the continued slackening of the steel industry and thus by extension, the coke industry.

After taking into consideration of the operating expenses, the Group recorded a net loss for the period of RM18.8 million compared to approximately RM20.6 million in the previous quarter ended 30 June 2015.

B3. Current year prospects

The temporary suspension of operations had brought about significant impact to the Group, as evidenced by the financial results reported by the Group over the duration of inactivity caused by the said suspension. Notwithstanding that, the Group's affected subsidiary, namely Linyi Yehua Coking Co., Ltd. ("Yehua") had managed to satisfactorily complete all the relevant rectification work as required under the newly revised environmental protection standards on 31 May 2015 and is currently in various stages of completion insofar as the repair and restoration of its damaged coke ovens are concerned. Please refer to the table on the status of the repair and restoration work of the coke ovens in *Section B1* above.

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Based on the said tentative repair and restoration schedule (as presented in Section B1 above), barring any unforeseen circumstances, the Group expects at least 50% of its production capacity to be fully restored for commercial production by the end of the current financial year.

Notwithstanding the above clearly defined resolution of its internal quandary, the Group anticipates other external challenges to continue to plague the steel and coke industries. The continually prolonged lackluster economic growth in China coupled with still weak external demand in the region is expected to thwart the short term outlook of the steel and coke industries. In this respect, it is no surprise that China's economic growth may hover below the psychological 7% level. Despite the fact that China still has a lot of financial fire power within its system, evidence has shown that the current leadership will continue to be steadfast in maintaining discipline in the rollout of any fiscal and/or monetary policies unless deemed absolutely necessary, in order to avoid indiscriminate and unnecessary Government spending, a situation which will mar the Government's effort towards realizing and completing the intended structural reform of its economy. In that, a more "subdued" and more balanced economic growth will be embraced by the current leadership, at least for the immediate near future.

Premised on the above, the Group has taken a cautious stance and expects its current year prospect to be somewhat restrained.

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 2015	30 Sep 2014	30 Sep 2015	30 Sep 2014
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit before taxation	(18,771)	(975)	(50,590)	2,244
Taxation at statutory tax rate of 25%	(4,692)	(244)	(12,647)	561
Expenses not deductible for tax purposes	93	97	347	362
Income not subject to tax	(1)	(1)	(4)	(3)
Changes in unrecognized deferred tax asset	4,600	148	12,304	(920)
Tax expense for the financial year	-	-	-	-

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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.

B10. (Loss)/Earnings per share

	Third quarter ended		Financial period ended	
	30 Sep 2015	30 Sep 2014	30 Sep 2015	30 Sep 2014
Basic (loss)/earnings per share				
(Loss)/Earnings for the period attributable to equity holders (RM'000)	(18,771)	(975)	(50,590)	2,244
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)	<u>(1.67)</u>	<u>(0.09)</u>	<u>(4.51)</u>	<u>0.20</u>

There are no diluted earnings/(loss) 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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B11. Realised and Unrealised Profits/Losses Disclosure

	As at 30 Sep 2015 RM'000	As at 30 Sep 2014 RM'000
Retained profit of the Group and its Subsidiaries		
- Realised	174,698	225,534
- Unrealised	69,024	(10,602)
	<u>243,722</u>	<u>214,932</u>
Less: Consolidation adjustment	(69,024)	10,602
Total retained earnings as per consolidated accounts	<u><u>174,698</u></u>	<u><u>225,534</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.

B12. Profit/(Loss) before tax

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

	Third quarter ended		Financial period ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
Interest income	(62)	(47)	(155)	(146)
Other income	(82)	(115)	(1,857)	(345)
Depreciation of property, plant and equipment	10,409	9,671	33,040	30,622
Amortisation of lease payments	278	226	801	690
Fixed assets written off	17	1,398	832	1,419
Finance cost	-	9	-	26
	<u>-</u>	<u>9</u>	<u>-</u>	<u>26</u>

By Order of the Board
Chua Siew Chuan
Secretary

26 November 2015