

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.**

Bursa Malaysia Securities Berhad ("Bursa Securities") has not perused the contents of this Circular relating to the Proposed IASC and Proposed Amendments (as defined below) prior to issuance of this Circular as the said contents fall under the category of exempt documents pursuant to Guidance Note 22 of the ACE Market Listing Requirements of Bursa Securities. Bursa Securities takes no responsibility for its contents, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

This Circular has been reviewed by M&A Securities Sdn Bhd, who is the Adviser to SCH Group Berhad ("SCH" or the "Company") for the Proposals (as defined herein).



**SCH GROUP BERHAD**

(Company No. 972700-P)

(Incorporated in Malaysia under the Companies Act, 1965)

**CIRCULAR TO SHAREHOLDERS**

**IN RELATION TO THE**

- (I) PROPOSED BONUS ISSUE OF 206,117,010 FREE DETACHABLE WARRANTS ("WARRANT(S)") ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH IN SCH GROUP BERHAD ("SCH" OR THE "COMPANY") ("SCH SHARES" OR "SHARES") HELD BY THE ENTITLED SHAREHOLDERS ON AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED BONUS ISSUE OF WARRANTS");**
- (II) PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY FROM RM50,000,000.00 COMPRISING 500,000,000 SCH SHARES TO RM100,000,000.00 COMPRISING 1,000,000,000 SCH SHARES ("PROPOSED IASC"); AND**
- (III) PROPOSED AMENDMENTS TO THE COMPANY'S MEMORANDUM OF ASSOCIATION TO FACILITATE THE IMPLEMENTATION OF THE PROPOSED IASC ("PROPOSED AMENDMENTS")**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

*Adviser*



**M&A SECURITIES SDN BHD (15017-H)**

(A Wholly-Owned Subsidiary of Insas Berhad)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice convening the Extraordinary General Meeting ("EGM") of SCH to be held at Livia 1, Level UG, Ibis Styles Kuala Lumpur Cheras, Jalan C180/1, Dataran C180, 43200 Cheras, Selangor Darul Ehsan on Monday, 24 October 2016 at 2.00 p.m. or any adjournment thereof, together with the Proxy Form are enclosed in this Circular.

A shareholder entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote on his behalf. The Proxy Form must be deposited at the Registered Office of SCH at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur on or before the date and time indicated below in order for it to be valid. The lodging of the Proxy Form will not preclude a shareholder from attending and voting in person at the EGM should the shareholder subsequently wishes to do so.

Last date and time for lodging the Proxy Form : Saturday, 22 October 2016 at 2.00 p.m.

Date and time of EGM : Monday, 24 October 2016 at 2.00 p.m. or any adjournment thereof

**This Circular is dated 30 September 2016**

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## DEFINITIONS

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Except where the context otherwise requires, the following definition shall apply throughout this Circular and the accompanying appendix:

"ACE Market"	: The ACE Market of Bursa Securities
"ACE Market LR"	: ACE Market Listing Requirements of Bursa Securities, as may be amended from time to time
"Act"	: Companies Act, 1965
"Board"	: Board of Directors of SCH
"Bursa Depository"	: Bursa Malaysia Depository Sdn Bhd
"Bursa Securities"	: Bursa Malaysia Securities Berhad
"CDS"	: Central Depository System
"Circular"	: This circular to shareholders dated 30 September 2016 in relation to the Proposals
"Deed Poll"	: The Deed Poll governing the Warrants to be executed by the Company
"EGM"	: Extraordinary general meeting
"Entitled Shareholders"	: Shareholders of SCH whose names appear in the Record of Depositors on the Entitlement Date
"Entitlement Date"	: A date to be determined and announced later by the Board, as at the close of business on which the shareholders of SCH must be registered in the Record of Depositors in order to be entitled to participate in the Proposed Bonus Issue of Warrants
"FYE"	: Financial year ended/ending 31 August, as the case may be
"Government"	: Government of Malaysia
"LPD"	: 30 August 2016, being the latest practicable date prior to the printing of this Circular
"M&A Securities"	: M&A Securities Sdn Bhd
"NA"	: Net asset
"SCH" or "Company"	: SCH Group Berhad
"SCH Group" or "Group"	: SCH and its subsidiaries, collectively
"SCH Share(s)" or "Share(s)"	: Ordinary share(s) of RM0.10 each in SCH
"Proposals"	: The Proposed Bonus Issue of Warrants, Proposed IASC and Proposed Amendments, collectively
"Proposed Amendments"	: Proposed amendments to the Company's Memorandum of Association to facilitate the implementation of the Proposed IASC
"Proposed Bonus Issue of Warrants"	: Proposed bonus issue of 206,117,010 Warrants on the basis of one (1) Warrant for every two (2) existing SCH Shares held by the Entitled Shareholders on the Entitlement Date
"Proposed IASC"	: Proposed increase in the authorised share capital of the Company from RM50,000,000.00 comprising 500,000,000 SCH Shares to RM100,000,000.00 comprising 1,000,000,000 SCH Shares
"Record of Depositors"	: A record of depositors established by Bursa Depository under the Rules of Depository

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**DEFINITIONS (CONT'D)**

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"RM" and "sen"	: Ringgit Malaysia and sen, respectively
"Warrants"	: 206,117,010 new warrants to be issued pursuant to the Proposed Bonus Issue of Warrants
"5D-VWAP"	: Five (5)-day volume weighted average market price

For the purpose of this Circular, all references to a time of day shall be a reference to Malaysian time unless otherwise stated.

In this Circular, words importing the singular shall, where applicable, include the plural and vice versa, and words importing the masculine gender shall, where applicable, include the feminine gender and vice versa. References to persons shall, where applicable, include a corporation(s).

Certain figures included in this Circular have been subject to rounding adjustments.

