

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Fourth quarter ended		Financial period ended	
	Unaudited		Unaudited	
	Current Period 31-Dec-16 RM'000	Preceding Period 31-Dec-15 RM'000	Current Period 31-Dec-16 RM'000	Preceding Period 31-Dec-15 RM'000
Revenue	-	98,179	41,874	270,849
Cost of sales	-	(120,774)	(56,215)	(306,709)
Gross loss	-	(22,595)	(14,341)	(35,860)
Other income	4,819	81	12,346	1,660
Operating expenses	(198,829)	(206,144)	(225,464)	(245,049)
	(194,010)	(206,063)	(213,118)	(243,389)
Loss before tax	(194,010)	(228,658)	(227,459)	(279,249)
Taxation	-	-	-	-
Loss for the period	(194,010)	(228,658)	(227,459)	(279,249)
Other comprehensive (expense)/income:				
Items that will be reclassified subsequently to profit or loss:				
Exchange difference arising from translation of foreign operations	12,562	(44,936)	(23,260)	92,458
Total comprehensive expense for the period	(181,448)	(273,594)	(250,719)	(186,791)
Loss attributable to equity holders of the Company	(194,010)	(228,658)	(227,459)	(279,249)
Total comprehensive expense attributable to equity holders of the Company	(181,448)	(273,594)	(250,719)	(186,791)
Loss per share (sen)				
- basic (sen)	(17.29)	(20.37)	(20.27)	(24.88)
- 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 2015.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2016

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31-Dec-16 RM'000	Audited as at 31-Dec-15 RM'000
Non Current Assets		
Land lease payment	32,879	34,925
Property, plant and equipment	194,734	405,287
	227,613	440,212
Current Assets		
Inventories	17,181	42,722
Trade receivables	6,085	22,818
Other receivables, deposits and prepayments	8,235	20,116
Amount due from related parties	59,538	72,258
Tax recoverable	19,981	20,520
Bank balances and cash	21,254	27,830
	132,274	206,264
Total Assets	359,887	646,476
Shareholders' Fund		
Share capital	561,154	561,154
Reserves	(266,247)	(15,528)
	294,907	545,626
Current Liabilities		
Trade payables	35,842	62,732
Other payables and accrued expenses	29,138	34,193
Amount due to related parties	-	3,925
	64,980	100,850
Total Equity and Liabilities	359,887	646,476
Net assets per share (RM)	0.26	0.49

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 2015.

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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 RM'000	Reverse acquisition reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	
<u>12 months ended 31 December 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	-	-	-	-	-	(279,249)	(279,249)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	92,458	-	92,458
Balance as of December 31, 2015	561,154	553,891	49,358	(799,823)	235,007	(53,961)	545,626
<u>12 months ended 31 December 2016</u>							
Balance as of January 1, 2016	561,154	553,891	49,358	(799,823)	235,007	(53,961)	545,626
Loss for the period	-	-	-	-	-	(227,459)	(227,459)
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(23,260)	-	(23,260)
Balance as of December 31, 2016	561,154	553,891	49,358	(799,823)	211,747	(281,420)	294,907

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 2015.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER AND TWELVE MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2016 - THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Current year to date 31-Dec-16 RM'000	Preceding year to date 31-Dec-15 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(227,459)	(279,249)
Adjustments for:		
Depreciation of property, plant and equipment	43,018	44,102
Amortisation of lease payments	1,084	1,095
Impairment of goodwill	-	108,343
Impairment of trade receivables	33,259	88,495
Interest income	(88)	(236)
Impairment of PPE	152,591	853
Operating profit/(loss) before working capital changes	2,405	(36,597)
(Increase) / Decrease in:		
Inventories	25,541	29,808
Trade receivables	16,732	13,610
Other receivables, deposits and prepayments	12,002	(6,736)
Amount due by/to related parties	(24,464)	(29,511)
Increase / (Decrease) in:		
Trade payables	(27,011)	27,444
Other payables and accrued expenses	(5,055)	13,702
Cash generated from operations	150	11,720
Interest paid	-	-
Tax paid	-	-
Net cash generated from operating activities	150	11,720
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(3,228)	(36,994)
Interest received	88	236
Net cash used in investing activities	(3,140)	(36,758)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of lease payables	-	-
Net cash used in financing activities	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,990)	(25,038)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	27,830	26,313
Effect of changes in exchange rate	(3,586)	26,555
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	21,254	27,830

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the financial year ended 31 December 2015.

