

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

## SINO HUA-AN INTERNATIONAL BERHAD QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2008

- THE FIGURES HAVE NOT BEEN AUDITED

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Third Quarter		Cumulative Quarter	
	Unaudited Current Period 30-Sep-08 RM'000	Unaudited Preceding Period 30-Sep-07 RM'000	Unaudited Current Period 30-Sep-08 RM'000	Unaudited Preceding Period 30-Sep-07 RM'000
Revenue	496,933	223,980	1,222,157	619,358
Cost of sales	(474,474)	(172,795)	(1,093,316)	(488,532)
Gross profit	22,459	51,184	128,841	130,825
Other income	190	329	711	715
Operating expenses	(8,714)	(4,169)	(30,104)	(12,964)
	(8,524)	(3,840)	(29,393)	(12,249)
Restructuring expenses *	0	0	0	(8,871)
Finance costs	0	(391)	0	(1,993)
Profit before tax	13,935	46,953	99,448	107,711
Taxation **	(2,223)	(7,072)	(15,253)	(17,631)
Profit for the year	11,711	39,881	84,195	90,081
Profit attributable to equity holders of the Company	11,711	39,881	84,195	90,081
Earnings per share (sen)				
- basic (sen)	1.04	3.55	7.50	8.74
- fully diluted (sen)	n/a	n/a	n/a	n/a

\* Restructuring expenses are attributable to "one-off" expenses incurred arising from the implementation of the Restructuring Scheme of Antah / IPO of Hua-An which were charged to the 1st Quarter's Income Statement in FY 2007.

\*\* By virtue of the Company's status as WOFE, tax is paid/payable in FY2007 and FY 2008 respectively at the rate of approximately 15%.

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### CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited as at 30-Sep-08 RM'000	Audited as at 31-Dec-07 RM'000
<b>Non Current Assets</b>		
Land lease payment - long-term	32,137	30,283
Property, plant and equipment	464,959	428,423
Goodwill	107,216	107,114
	604,312	565,820
<b>Current Assets</b>		
Land lease payment - short-term	869	747
Inventories	134,743	74,882
Trade receivables	203,300	65,202
Other receivables, deposits and prepayments	1,690	24,735
Bank balances and cash	65,100	32,081
	405,702	197,648
<b>Total Assets</b>	1,010,013	763,468
<b>Shareholders' Fund</b>		
Share capital	561,154	561,154
Reserves	285,361	152,774
	846,515	713,928
<b>Current Liabilities</b>		
Trade payables	141,311	28,344
Receipts in advance	-	5,796
Other payables and accrued expenses	10,999	3,503
Amount due to related company	793	721
Tax payable	10,396	11,176
	163,498	49,540
<b>Total Equity and Liabilities</b>	1,010,013	763,468
Net assets per share (RM)	0.75	0.64

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### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<----- Non-distributable reserves ----->					Distributable reserve	
	Share capital RM'000	Share premium RM'000	Statutory reserve funds RM'000	Reverse acquisition reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total RM'000
<b>9 months ended 30 September 2007</b>							
<b>Balance as of January 1, 2007</b>	177	-	28,420	-	4,886	235,023	268,506
Legal entity adjustment in accordance with FRS 3	(177)			(799,823)			(800,000)
Issue of shares:							
Acquisition of PIPO Group	400,000	400,000					800,000
Scheme of arrangement with shareholders of Antah	42,454	42,454					84,908
Acquisition of investment property	8,700	8,700					17,400
Scheme of arrangement with creditors of Antah	10,000	10,000					20,000
Private placement	100,000	100,000					200,000
Share issue expense	-	(7,263)					(7,263)
Profit for the period	-	-				90,081	90,081
Transfer to common fund reserve	-	-	9,991			(9,991)	-
Exchange differences	-	-			694		694
<b>Balance as of September 30, 2007</b>	561,154	553,891	38,411	(799,823)	5,580	315,113	674,326
<b>9 months ended 30 September 2008</b>							
<b>Balance as of January 1, 2008</b>	561,154	553,891	49,312	(799,823)	7,741	341,653	713,928
Profit for the period	-	-	-	-	-	84,195	84,195
Dividend	-	-	-	-	-	(25,504)	(25,504)
Transfer to common fund reserve	-	-	(540)			540	-
Exchange differences	-	-			73,896		73,896
<b>Balance as of September 30, 2008</b>	561,154	553,891	48,772	(799,823)	81,637	400,884	846,515