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**SCH GROUP BERHAD**  
(Company No. 972700-P)  
(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**

Suite 10.03, Level 10  
The Gardens South Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur

30 September 2016

**Directors:-**

Chan Wan Choon (*Independent Non-Executive Chairman*)  
Lau Mong Ling (*Managing Director and Deputy Chairman*)  
Wong Sin Chin (*Executive Director*)  
Yeen Yoon Hin (*Executive Director*)  
Gan Khong Aik (*Independent Non-Executive Director*)  
Sim Yee Fuan (*Independent Non-Executive Director*)  
Rahimi Bin Ramli (*Independent Non-Executive Director*)

**To: The Shareholders of SCH**

Dear Sir / Madam,

**(I) PROPOSED BONUS ISSUE OF WARRANTS;  
(II) PROPOSED IASC; AND  
(III) PROPOSED AMENDMENTS**

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**1. INTRODUCTION**

On 15 August 2016, M&A Securities, on behalf the Board, had announced that the Company intends to undertake the following:-

- (a) proposed bonus issue of 206,117,010 Warrants on the basis of one (1) Warrant for every two (2) existing SCH Shares held by the Entitled Shareholders on the Entitlement Date;
- (b) proposed increase in the authorised share capital of the Company from RM50,000,000.00 comprising 500,000,000 SCH Shares to RM100,000,000.00 comprising 1,000,000,000 SCH Shares; and
- (c) proposed amendments to the Company's Memorandum of Association to facilitate the implementation of the Proposed IASC.

On 22 September 2016, M&A Securities, on behalf of the Board, announced that Bursa Securities had vide its letter dated 22 September 2016 approved in-principle the following:-

- (a) admission to the Official List of Bursa Securities and listing of and quotation for 206,117,010 Warrants to be issued pursuant to the Proposed Bonus Issue of Warrants; and
- (b) listing of 206,117,010 new SCH Shares to be issued pursuant to the exercise of the Warrants.

Bursa Securities' approval-in-principle is subject to the following conditions:-

<b><u>No.</u></b>	<b><u>Conditions</u></b>	<b><u>Status of Compliance</u></b>
(a)	SCH and M&A Securities must fully comply with the relevant provisions under the ACE Market LR pertaining to the implementation of the Proposed Bonus Issue of Warrants;	To be complied
(b)	SCH and M&A Securities are required to inform Bursa Securities upon the completion of the Proposed Bonus Issue of Warrants;	To be complied
(c)	SCH is required to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Bonus Issue of Warrants is completed; and	To be complied
(d)	SCH is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of Warrants as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied

The purpose of this Circular is to provide the shareholders of the Company with the details of the Proposals, to set out the Board's opinion and recommendation in relation to the Proposals and to seek the approval of the shareholders for the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM of the Company. The Notice of EGM together with the Proxy Form are enclosed with this Circular.

**YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDIX CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS TO GIVE EFFECT TO THE PROPOSALS AT THE FORTHCOMING EGM.**

## **2. DETAILS OF THE PROPOSALS**

### **2.1 Proposed Bonus Issue of Warrants**

#### **2.1.1 Basis and number of Warrants to be issued**

The Company proposes to implement a bonus issue of 206,117,010 Warrants, on the basis of one (1) Warrant for every two (2) existing SCH Shares held by the Entitled Shareholders on the Entitlement Date.

The Entitlement Date will be determined and announced at a later date by the Board upon receipt of all relevant regulatory approvals. The Proposed Bonus Issue of Warrants is not intended to be implemented in stages over a period of time.

The Warrants to be issued will be allotted and issued to the Entitled Shareholders on the Entitlement Date.

Fractional entitlements, arising from the Proposed Bonus Issue of Warrants, if any, will be disregarded and shall be dealt with by the Board in such manner at its absolute discretion as it may deem fit and expedient in order to minimise the incidence of odd lots and in the best interest of the Company.

### **2.1.2 Capitalisation of reserves**

There will not be any capitalisation of reserves arising from the issuance of the Warrants pursuant to the Proposed Bonus Issue of Warrants. Therefore, the requirement to ensure that the necessary reserves required for capitalisation of bonus issues is unimpaired by losses of the Company on a consolidated basis pursuant to Rule 6.31 of the ACE Market LR is not relevant with regards to the Proposed Bonus Issue of Warrants.

### **2.1.3 Basis and justification of determining the exercise price of the Warrants**

At this juncture, the Board has not determined the exercise price of the Warrants. The Board will determine and announce the exercise price of the Warrants at a later date after it has been fixed. The exercise price of the Warrants shall be determined and announced by the Board at a later date after taking into consideration, amongst others, the following:-

- (a) the historical price movement of SCH Shares;
- (b) the 5D-VWAP of SCH Shares preceding the price fixing date of the Warrants;
- (c) the prevailing market conditions;
- (d) the trading and liquidity of SCH Shares;
- (e) the par value of SCH Shares of RM0.10 each; and
- (f) that the Warrants will be issued at no cost to the Entitled Shareholders.

At this juncture, the Board has yet to determine the range of premium or discount to be applied in determining the exercise price of the Warrants. For illustrative purposes, assuming the indicative exercise price of the Warrants is at RM0.10, representing a discount of approximately 47.6% to the theoretical ex-bonus price of SCH Shares of approximately RM0.1908, based on the 5D-VWAP of SCH Shares of RM0.2362 up to 12 August 2016, being the date immediately preceding the date of the announcement of the Proposals on 15 August 2016.

### **2.1.4 Ranking of the Warrants and the new SCH Shares to be issued arising from the exercise of the Warrants**

The holders of the Warrants will not be entitled to any voting rights or participation in any form of distribution other than on winding-up, compromise or arrangement of SCH as set out in a Deed Poll and/or any offer of further securities in SCH until and unless such holders of the Warrants exercise their Warrants into new SCH Shares.

The new SCH Shares to be issued upon the exercise of the Warrants shall, upon allotment and issue, rank *pari passu* in all respects with the then existing SCH Shares, save and except that they shall not be entitled to participate in any rights, allotments, dividends and/or other distributions, the entitlement date of which precedes the date of allotment of the said new SCH Shares issued pursuant to the exercise of the Warrants.

### **2.1.5 Listing and quotation for the Warrants and new SCH Shares to be issued upon the exercise of the Warrants**

Bursa Securities had on 22 September 2016, approved-in-principle the admission of the Warrants to the Official List of Bursa Securities as well as for the listing of and quotation for the Warrants and the new SCH Shares to be issued upon the exercise of the Warrants on the ACE Market.

