

SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017

- THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	First quarter ended		Financial period ended	
	Unaudited		Unaudited	
	Current Period 31-Mar-17 RM'000	Preceding Period 31-Mar-16 RM'000	Current Period 31-Mar-17 RM'000	Preceding Period 31-Mar-16 RM'000
Revenue	86,698	41,874	86,698	41,874
Cost of sales	(83,843)	(56,215)	(83,843)	(56,215)
Gross profit/(loss)	2,855	(14,341)	2,855	(14,341)
Other income	1,792	2,066	1,792	2,066
Operating expenses	(5,659)	(1,357)	(5,659)	(1,357)
	(3,867)	709	(3,867)	709
Loss before tax	(1,012)	(13,632)	(1,012)	(13,632)
Taxation	-	-	-	-
Loss for the period	(1,012)	(13,632)	(1,012)	(13,632)
Other comprehensive expense: Items that will be reclassified subsequently to profit or loss: Exchange difference arising from translation of foreign operations	(1,641)	(45,617)	(1,641)	(45,617)
Total comprehensive expense for the period	(2,653)	(59,249)	(2,653)	(59,249)
Loss attributable to equity holders of the Company	(1,012)	(13,632)	(1,012)	(13,632)
Total comprehensive expense attributable to equity holders of the Company	(2,653)	(59,249)	(2,653)	(59,249)
Loss per share (sen)				
- basic (sen)	(0.09)	(1.21)	(0.09)	(1.21)
- 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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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31-Mar-17 RM'000	Audited as at 31-Dec-16 RM'000
Non Current Assets		
Land lease payment	32,416	32,878
Property, plant and equipment	190,402	194,735
	222,818	227,613
Current Assets		
Inventories	62,524	17,181
Trade receivables	28,339	6,085
Other receivables, deposits and prepayments	17,222	8,235
Amount due from related parties	49,974	59,538
Tax recoverable	19,870	19,981
Bank balances and cash	15,236	21,254
	193,165	132,274
Total Assets	415,983	359,887
Shareholders' Fund		
Share capital	1,115,045	561,154
Reserves	(822,791)	(266,247)
	292,254	294,907
Current Liabilities		
Trade payables	95,406	35,842
Other payables and accrued expenses	28,323	29,138
	123,729	64,980
Total Equity and Liabilities	415,983	359,887
Net assets per share (RM)	0.13	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	
	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
<u>3 months ended 31 March 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	-	-	-	-	-	(13,632)	(13,632)
Other comprehensive income							
Exchange difference arising from translation of foreign operations	-	-	-	-	(45,617)	-	(45,617)
Balance as of March 31, 2016	561,154	553,891	49,358	(799,823)	189,390	(67,593)	486,377
<u>3 months ended 31 March 2017</u>							
Balance as of January 1, 2017	561,154	553,891	49,358	(799,823)	211,747	(281,420)	294,907
Adjustments for effects of Companies Act 2016 *	553,891	(553,891)	-	-	-	-	-
Loss for the period	-	-	-	-	-	(1,012)	(1,012)
Other comprehensive expenses							
Exchange difference arising from translation of foreign operations	-	-	-	-	(1,641)	-	(1,641)
Balance as of March 31, 2017	1,115,045	-	49,358	(799,823)	210,106	(282,432)	292,254