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

## SINO HUA-AN INTERNATIONAL BERHAD QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2008 - THE FIGURES HAVE NOT BEEN AUDITED

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Current year to date 30-Sep-08 RM'000	Preceding year to date 30-Sep-07 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	84,195	90,081
Adjustments for:		
Depreciation of property, plant and equipment	23,028	12,302
Amortisation of lease payments	652	551
Finance costs	0	1,993
Interest income	(333)	(705)
Income tax recognised in income statement	15,253	20,338
Gain on disposal of subsidiary company	0	0
Operating profit before working capital changes	<u>122,795</u>	<u>124,560</u>
(Increase)/Decrease in:		
Inventories	(59,861)	(20,304)
Trade receivables	(138,098)	(22,255)
Other receivables, deposits and prepayments	49,510	(2,296)
Increase/(Decrease) in:		
Trade payables	112,968	9,458
Other payables and accrued expenses	7,568	3,530
	0	0
Receipt in advance	(5,796)	3,675
Amount due to shareholder	0	2,919
Cash generated from operations	<u>89,085</u>	<u>99,287</u>
Income tax paid	(16,033)	(17,631)
Net cash from operating activities	<u>73,052</u>	<u>81,656</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(13,193)	(147,326)
Land lease paid	0	(20,752)
Interest received	333	705
Disposal of investment in subsidiary company	0	0
Net cash used in investing activities	<u>(12,859)</u>	<u>(167,373)</u>

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

## QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2008

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### CONDENSED CONSOLIDATED CASHFLOW STATEMENT

- CONTINUE -

	Unaudited Current year to date 30-Sep-08 RM'000	Preceding year to date 30-Sep-07 RM'000
<b>CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES</b>		
Issuance of shares	0	200,000
Share issue cost paid	0	(7,263)
Finance costs paid	0	(1,993)
Dividend paid	(25,504)	0
Increase/(Decrease) in bank borrowings/intercompany loan	0	(45,129)
Net cash (used in)/from financing activities	<u>(25,504)</u>	<u>145,615</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>34,688</b>	<b>59,898</b>
<b>CASH AND CASH EQUIVALENTS</b>		
AT BEGINNING OF THE FINANCIAL PERIOD	32,081	9,687
Effect of changes in exchange rate	(1,670)	5,458
<b>CASH AND CASH EQUIVALENTS</b>	<u>65,100</u>	<u>75,043</u>
AT END OF THE FINANCIAL PERIOD	<u>65,100</u>	<u>75,043</u>

The Condensed Consolidated Cash Flow Statement should be read in accompanying explanatory notes attached to the interim financial statements.

# **SINO HUA-AN INTERNATIONAL BERHAD**

*(Company No.: 732227-T)*

Incorporated in Malaysia

Notes on the quarterly report – 30 September 2008

---

## **A. EXPLANATORY NOTES AS PER FRS 134 - INTERIM FINANCIAL REPORTING**

### **A1. Basis of preparation**

The interim financial report is unaudited and has been prepared in accordance with the requirements of FRS 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 2007. 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 2007.

The significant accounting policies and methods of computation adopted by the Company and its subsidiaries (“the Group”) in this interim financial report are consistent with those adopted in the annual financial report for the year ended 31 December 2007.

#### **FRS 3: Business Combinations**

After completion of the acquisition of PIPO Overseas Limited (“PIPO”) and its subsidiary company (“PIPO Group”), the Company becomes the legal parent company of PIPO Group. Due to relative values of the companies, the former shareholders of PIPO became the majority shareholders of the Company. Accordingly, the substance of the business combination is that PIPO acquires the Company in a reverse acquisition. Under FRS 3, as a result of the reverse acquisition, the financial statements which were assumed to have been prepared in the name of the legal parent, the Company, represent a continuation of the balance sheet of the legal subsidiary, PIPO, which was deemed as the acquirer.