### **2.1.6 Indicative salient terms of the Warrants**

<b>Terms</b>	<b>Details</b>
Number of Warrants	: 206,117,010 Warrants to subscribe for 206,117,010 new SCH Shares.
Form and denomination	: The Warrants will be issued in registered form and constituted by a Deed Poll to be executed by the Company.
Exercise Rights	: Each Warrant entitles the registered holder to subscribe for one (1) new SCH Share at the Exercise Price at any time during the Exercise Period, subject to the provisions of the Deed Poll.
Exercise Price	: The exercise price of the Warrants shall be determined and fixed by the Board and announced at a later date, after obtaining the relevant regulatory approvals but before the Entitlement Date. Kindly refer to Section 2.1.3 of this Circular for the basis of determining the exercise price of the Warrants.
Exercise Period	: The Warrants may be exercised any time during the tenure of the Warrants including and commencing from the issue date and ending at 5.00 p.m. on the Expiry Date. Any Warrants which have not then been exercised will lapse and every Warrant not exercised by then will cease to be valid for any purpose.
Expiry date	: A date which falls on the day before the fifth (5 <sup>th</sup> ) anniversary of the issue date, provided that if such day falls on a day which is not a market day, then it shall be the market day immediately preceding the said non-market day.
Adjustment in the Exercise Price and/or the number of Warrants in the event of alteration to the share capital	: Subject to the provisions of the Deed Poll, the Exercise Price and/or the number of unexercised Warrants held by each holder of Warrants shall be adjusted by the Board in consultation with an approved adviser appointed by the Company and certification by the auditors of SCH in the event of alteration to the share capital of the Company.
Status of the new SCH Shares to be issued pursuant to the exercise of the Warrants	: The new SCH Shares to be issued upon the exercise of the Warrants shall, upon allotment and issue, rank <i>pari passu</i> in all respects with the then existing SCH Shares, save and except that they shall not be entitled to any rights, allotments, dividends and/or other distributions that may be declared, made or paid prior to the date of allotment and issuance of the new SCH Shares.



**Terms****Details**

Modification of rights of holders of Warrants : The Company may, from time to time, without the consent or sanction of the holders of the Warrants but in accordance with the Deed Poll, modify the Deed Poll, if such modification made does not materially prejudice the interests of the holders of the Warrants or is made to correct a manifest error or to comply with prevailing laws of Malaysia, Rules of the Bursa Depository, Securities Industry (Central Depositories) Act, 1991 and/or ACE Market LR.

Subject to the approval of any relevant regulatory authorities, any modification, alteration or abrogation of the covenants or provisions contained in the Deed Poll, proposed or agreed to by the Company must be sanctioned by special resolution of the holders of the Warrants, effected by a Deed Poll, executed by the Company and expressed to be supplemental and comply with the requirements of the Deed Poll.

Rights of holders of Warrants : The holders of Warrants are not entitled to any voting rights in any general meeting of the Company or to participate in any distribution and/or offer of further securities in the Company until and unless such holder of Warrants are issued with new SCH Shares arising from their exercise of the Warrants.

Rights in the event of winding up, liquidation or an event of default : Where a resolution has been passed by the Company for a members' voluntary winding-up or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one (1) or more companies then:-

- (a) for the purpose of such a winding-up, compromise or arrangement (other than consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the holders of Warrants or some persons designated by them for such purposes by special resolution, shall be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the holders of Warrants; and
- (b) in any other case, every Warrant holder shall be entitled at any time within six (6) weeks after the passing of such resolution for a members' voluntary winding up of the Company or six (6) weeks after the granting of the court order approving the compromise or arrangement, by irrevocable surrender of his Warrants together with payment of the relevant subscription monies on a market day, to elect to be treated as if he had on the market day immediately prior to the commencement of such winding-up, compromise or arrangement, exercised the subscription rights represented by such Warrants, to the extent specified in the exercise notice and be entitled to receive out of the assets of the Company which would be available in liquidation as if he had on such date been the holder of the new SCH Shares, to which he would have become entitled pursuant to such exercise; and the liquidator of the Company shall give effect to such election accordingly.

<b>Terms</b>	<b>Details</b>
	Upon the expiry of the above six (6) weeks, all exercise rights of the Warrants shall lapse and cease to be valid for any purpose.
Board lot	: The Warrants are tradeable upon listing in board lots of one hundred (100) units carrying the right to subscribe for one hundred (100) new SCH Shares at any time during the Exercise Period or such other number of units as may be prescribed by Bursa Securities.
Listing	: The Warrants will be listed and quoted on the ACE Market of Bursa Securities.
Transferability	: The Warrants are transferable by transfer prescribed by the Rules of Bursa Depository and in accordance with the provisions of the Securities Industry (Central Depositories) Act, 1991 and the rules of Bursa Depository.
Governing Law	: Laws and regulations of Malaysia.

### **2.1.7 Utilisation of proceeds**

The Proposed Bonus Issue of Warrants is not expected to raise any immediate funds upon its issuance as the Warrants will be issued at no cost to the Entitled Shareholders. The exact quantum of the future proceeds that may be raised by SCH from the exercise of the Warrants would depend upon the actual number of Warrants exercised during the tenure of the Warrants. As such, the exact timeframe for the utilisation of the proceeds is not determinable at this juncture.

Assuming full exercise of the Warrants at the indicative exercise price of RM0.10 per Warrant, a total of 206,117,010 new SCH Shares will be issued and the Company could potentially raise gross proceeds of RM20,611,701.

The proceeds to be raised, as and when the Warrants are exercised, shall be utilised for repayment of bank borrowings and for future working capital requirements of the SCH Group, which include, amongst others, staff costs and other operating expenses, such as rental of premises and utility costs. The proceeds to be utilised for each component of the borrowings and working capital and its timeframes are subject to the SCH Group's operating requirements at the time of utilisation and therefore, cannot be determined at this juncture.

As at the LPD, the Group's total bank borrowings amounted to RM8.41 million. The interest cost incurred by SCH Group from September 2015 to August 2016 was RM0.32 million. Assuming an amount of RM8.41 million from the proceeds of the exercise of the Warrants are utilised to pare down the bank borrowings, the expected interest savings to the SCH Group is expected to amount to RM0.07 million, based on an average interest rate of 3.82% per annum. However, the actual interest savings may vary depending on the then applicable interest rate.