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Notes to the quarterly report – 31 DECEMBER 2016

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 2015. 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 2015.

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 2015, 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 2016:-

MFRS 14	Regulatory Deferred Accounts
Amendment to MFRS 5	“Non-Current Assets Held for Sale and Discontinued Operations” (Annual Improvements 2012-2014 Cycle)
Amendments to MFRS 7	“Financial Instruments: Disclosures” (Annual-Improvements 2012-2014 Cycle)
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment entities: Applying the Consolidation Exception
Amendment to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS101	Disclosure initiative
Amendment to MFRS 116 and MFRS 138	Clarification on Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants
Amendment to MFRS 119	“Employee Benefits” (Annual-Improvements 2012-2014 Cycle)
Amendments to MFRS127	Equity Method in Separate Financial Statements
Amendment to MFRS 134	“Interim Financial Reporting” (Annual Improvements 2012-2014 Cycle)

The adoption of the above pronouncements does not have any material impact on the financial statements of the Group.

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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:-

		<u>Effective dates for financial periods beginning on or after</u>
Amendments to MFRS 107	Disclosure Initiative	1 January 2017
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 2	Classification and Measurement of Share-Based Payment Transactions	1 January 2017
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	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 2015 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

	Fourth quarter ended		Financial period ended	
	31 December 2016		31 December 2016	
	External Revenue RM'000	Loss before tax RM'000	External Revenue RM'000	Loss before tax RM'000
Manufacturing	-	(193,490)	41,874	(225,583)
Investment Holdings	-	(520)	-	(1,876)
	<u>-</u>	<u>(194,010)</u>	<u>41,874</u>	<u>(227,459)</u>

	Fourth quarter ended		Financial period ended	
	31 December 2015		31 December 2015	
	External Revenue RM'000	Profit/(loss) before tax RM'000	External Revenue RM'000	Profit/(loss) before tax RM'000
Manufacturing	98,179	(123,252)	270,849	(172,470)
Investment Holdings	-	(105,406)	-	(106,779)
	<u>98,179</u>	<u>(228,658)</u>	<u>270,849</u>	<u>(279,249)</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

	Fourth quarter ended 31 Dec 2016 RM'000	Financial period ended 31 Dec 2016 RM'000
Sales of goods to related parties		
Linyi Jiangxin Steel Co., Ltd.	-	9,547
Electricity expense paid/payable		
Shandong Huasheng Jiangquan Thermoelectricity Co., Ltd.	-	1,664

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

No revenue was recorded for the current quarter under review as some of Group's coking ovens (ovens #1, #2 and #3) were being subjected to a leasing arrangement whilst the remaining ovens (ovens #4 and #5) were still not in operation.

The lease income received from the abovementioned leasing arrangement has been captured under Other Income for the current quarter under review.

The leasing arrangement has enabled the Group to transfer all major relevant production and operating costs attributed to the operations of those ovens which are subjected to the said lease in the current quarter under review. Nevertheless, as a result of the impairment of trade receivables and fixed assets during the quarter under review, the operating expenses incurred by the Group was approximately RM198.8 million compared to approximately RM206.1 million in the previous year corresponding quarter which were also subject to the impairment of trade receivables and goodwill.

As a result thereof, the Group recorded a net loss before tax of RM194.0 million in the current quarter under review compared to a net loss of approximately RM228.7 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

As mentioned above, there were no revenue recorded for the current quarter under review following the strategic move by the Group to lease out some of its coke ovens for a period of one year commencing 1 February 2016. There were no gross profit or loss during the quarter under review as well as the immediate preceding quarter ended 30 September 2016.

After taking into consideration of the other income and operating expenses, the Group recorded a net loss of approximately RM194.0 million for the current quarter compared to that of approximately RM10.2 million in the immediate preceding quarter ended 30 September 2016. As mentioned, the operating expenses recorded in the current quarter are due to the impairment of trade receivables and fixed assets. The operating expenses for both quarters also included office staff salary, depreciation, minor repair and maintenance, electricity and etc.