In accordance with the FRS 3, the amount recognised as issued equity instruments in those consolidated financial statements shall be determined by adding to the issued equity of the legal subsidiary immediately before the business combination the cost of the combination determined. However, the equity structure appearing in those consolidated financial statements shall reflect the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.

The financial statements of the Group and of the Company are presented in Ringgit Malaysia. The individual financial statements of the subsidiary companies are presented in the currency of the primary economic environment in which the entity operates (their functional currency). The functional currency of the foreign subsidiary companies, PIPO and Linyi Yehua Coking Co. Ltd., are Hong Kong Dollars and Chinese Renminbi, respectively, while the functional currency of the local subsidiary companies is Ringgit Malaysia.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations (including comparatives) are expressed in Ringgit Malaysia using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes on the quarterly report – 30 September 2008

---

the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the income statements in the period in which the foreign operations is disposed of.

## **A2. Audit report**

The auditors' report on the audited financial statements for the year ended 31 December 2007 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**

The final dividend amounted to RM25,504,410, which was approved by the shareholders during the Second Annual General Meeting of the Company, was paid on 13<sup>th</sup> August 2008 to the depositors registered in the Record of Depositors of the Company at the close of business as at 15<sup>th</sup> July 2008.

## **A8. Segmental information**

The Group operates predominantly in one industry and country. In this regard, segmental information is not applicable.

## **A9. Valuation of Property, Plant and Equipment**

The property, plant and equipment of the Group have not been revalued during the quarter under review.

# **SINO HUA-AN INTERNATIONAL BERHAD**

*(Company No.: 732227-T)*

Incorporated in Malaysia

Notes on the quarterly report – 30 September 2008

---

## **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 on the quarterly report – 30 September 2008

---

## **B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS**

### **B1. Review of Performance**

For the third quarter ended 30 September 2008, the Group recorded consolidated revenue of approximately RM496.9 million, representing an increase of approximately 122% compared to the corresponding quarter of the preceding year. On the back of the said revenue, the Group has derived a consolidated profit before tax of approximately RM13.9 million for the current quarter under review.

The relatively higher revenue registered in the current quarter under review compared with that of the preceding year corresponding quarter is due to the higher pricing of metallurgical coke and majority of the by-products enjoyed by the Group in the current quarter compared to the previous quarter. The average prices of metallurgical coke, ammonium sulphate, crude benzene, tar oil, coal slime and middlings during the current quarter under review have increased by approximately 114%, 49%, 35%, 44%, 108% and 142% respectively compared with those of the preceding year corresponding quarter. However, the price of coal gas has reduced by approximately 16% in the current quarter compared to the same quarter last year.

Despite the seemingly favourable pricing of metallurgical coke and the majority of the by-products as mentioned above, the price of raw materials (coking coal) has also increased significantly by an average of approximately 169% in the current quarter compared to the average prices registered in the preceding year corresponding quarter. Based on the above which saw a significant escalation in raw material prices in the current quarter under review compared with that of the preceding year, coupled with the fall in demand resulting in the reduction in the overall production capacity in the current quarter under review, the Group's gross margin fell to approximately 5% in the current quarter under review. The gross profit of the Group for the current quarter stood at approximately RM22.5 million, a decrease of 56% from RM51.2 million in the preceding year corresponding quarter.

Accordingly, profit before tax for the current quarter decreased by approximately 70% to RM13.9 million from RM47.0 million in the preceding year corresponding quarter.

### **B2. Variation of results against preceding quarter**

The Group's consolidated revenue increased by RM272.9 million to RM496.9 million for the current reporting quarter from RM224.0 million reported in the preceding year corresponding quarter due to the increase in the prices of metallurgical coke and majority of the by-products as well as additional production capacity resulting from the commissioning of the new coking oven which took place in mid May.

The Group experienced a slide in the prices of coke in August and September 2008 whilst the price of coal remained relatively stable had resulted in a downward pressure on the margins of the Group. Stemming from much change in pricing dynamics, the Group experienced a decrease in gross profit by approximately 56% to RM22.5 million during the current quarter from RM51.2 million in the preceding year corresponding quarter.

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes on the quarterly report – 30 September 2008

Correspondingly, the Group's consolidated profit for the current quarter registered a contraction of approximately 71% to RM11.7 million from RM39.9 million in the preceding year corresponding quarter.