## 2.2 Proposed IASC

As at the LPD, the authorised share capital of SCH is RM50,000,000.00 comprising 500,000,000 SCH Shares.

In order to accommodate the issuance of new SCH Shares arising from the exercise of the Warrants, the Company proposes to increase its authorised share capital to RM100,000,000.00 comprising 1,000,000,000 SCH Shares.

## 2.3 Proposed Amendments

The Proposed Amendments involves the consequential amendments to the Memorandum of Association of SCH to facilitate the implementation of the Proposed IASC.

Details of the Proposed Amendments are as follows:-

<u>Existing</u> <u>Memorandum of Association</u>	<u>Proposed</u> <u>Memorandum of Association</u>
<b>CLAUSE 6 OF THE MEMORANDUM OF ASSOCIATION</b>	<b>CLAUSE 6 OF THE MEMORANDUM OF ASSOCIATION</b>
The authorised capital of the Company is RM50,000,000.00 divided into 500,000,000 ordinary shares of RM0.10 each. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special rights, privileges, conditions or restrictions as to dividend capital, voting or otherwise.	The authorised capital of the Company is RM100,000,000.00 divided into 1,000,000,000 ordinary shares of RM0.10 each. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special rights, privileges, conditions or restrictions as to dividend capital, voting or otherwise.

## 3. RATIONALE FOR THE PROPOSALS

### 3.1 Proposed Bonus Issue of Warrants

The Company is embarking on the Proposed Bonus Issue of Warrants instead of other available proposals to reward existing shareholders of the Company after taking into cognisance the financial performance and financial position of the Group. The Board is of the view that the Proposed Bonus Issue of Warrants will:-

- (a) serve to reward the existing shareholders of the Company for their support by enabling them to participate in a derivative of the Company without incurring any cost;
- (b) potentially enhances the Company's capital base;
- (c) provide the existing shareholders with an opportunity to increase their equity participation in the Company at a predetermined price during the tenure of the Warrants;
- (d) allow the existing shareholders to further participate in the future prospects and growth of the Company;
- (e) provide the opportunity to increase the liquidity of SCH's Shares in the market; and

- (f) provides the Company with additional capital as and when the Warrants are exercised during the tenure of the Warrants without incurring additional financing cost and minimise any potential cash outflow in respect of interest servicing. Part of the proceeds from the exercise of Warrants which shall be utilised for repayment of borrowings and for working capital requirements is expected to contribute positively to the Group's profitability. Furthermore, the utilisation of the proceeds as and when the Warrants are exercised towards the paring down of the Group's outstanding banking facilities would allow SCH to reduce its finance cost.

The Proposed Bonus Issue of Warrants will involve the issuance of Warrants on a pro-rata basis to all Entitled Shareholders on the Entitlement Date. As such, the Proposed Bonus Issue of Warrants will not dilute the existing shareholders' equity interest assuming all shareholders fully exercise their Warrants subsequently. Should all shareholders exercise their Warrants, the Company's capital base is expected to increase in terms of size and strength, improving its gearing level and the increased in the paid-up share capital may enhance the liquidity in SCH Shares. Depending on the future performance of SCH Shares, Entitled Shareholders will be able to enjoy the potential capital appreciation of SCH Shares when they exercise the Warrants, which are issued at no cost to the Entitled Shareholders.

### 3.2 Proposed IASC

The Proposed IASC is to accommodate the issuance of the new SCH Shares arising from the exercise of the Warrants as well as to cater for any increase in the share capital of the Company pursuant to any other future corporate exercises.

### 3.3 Proposed Amendments

The Proposed Amendments is to facilitate the Proposed IASC.

## 4. FINANCIAL EFFECTS OF THE PROPOSALS

The Proposed IASC and the Proposed Amendments will not have any effects on the issued and paid-up share capital, NA, NA per Share, earnings, earnings per Share, gearing, convertible securities and substantial shareholders' shareholdings of the Company.

For illustration purposes, the pro forma effects of the Proposed Bonus Issue of Warrants on the issued and paid-up share capital, NA, NA per Share, earnings, earnings per Share, gearing, convertible securities and substantial shareholders' shareholdings of the Company are as set out below.

### 4.1 Issued and paid-up share capital

The pro forma effects of the Proposed Bonus Issue of Warrants on the issued and paid-up share capital of SCH are as follows:-

	<b>No. of SCH Shares</b>	<b>RM</b>
As at the LPD	412,234,020	41,223,402
SCH Shares to be issued pursuant to the full exercise of the Warrants	206,117,010	20,611,701
<b>Enlarged share capital</b>	<b>618,351,030</b>	<b>61,835,103</b>

## 4.2 NA per share and gearing

Based on the audited consolidated statement of financial position of SCH as at 31 August 2015, the pro forma effects of the Proposed Bonus Issue of Warrants on the NA and gearing of the SCH Group are as follows:-

	<b>Audited as at 31 August 2015</b>	<b>(I) (ii) After the Proposed Bonus Issue of Warrants</b>	<b>(II) After (I) and assuming full exercise of Warrants</b>
Share Capital	41,223,402	41,223,402	61,835,103
Share Premium	10,905,549	10,905,549	10,905,549
Merger Deficit Reserve	(24,514,828)	(24,514,828)	(24,514,828)
Warrants reserve	-	(iii)32,978,722	-
Other reserves	-	(32,978,722)	-
Foreign Exchange Translation Reserve	204,753	204,753	204,753
Retained Earnings	36,631,603	(i) 36,531,603	36,531,603
<b>NA/Shareholders' funds</b>	<b>64,450,479</b>	<b>64,350,479</b>	<b>84,962,180</b>
No. of SCH Shares outstanding	412,234,020	412,234,020	618,351,030
Net assets per SCH Share (RM)	0.16	0.16	0.14
Interest-bearing borrowings	9,515,330	9,515,330	9,515,330
Gearing <sup>^</sup> (times)	0.15	0.15	0.11

### Notes:-

- (i) After taking into consideration the estimated expenses in relation to the Proposed Bonus Issue of Warrants of RM100,000.
- (ii) Based on the indicative exercise price of RM0.10 per Warrant.
- (iii) Calculated based on the indicative fair value of Warrants of RM0.16 per Warrant using the Black Scholes option valuation model.