* 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 31 MARCH 2017 - THE FIGURES HAVE NOT BEEN AUDITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	For the financial period ended	
	31-Mar-17	31-Mar-16
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(1,012)	(13,632)
Adjustments for:		
Depreciation of property, plant and equipment	5,524	12,130
Amortisation of lease payments	282	280
Interest income	(22)	(30)
Asset written off	-	29
Operating profit/(loss) before working capital changes	4,772	(1,223)
(Increase) / Decrease in:		
Inventories	(45,345)	25,639
Trade receivables	(22,254)	3,540
Other receivables, deposits and prepayments	(8,987)	7,020
Amount due by related parties	9,564	(18,216)
Increase / (Decrease) in:		
Trade payables	59,565	(14,566)
Other payables and accrued expenses	(704)	(5,358)
Amount due to related company	0	(3,925)
Cash used in operations	(3,389)	(7,089)
Tax paid	-	-
Net cash used in operating activities	(3,389)	(7,089)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(2,255)	(3,785)
Interest received	22	30
Net cash used in investing activities	(2,233)	(3,755)
CASH FLOWS USED IN FINANCING ACTIVITY		
Repayment of lease payables	-	-
Net cash used in financing activity	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,622)	(10,844)
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE FINANCIAL PERIOD	21,254	27,830
Effect of changes in exchange rates	(396)	(8,085)
CASH AND CASH EQUIVALENTS		
AT END OF THE FINANCIAL PERIOD	15,236	8,901

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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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.

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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:-

		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
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
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.

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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.

A8. Segmental information

Segment results by business activities

	First quarter ended		Financial period ended	
	31 March 2017		31 March 2017	
	External Revenue	Loss before tax	External Revenue	Loss before tax
	RM'000	RM'000	RM'000	RM'000
Manufacturing	86,698	(582)	86,698	(582)
Investment Holdings	-	(430)	-	(430)
	<u>86,698</u>	<u>(1,012)</u>	<u>86,698</u>	<u>(1,012)</u>

	First quarter ended		Financial period ended	
	31 March 2016		31 March 2016	
	External Revenue	Profit/(loss) before tax	External Revenue	Profit/(loss) before tax
	RM'000	RM'000	RM'000	RM'000
Manufacturing	41,874	(13,213)	41,874	(13,213)
Investment Holdings	-	(419)	-	(419)
	<u>41,874</u>	<u>(13,632)</u>	<u>41,874</u>	<u>(13,632)</u>

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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.

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

In response to the detrimental pricing dynamics and headwinds plaguing the steel and coke industry in year 2016, the Group had taken a proactive step to mitigate the anticipated losses and therefore had decided to temporarily lease out its operationalised coke ovens during those trying period. Notwithstanding the above however, the Group has since taken back the coke manufacturing operations from February 2017 onwards following the expiry of the lease tenure in January 2017.

For the current quarter under review, the Group recorded a consolidated revenue of RM86.7 million compared to RM41.9 million registered in the preceding year corresponding quarter. As the lease period was from February 2016 to January 2017, the revenue recorded during the quarter under review was derived from only two months period whereas the corresponding quarter in the preceding year only covered one month period in 2016. The average coke price improved significantly from RMB680 per tonne in January 2016 to RMB1,854 per tonne recorded in the first quarter of 2017 with a drop in the sales volume of approximately 13%. The contribution from the by-products accounted for approximately 7% of the total revenue compared to 24% in the preceding year corresponding quarter as the Group is still slowly ramping up its production to increase its by-products during the quarter under review.

With the resumption of operation during the quarter under review, the Group has recorded a cost of sales amounting to RM83.8 million compared to RM56.2 million in the same quarter last year. The Group saw a marginal increase in the cost of coking coal with the average price increased from RMB561 per tonne in previous year corresponding quarter to RMB1,235 per tonne in the quarter under review. Such pricing dynamics have resulted in the Group reversing its gross loss of approximately RM14.3 million in the previous year corresponding quarter to recording a gross profit of approximately RM2.9 million in the current quarter under review.

The other income includes the lease income received from the abovementioned leasing arrangement for both the current quarter under review and the corresponding quarter in the preceding year.

The operating expenses incurred by the Group has increased from RM1.4 million in previous year corresponding quarter to approximately RM5.7 million in the current quarter under review. The operating expense for the current quarter under review includes staff salary, depreciation, minor repair and maintenance, electricity and etc. As a result thereof, the Group recorded a net loss before tax of RM1.0 million in the current quarter under review compared to a net loss of approximately RM13.6 million in the preceding year corresponding quarter.