## B3. Current year prospects

The Group will continue to focus on its core business activities which are the manufacture and trading of metallurgical coke and its by-products.

The Group takes cognisance of its business which generally moves in tandem with the performance of the steel industry.

The Group recognised the fact that the steel industry is currently faced with very challenging times resulting from the softening in demand, falling prices and persistently high raw material cost. Additionally, the Group was faced with continued tight supply of coking coal resulting in continuing high price of coking coal. These circumstances have begun to adversely affect the industry in which the Group is operating in, resulting in an overall lower margin for the current year compared to that registered in the preceding year.

Notwithstanding the difficult times, the Group is hopeful that such difficult business environment will only be temporary and the business dynamics will readjust itself in the near future.

## B4. Variation on Forecast Profit / Profit Guarantee

Profit Forecast : N/A

Profit Guarantee : N/A

The Group did not issue any profit forecast nor profit guarantee during the current financial period to date.

## B5. Taxation

Taxation based on profit for the current quarter are as follows:

	Individual quarter ended		Cumulative quarter ended	
	30 Sep 2008 RM'000	30 Sep 2007 RM'000	30 Sep 2008 RM'000	30 Sep 2007 RM'000
In respect of the current period				
Income tax	2,223	7,072	15,253	17,631
Deferred tax	-	-	-	-
	<u>2,223</u>	<u>7,072</u>	<u>15,253</u>	<u>17,631</u>

The tax exemption enjoyed by Yehua (the operating company in China) by virtue of its WOFE status, as originally granted, ended on 31 December 2006. As such, Yehua has commenced paying tax in FY2007 but at a reduced rate of 15% p.a. (i.e. half of the

# **SINO HUA-AN INTERNATIONAL BERHAD**

*(Company No.: 732227-T)*

Incorporated in Malaysia

Notes on the quarterly report – 30 September 2008

---

national corporate tax rate of 30% p.a.). Such reduced tax rate will also be applicable for FY2008 and FY2009.

Given the discounted tax rate as mentioned above, the effective tax rate for the current quarter ended 30 September 2008 was lower compared to the China national corporate tax rate of 30%.

## **B6. Sale of unquoted investments and/or properties**

There were no disposals of unquoted investments and/or properties during the quarter under review.

## **B7. Quoted and marketable securities**

There were no purchases or disposals of quoted and marketable securities during the quarter under review.

## **B8. Corporate proposals**

There were no corporate proposals during the quarter under review.

## **B9. Borrowings**

As at 30 September 2008, the Group has no borrowings.

## **B10. Off balance sheet financial instruments**

There were no off balance sheet financial instruments as at the date of this quarterly report.

## **B11. 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.

## **B12. Dividends**

No Dividend had been declared in respect of the current quarter under review.

# SINO HUA-AN INTERNATIONAL BERHAD

(Company No.: 732227-T)

Incorporated in Malaysia

Notes on the quarterly report – 30 September 2008

---

## B13. Earnings per share

	Individual quarter ended		Cumulative period ended	
	30 Sep 2008	30 Sep 2007	30 Sep 2008	30 Sep 2007
<b>Basic earnings per share</b>				
Profit for the period attributable to equity holders (RM'000)	11,711	39,881	84,195	90,081
Number / Weighted average number of shares in issue* ('000)	1,122,308	1,122,308	1,122,308	1,030,220
Basic earnings per share (sen)	<u>1.04</u>	<u>3.55</u>	<u>7.50</u>	<u>8.74</u>

\* The number of shares of Hua-An deemed to be outstanding from 1.1.07 to 20.3.07 (date of the RTO) (i.e. the number of shares issued by Hua-An for the acquisition of PIPO/Yehua) pursuant to Appendix B, Paragraph B13(a) of FRS 3 was 800,000,000. Thus the number of shares outstanding from 20.3.07 (date of RTO) to 31.3.07 was 800,000,200. Further number of shares issued by Hua-An pursuant to other elements of the RTO (20.3.07 to 30.9.07) was 322,307,617, resulting in the total number of shares outstanding from 20.3.07 to 30.9.07 becoming 1,122,307,817.

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

By Order of the Board  
Chua Siew Chuan  
Secretary

11 November 2008