## 4.3 Earnings and earnings per Share

The Proposed Bonus Issue of Warrants is not expected to have an immediate material effect on the earnings and earnings per Share of SCH for the FYE 31 August 2016 as it is only expected to be completed in the fourth quarter of 2016. However, the actual impact on the future earnings and earnings per Share of SCH will depend on the utilisation of proceeds and level of returns generated from the exercise (if any) of the Warrants arising from the Proposed Bonus Issue of Warrants.

Although the exercise of the Warrants is expected to dilute the consolidated earnings per Share as a result of the increase in the number of SCH Shares in issue, the proceeds derived from the exercise of the Warrants are expected to contribute positively to the future earnings and earnings per Share of the SCH Group.

## 4.4 Existing convertible securities

As at the LPD, SCH does not have any convertible securities.

## 4.5 Substantial shareholders' shareholdings

The Proposed Bonus Issue of Warrants will not have any effect on the substantial shareholders' shareholdings in the Company as the Warrants will be allotted on a pro-rata basis to Entitled Shareholders. However, the number of SCH Shares held by each substantial

shareholder will increase proportionately as a result of the Proposed Bonus Issue of Warrants.

## **5. INDUSTRY OVERVIEW AND PROSPECTS**

### **5.1 Outlook and prospects of the Malaysian economy**

The Malaysian economy grew by 5.0% in 2015 (2014: 6.0%), supported by the continued expansion of domestic demand (2015: 5.1%, 2014: 5.9%). Domestic demand was primarily driven by the private sector. Modest improvements in external demand in the second half of the year also provided additional impetus to economic growth. Private consumption continued to expand, albeit at a more moderate pace as households adjusted their spending to the higher cost of living arising from the implementation of Goods and Services Tax, adjustments in administrative prices, and the depreciation in the ringgit. Nevertheless, households received some support from the higher cash transfers under the Bantuan Rakyat 1Malaysia scheme, the reduction in individual income tax rates for the 2015 assessment year and savings derived from lower domestic fuel prices during the year.

Public consumption recorded a sustained growth of 4.3% in 2015 (2014: 4.4%), reflecting the continued efforts by the Government to provide support to growth, while remaining committed to the steady reduction in the fiscal deficit. Gross fixed capital formation grew by 3.7% in 2015 (2014: 4.8%) mainly due to slower growth in private sector investment. During the year, the expansion in private investment was lower at 6.4% (2014: 11.0%), reflecting the moderation in domestic demand and cautious business sentiments. While investment in new oil and gas explorations moderated, overall private investment continued to be supported by downstream oil and gas activities, and new and on-going projects in the manufacturing and services sectors. Public investment improved to register a smaller contraction of -1.0% (2014: -4.7%) as the Federal Government and public corporations continued to undertake capital spending, thus providing support to the economy.

On the supply side, all major economic sectors registered more moderate growth, with the exception of the mining sector. The moderation reflected the slower expansion of activity in industries catering to domestic demand. However, export-oriented manufacturing and trade-related services benefited from the modest improvement in external demand.

The Malaysian economy is expected to grow by 4.0 - 4.5% in 2016. Domestic demand will continue to be the principal driver of growth, sustained primarily by private sector spending. Private consumption growth is expected to trend below its long-term average, reflecting largely the continued household adjustments to an environment of higher prices and greater uncertainties.

*(Source: Annual Report 2015, Bank Negara Malaysia)*

The Malaysian economy registered a growth of 4.0% in the second quarter of 2016 (1Q 2016: 4.2%). Despite the stronger expansion in domestic demand, growth was weighed down by the continued decline in net exports and a significant drawdown in stocks. On the supply side, growth continued to be driven by the major economic sectors. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 0.7% (1Q 2016: 1.0%).

Private sector activity remained the key driver of growth, expanding at a faster pace of 6.1% in the second quarter (1Q 2016: 4.5%). Private consumption grew by 6.3% (1Q 2016: 5.3%), supported by continued wage and employment growth as well as the additional disposable income from Government measures. Private investment grew at a faster pace of 5.6% (1Q 2016: 2.2%), driven mainly by continued capital spending in the services and manufacturing sectors. Public investment growth turned around to register a positive growth of 7.5% (1Q 2016: -4.5%), on account of higher spending on fixed assets

by both the Federal Government and public corporations. Growth of public consumption also improved in the second quarter to 6.5% (1Q 2016: 3.8%), due mainly to higher spending on supplies and services.

Growth of the Malaysian economy is expected to be 4% - 4.5%. Domestic demand will continue to be the main driver of growth, supported primarily by private sector spending. Private consumption is projected to expand further, underpinned by continued growth in wages and employment, as well as additional disposable income from Government measures. While the growth in private investment has moderated due to lower capital expenditures in the oil and gas sector, overall investment will remain supported by the implementation of infrastructure development projects and capital spending in the manufacturing and services sectors. Exports are projected to remain weak given the subdued global demand. Overall, while domestic conditions remain resilient, uncertainties in the external environment may pose downside risks to Malaysia's growth prospects.

*(Source: Second Quarter Report 2016, Bank Negara Malaysia)*

## **5.2 Outlook and prospects of the construction sector in Malaysia**

The construction sector grew at a moderate pace of 8.2% in 2015 (2014: 11.8%), due mainly to the slower growth in the residential sub-sector. Construction activity in the residential sub-sector was affected by fewer property launches during the year. Nonetheless, growth in the civil engineering sub-sector picked up, reflecting the progress of existing infrastructure projects, such as construction and upgrading of roads and railways to spur trade and industry as well as the commencement of a large petrochemical project in Johor. Growth in the construction sector was also supported by the non-residential sub-sector, which was underpinned by projects in both the industrial and commercial property segments.

Growth momentum in the construction sector is projected to moderate slightly in 2016. In the residential sub-sector, the expansion is projected to remain modest amid weak housing approvals and property launches. Performance in the non-residential sub-sector is expected to be more moderate amid slower construction activity in the industrial and commercial property segments. The overall performance of the construction sector, however, will be supported by new and existing multi-year civil engineering projects, particularly in the transport and petrochemical segments.