B3. Current year prospects

China economy continued its tepid growth at 6.8% for the fourth quarter in 2016 after three consecutive quarters of similar growth rate at 6.7%. Although prima-facie such growth rate appears to indicate that the China economy is slowly stabilizing, it is believed that such engine of growth were still heavily dependent on intermittent government spending as that private sector investment and exports still appear to remain weak.

On a micro level specific to the steel and coke industry in China, its steel mills which produce about half of the world's output, are still battling against losses. Oversupply and sinking prices as local consumption shrinks as well as the slow recovery of the world

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economy is expected to cause continued sluggish demand for steel and by extension, in the coke industry as well. Steel demand in China is expected to slump to about 626 million tonnes in 2017 from 645 million tonnes consumed in 2016. According to a stipulation in the Thirteenth Five-Year Plan, the Chinese Government will start to reduce its domestic capacity by 100-150 million tonnes of crude steel in 5 year time.

The abovementioned contemplated reduction of capacity in the steel industry will inherently necessitate capacity reduction in the coke industry as well. Consolidation in the coke industry and capacity reduction through natural attrition and closure of small, inefficient and indiscriminately polluting coke manufacturers are already taking place and will continue to do so until the industry-wide demand-supply equilibrium is achieved. Such a situation will be a boon to the coke industry and those coke manufacturers that have the financial tenacity to ride out these ensuing trying periods, however long it may be.

Further to the above, the Group's business advancement may be faced with some speedbumps ahead. This is pursuant to the general aspirations of the Shandong provincial government in its efforts to address the continued excess capacity and environmental pollution concerns whereby it is contemplating a plan to reduce and/or relocate some of the existing facilities of the various industries away from highly populated areas. Be that as it may however, as of this juncture the Group has not received any official written directive from any authorities on this matter nor have the local government issued any detailed specifics and logistics on how such plans are to be realized.

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:

	Fourth quarter ended		Financial period ended	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	RM'000	RM'000	RM'000	RM'000
Loss before taxation	<u>(194,010)</u>	<u>(228,658)</u>	<u>(227,459)</u>	<u>(279,249)</u>
Taxation at statutory tax rate of 24% (2015: 25%)	(46,562)	(57,165)	(54,590)	(69,812)
Different tax rates in other countries	(1,935)	-	(2,255)	-
Expenses not deductible for tax purposes	128	26,353	459	26,701
Income not subject to tax	(3)	(2)	(9)	(6)
Changes in unrecognized deferred tax asset	<u>48,372</u>	<u>30,814</u>	<u>56,395</u>	<u>43,117</u>
Tax expense for the financial year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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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 per share

	Fourth quarter ended		Financial period ended	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Basic loss per share				
Loss for the period attributable to equity holders (RM'000)	(194,010)	(228,658)	(227,459)	(279,249)
Number / Weighted average number of shares in issue ('000)	1,122,308	1,122,308	1,122,308	1,122,308
Basic loss per share (sen)	<u>(17.29)</u>	<u>(20.37)</u>	<u>(20.27)</u>	<u>(24.88)</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.

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B11. Realised and Unrealised Profits/Losses Disclosure

	As at 31 Dec 2016 RM'000	As at 31 Dec 2015 RM'000
Accumulated Losses of the Group and its Subsidiaries		
- Realised	(281,420)	(53,961)
- Unrealised	71,424	58,729
	(209,996)	4,768
Less: Consolidation adjustment	(71,424)	(58,729)
Total accumulated losses as per consolidated accounts	<u>(281,420)</u>	<u>(53,961)</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. Loss before tax

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

	Fourth quarter ended		Financial period ended	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	31 Dec 2016 RM'000	31 Dec 2015 RM'000
Interest income	(20)	(81)	(88)	(236)
Other income	(4,799)	-	(12,258)	(1,424)
Depreciation of property, plant and equipment	10,058	11,062	43,018	44,102
Amortisation of lease payments	288	294	1,084	1,095
Impairment of goodwill	-	107,985	-	107,985
Impairment of trade receivables	33,259	88,495	33,259	88,495
Impairment of PPE	<u>152,562</u>	<u>21</u>	<u>152,591</u>	<u>853</u>

By Order of the Board
Chua Siew Chuan
Secretary

27 February 2017