B2. Variation of results against preceding quarter

The consolidated revenue and cost of sales recorded by the Group during the quarter under review was approximately RM86.7 million and RM83.8 respectively. There were no revenue nor cost of sales recorded during the immediate preceding quarter ending 31 December 2016 as a result of the strategic move by the Group to lease out its operationalised coke ovens for a period of one year commencing 1 February 2016.

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Due to the impairment of trade receivables and fixed assets during the immediate preceding quarter ended 31 December 2016, the Group recorded an operating expenses of approximately RM198.8 million compared to approximately RM5.7 million in the current quarter under review.

After taking into consideration of other income and operating expenses, we have seen significant improvements to the bottom line of the Group's financial by virtue of it registering a much lower net loss of approximately RM1.0 million for the current quarter compared to that of approximately RM194.0 million in the immediate preceding quarter ended 31 December 2016.

B3. Current year prospects

China's economy grew 6.9% in the first quarter of 2017, the fastest pace since the third quarter of 2015, according to the National Bureau of Statistics (NBS). Although prima-facie such growth rate appears to indicate that the China economy is slowly stabilizing, the International Monetary Fund (IMF), however, in its World Economic Outlook (WEO) update in January 2017 appeared to paint a relatively lesser than cheerful picture of the China economy, with an overall lower 6.0% growth estimated for the entire period of 2017.

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. 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. Strict prohibition of additional capacity and encouraged self-capacity reduction by steel mills, reduced capacity through various avenues such as amalgamation, mergers, transformation or relocation are amongst the various initiatives contemplated by the Chinese Government to address the issue on hand.

Further to the above, the fervor seen in recent times on the handling of environmental pollution policies by the Chinese Government is expected to further accentuate the reduction in capacity of the various industries. Going forward, state directives and environmental inspections may force some firms to improve efficiency, buck up or exit.

In view of the above, the Group maintains a cautious position and remains optimistic and vigilant to relevant consequential circumstances that affect the metallurgical coke business and that of the industry in order to stay prepared to face any challenges that come its way.

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:

	First quarter ended		Financial period ended	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
	RM'000	RM'000	RM'000	RM'000
Loss before taxation	<u>(1,012)</u>	<u>(13,632)</u>	<u>(1,012)</u>	<u>(13,632)</u>
Taxation at statutory tax rate of 24%	(243)	(3,272)	(243)	(3,272)
Different tax rates in other countries	(5)	(132)	(5)	(132)
Expenses not deductible for tax purposes	106	103	106	103
Income not subject to tax	(3)	(2)	(3)	(2)
Changes in unrecognized deferred tax asset	<u>145</u>	<u>3,303</u>	<u>145</u>	<u>3,303</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. Loss per share

	First quarter ended		Financial period ended	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
Basic loss per share				
Loss for the period attributable to equity holders (RM'000)	(1,012)	(13,632)	(1,012)	(13,632)
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>(0.09)</u>	<u>(1.21)</u>	<u>(0.09)</u>	<u>(1.21)</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 31 Mar 2017 RM'000	As at 31 Mar 2016 RM'000
Accumulated Losses of the Group and its Subsidiaries		
- Realised	(282,432)	(67,593)
- Unrealised	<u>66,727</u>	<u>(25,961)</u>
	(209,996)	(93,554)
Less: Consolidation adjustment	<u>(66,727)</u>	<u>25,961</u>
Total accumulated losses as per consolidated accounts	<u><u>(282,432)</u></u>	<u><u>(67,593)</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. Loss before tax

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

	First quarter ended		Financial period ended	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
	RM'000	RM'000	RM'000	RM'000
Interest income	(22)	(30)	(22)	(30)
Other income	(1,770)	(2,036)	(1,770)	(2,036)
Depreciation of property, plant and equipment	5,524	12,130	5,524	12,130
Amortisation of lease payments	282	280	282	280
Fixed assets written off	-	29	-	29

By Order of the Board
Chua Siew Chuan
Secretary

22 May 2017