Growth momentum in the construction sector is projected to moderate slightly in 2016, with an increase of 8.4% in 2016 (2015: 8.8%), largely driven by infrastructure projects. In the residential sub-sector, the expansion is projected to remain modest amid weak housing approvals and property launches. Performance in the non-residential sub-sector is expected to be more moderate amid slower construction activity in the industrial and commercial property segments. The overall performance of the construction sector, however, will be supported by new and existing multi-year civil engineering projects, particularly in the transport and petrochemical segments, such as Pan-Borneo Highway, the Mass Rapid Transit line 2 and Pengerang Integrated Complex project.

*(Source: Annual Report 2015, Bank Negara Malaysia)*

The construction sector grew by 8.8% in the second quarter (1Q 2016: 7.9%), driven by the civil engineering sub-sector. Growth in the civil engineering sub-sector was stronger, underpinned by petrochemical, transport and utility-related projects. In the special trade sub-sector, growth was sustained, supported by early-work activity such as site clearance and piling activity. The residential sub-sector expanded at a faster pace during the quarter, reflecting higher construction activity of both high-end and affordable housing projects. In the non-residential sub-sector, growth weakened further following slower construction activity in the commercial property, especially in the office space segment. Thus, it is

expected that growth in the construction sector will be stronger which is dominated by the civil engineering sub-sector.

*(Source: Second Quarter Report 2016, Bank Negara Malaysia)*

### **5.3 Outlook and prospects of the quarry and mining sectors in Malaysia**

The mining sector recorded a higher growth of 4.7% in 2015 (2014: 3.3%) as a result of higher production of crude oil of 654,200 barrels per day, which is the highest since 2010. This was driven by new output from the large Gumusut Kakap deepwater oilfield at offshore Sabah, which commenced operations in the fourth quarter of 2014. However, the environment of low and volatile oil prices had affected investment in the upstream mining sector, resulting in oil and gas firms revising their capital expenditure plans during the year. Despite lower crude oil prices, the foreign direct investment into the mining sector remained sizeable, reflecting mainly the injection of working capital to support on-going upstream exploration and extraction activities in oil and gas fields located offshore from Sabah and Sarawak.

On the supply side, all major economic sectors registered more moderate growth, with the exception of the mining sector. The moderation reflected the slower expansion in industries related to domestic demand. However, export-oriented manufacturing and trade-related services industries benefited from the modest improvement in external trade, especially with the major advanced economies.

Private investment growth was slower as capital expenditure was affected by the moderation in domestic and global growth, and cautious business sentiments. While the low oil prices affected upstream mining investment, the continued progress of ongoing and new investment projects in the services and manufacturing sectors, especially in the export-oriented industries, provided support to the overall investment performance.

In 2016, key economic sectors are projected to expand at a more moderate pace. The services and manufacturing sectors would remain the key drivers of overall growth, while growth in the construction sector is expected to be sustained. Despite the lower oil and gas prices, growth in the mining sector will be supported by the introduction of new gas production capacity.

*(Source: Annual Report 2015, Bank Negara Malaysia)*

Growth momentum in the quarry and mining sectors is expected to remain resilient with growth of 4% in 2016 (2015: 3.5%), supported by higher output of natural gas and crude oil. The production of natural gas is expected to increase by 5.1%, particularly with the commencement of the floating Liquefied Natural Gas ("LNG") project in Sarawak, which will produce 1.2 million tonnes of natural gas annually. Furthermore, the output of natural gas is expected to increase as the Train 9 LNG facility comes into full operation in early 2016. Meanwhile, it is expected that the production of crude oil will expand by 1.6% and crude oil prices are expected to remain subdued at about USD48 per barrel in 2016 amid the over-supply situation.

*(Source: Economic Report 2015/2016, Ministry of Finance Malaysia)*



Value-added of the mining sector grew by 2.6% (Q1 2016: 0.3%) during the second quarter of 2016 mainly attributed to higher output of natural gas and crude oil as well as other mining segments. Value-added of natural gas rebounded by 3.9% following higher production from Sabah and Peninsular fields. Meanwhile, crude oil and condensates turned around by 0.6% following improved output amid low crude oil prices. Consequently, foreign direct investment firms in mining sector have declared large profits following higher demand and better commodity prices compared to first quarter of 2016.

*(Source: Malaysian Economy Second Quarter 2016, Ministry of Finance)*

All sectors of the economy are expected to expand during the 11<sup>th</sup> Malaysian Plan period. The structure of the economy continues to evolve to become more services oriented. The share of the services sector to Gross Domestic Product is estimated to increase from 51.2% in 2010 to 53.8% by 2015. The share of the construction sector is estimated to increase from 3.4% to 4.5%, while those of the manufacturing, mining, and agriculture sectors are expected to decline. However, the latter three (3) sectors continue to grow in absolute terms and their value added to the economy remains significant.

The mining sector is expected to rebound with a 1.3% growth rate per annum during the Plan period. The production of crude oil and condensates is expected to be at a sustainable level of 612,000 barrels per day, while the production of LNG will increase to 29.3 mtpa with the operation of Train 9 in PETRONAS LNG Complex in Bintulu, Sarawak beginning 2016. The production of crude oil will be supported by anticipated oil discoveries, and marginal fields as well as revival of mature fields made possible with the adoption of new technologies, such as enhanced oil recovery and improved oil recovery, subject to economic viability. The production of natural gas is expected to expand further on account of increased demand, particularly from petrochemicals. Based on 2015 estimates, the reserve life for crude oil will be a further 28 years and 42 years for gas.

*(Source: 11<sup>th</sup> Malaysian Plan)*

Malaysia's quarrying industry faces a positive outlook throughout the forecast period. Growth in the said industry is likely to be mainly underpinned by the Government's initiatives such as 11<sup>th</sup> Malaysian Plan and the Economic Transformation Programme which features a number of major property developments, construction and infrastructure projects which would give rise to the construction industry. These trends have a flow over effect on the quarry machinery and equipment market. As more quarrying activities would be needed to meet the higher demand of quarry products; the supporting products and services of the quarry machinery and equipment market would also be in higher demand. Engineering service providers would be engaged to help set up new quarry sites while more production activities would encourage frequent wear and tears, hence, an increase market for equipment and spare parts.

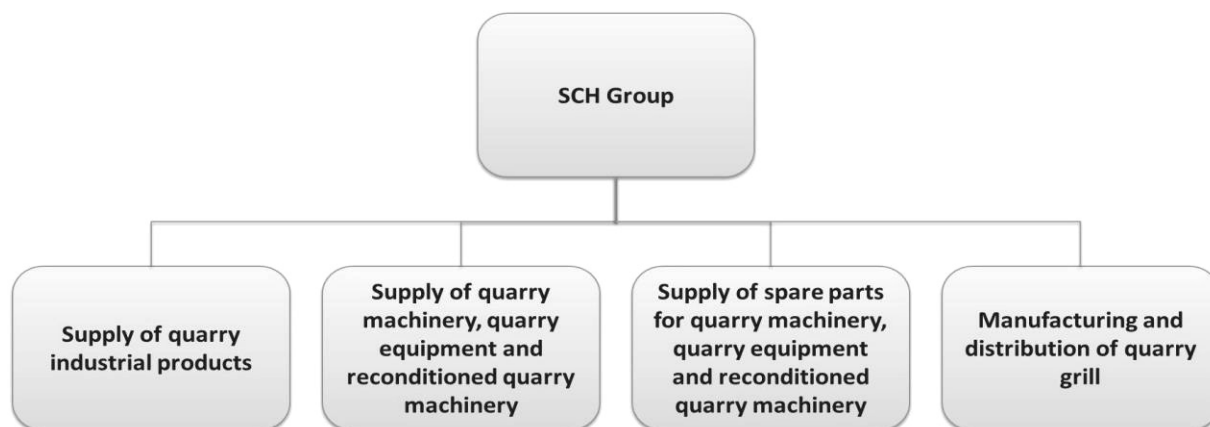
The quarrying operations industry in Malaysia is expected to grow at a compounded annual growth rate ("CAGR") of 12.2% for the 2012-2017 period to RM6.47 billion in 2017. The quarry machinery and equipment market in Malaysia is expected to grow at a CAGR of 9.1% for the 2012-2017 period to RM467.0 million in 2017.

*(Source: SCH's Prospectus dated 21 January 2014)*

#### **5.4 Future prospects of the Group**

The Group are principally involved in the business of distribution and supplying of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry in Malaysia and South East Asia. The Group is also involved in the manufacturing and distribution of quarry grill.

The Group's products are categorised under four (4) main business segments, as illustrated in the diagram below:-



For the financial period ended 31 May 2016, the operating environment for the Malaysian quarry machinery market has been challenging due to the volatile global oil prices, global economic slowdown as well as the slowdown in the construction and building demand in Malaysia. This has affected the Group's customers' quarrying activities and quarrying operations which in turn affected demand for the Group's range of quarry-based products which are used by quarry operators and quarry plants in the quarry industry. Despite this, the Group has managed to record a profit after taxation position of RM2.05 million for the financial period ended 31 May 2015.

Notwithstanding the aforementioned challenges, the Group believes that the demand for various quarry based materials remain positive, given the importance of the construction industry in Malaysia. The Group's customers involved in the quarrying and construction industries has contributed to approximately 90.0% to the Group's revenue during FYE 2015. Moving forward, the Board sees various opportunities that the Group are able capitalise to maintain its growth trajectory, based on the following considerations:-

**(a) Continuous growth in the Malaysian construction industry**

The Group is expected to benefit from the continuous growth in the construction industry, which will mainly be underpinned by the Government's initiatives such as the Malaysian Budget 2016, 11<sup>th</sup> Malaysian Plan and the Economic Transformation Programme which features a number of major property developments, construction and infrastructure projects which would give rise to the continuous growth in the Malaysian construction industry. Projects such as the RM5 billion 118-storey Warisan Merdeka tower, Government initiate affordable housing projects, construction of new highways and other infrastructures are expected to boost the demand for quarry projects which bodes well for the quarry operator industry.

As announced, the Malaysian Government is expected to undertake significant amount of various infrastructure and construction projects, notably as follows:-

- (i) The 350 kilometre High Speed Rail project linking Kuala Lumpur and Singapore;
- (ii) The 52 kilometre Sungai-Buloh-Serdang-Putrajaya Mass Rapid Transit Line, which is estimated to cost RM28 billion;
- (iii) The third line of the light rail transit project known as the Bandar Utama, Damansara-Johan Setia, Klang Line;
- (iv) The Damansara-Shah Alam (DASH), Sungai Besi-Ulu Klang (Suke), East Klang Valley Expressway (EKVE) as well as the Pulau Indah and Central Spine Road;

- (v) The Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang, Johor
- (vi) The RM900 million Jalan Tun Razak Traffic Dispersal Project to reduce congestion in Kuala Lumpur; and
- (vii) The 1,090-km Sarawak Pan-Borneo Highway, which is estimated to cost RM16.1 billion.

*(Source: Eleventh Malaysian Plan 2016 – 2020, Economic Planning Unit, Prime Minister's Department)*

These construction and infrastructure projects are expected to boost the demand for quarry products which in turn drive the demand for the quarry machinery and equipment market, as more quarrying activities and quarrying operations will be required to meet the demand for quarry based materials for use in major property development, construction and infrastructure projects.

#### **(b) Domestic and regional expansion**

On the domestic front, the Group plans to increase its market share by increasing its range of products that the Group currently distributes and supply to further strengthen and bolster its products portfolio. This includes increasing the type of models of its quarry machinery, quarry equipment and reconditioned quarry machinery. The Group has successfully expanded its range of quarry machinery and quarry equipment to include the distribution of "Maxbrio" range of ripper, damper and hammer, which is being supplied by Daedong Engineering of Korea. The Group also expects to further add to the distribution of other range of quarry equipment and quarry machinery, such as excavator rock drillers, jaw plats, crusher concave mantle and its replacement parts, to be supplied from its existing and new distributors from South Korea by the first half of 2017.

On the foreign front, the Group had already expanded its operations into Phnom Penh, Cambodia since the second quarter of 2016 via the establishment of its wholly-owned subsidiary known as Sin Chee Heng (Cambodia) Company Limited in the Kingdom of Cambodia to supply and distribute all kinds of quarry industrial products and servicing of quarry machinery.

Based on the foregoing, the Board remains optimistic and positive on the Group's performance in FYE 2016 and beyond, backed by on-going various Government infrastructure and construction projects as mentioned above.

*(Source: Management of SCH)*

## **6. APPROVALS REQUIRED**

The Proposals are subject to the following approvals being obtained:-

- (a) Bursa Securities, for the following:-
  - (i) the admission of the Warrants to the Official List pursuant to the Proposed Bonus Issue of Warrants; and
  - (ii) the listing of the Warrants and the new Shares arising from the exercise of the Warrants to be issued,
 on the ACE Market of Bursa Securities;

- (b) The shareholders of SCH at the forthcoming EGM to be convened; and
- (c) Any other relevant regulatory authorities, if required.

## 7. INTER-CONDITIONALITY OF THE PROPOSALS

The Proposed Bonus Issue of Warrants, Proposed IASC and Proposed Amendments are inter-conditional upon each other.

The Proposals are not conditional upon any other proposals undertaken or to be undertaken by the Company.

## 8. SHARE PRICE PERFORMANCE

The monthly highest and lowest prices of SCH Shares as traded on Bursa Securities for the past twelve (12) months are as follows:-

	<u>High (RM)</u>	<u>Low (RM)</u>
<b>2015</b>		
September	0.260	0.215
October	0.255	0.230
November	0.225	0.205
December	0.225	0.210
<b>2016</b>		
January	0.220	0.200
February	0.225	0.200
March	0.225	0.210
April	0.220	0.205
May	0.210	0.200
June	0.210	0.190
July	0.215	0.200
August	0.250	0.220

The last transacted price of SCH Shares on 12 August 2016, being the market day immediately preceding the date of the announcement of the Proposals on 15 August 2016 is RM0.25 per Share. The last transacted price of SCH Shares as at the LPD was RM0.24 per Share.

*(Source: M&A Securities)*

## 9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors, major shareholders of the Company and/or persons connected with them have any interest, direct and/or indirect, in the Proposals, other than their respective entitlements as shareholders of the Company under the Proposed Bonus Issue of Warrants, the rights of which are also available to all other existing shareholders of the Company as at the Entitlement Date.

## **10. DIRECTORS' RECOMMENDATION**

After having considered all aspects of the Proposals, including but not limited to the rationale, basis of determining the Exercise Price of the Warrants and the financial effects of the Proposals, the Board is of the opinion that the Proposals are in the best interest of SCH, and accordingly recommends that shareholders vote in favour of the resolutions pertaining the Proposals to be tabled at the forthcoming EGM of the Company.

## **11. ESTIMATED TIMEFRAME FOR COMPLETION**

The tentative timetable in relation to the Proposals is as follows:-

<b>Dates</b>	<b>Events</b>
24 October 2016	EGM to approve the Proposals
Early of November 2016	Announcement of the Entitlement Date and the price-fixing date
End of November 2016	Listing of and quotation for the Warrants on Bursa Securities

Barring any unforeseen circumstances and subject to receipt of all relevant regulatory approvals, the Proposals are expected to be completed in the fourth quarter of 2016.

## **12. OUTSTANDING PROPOSALS ANNOUNCED BUT NOT YET COMPLETED**

Save for the Proposals, there are no other proposals announced but not yet completed prior to the printing of this Circular.

## **13. EGM**

An EGM, the notice of which is enclosed together with this Circular, will be held at Livia 1, Level UG, Ibis Styles Kuala Lumpur Cheras, Jalan C180/1, Dataran C180, 43200 Cheras, Selangor Darul Ehsan on Monday, 24 October 2016 at 2.00 p.m. or any adjournment thereof for the purpose of considering and, if thought fit, passing the resolutions so as to give effect to the Proposals.

If you are unable to attend and vote in person at the EGM, you may complete and return the relevant Proxy Form in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the Registered Office of the Company at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not later than forty-eight (48) hours before the date and time fixed for the EGM. The lodging of the Proxy Form will not, however, preclude you from attending the EGM and voting in person should you subsequently wish to do so.

## **14. FURTHER INFORMATION**

Please refer to the attached appendix for further information.

Yours faithfully,  
For and on behalf of the Board of Directors of  
**SCH GROUP BERHAD**

**LAU MONG LING**  
**MANAGING DIRECTOR AND DEPUTY CHAIRMAN**

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**FURTHER INFORMATION**

**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board and they individually and collectively accept full responsibility for the accuracy of the information given in this Circular and confirm that, after making all enquiries as were reasonable in the circumstances and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

**2. CONSENT AND DECLARATION**

M&A Securities, being the Adviser has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereon in the form and context in which they appear. M&A Securities has given its confirmation that no conflict of interest exists or is likely to exist in relation to its role as the Adviser for the Proposals.

**3. MATERIAL LITIGATION**

To the best knowledge of the Board, neither SCH nor its subsidiaries are engaged in any material litigation, claims or arbitration as at the LPD, either as plaintiff or defendant, and the Board has no knowledge of any proceedings pending or threatened against the SCH Group or of any facts likely to give rise to any proceeding which may materially and adversely affect the financial position or business of the SCH Group.

**4. MATERIAL COMMITMENT**

Save as disclosed below, as at the LPD, the Board is not aware of any material commitment, incurred or known to be incurred, which may have a material impact on the results or financial position of the SCH Group:-

	<u><b>RM'000</b></u>
Capital expenditure on the construction of the new operational facility	1,322

**5. CONTINGENT LIABILITIES**

Save as disclosed below, as at the LPD, the Board is not aware of any other contingent liabilities incurred or known to be incurred which upon becoming enforceable, may have a material impact on the profit after tax or net assets of SCH:-

	<u><b>RM'000</b></u>
Foreign exchange forward contract	731

## **6. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Registered Office of the Company at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur during normal business hours (except public holidays) from the date of this Circular up to and including the date of the EGM:-

- (a) Memorandum and Articles of Association of SCH;
- (b) The audited consolidated financial statements of SCH for the past two (2) financial years FYEs 31 August 2014 and 31 August 2015 and the latest unaudited results for the nine (9)-months financial period ended 31 May 2016;
- (c) Consent letter and declaration referred to in Section 2 above; and
- (d) The draft Deed Poll.

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**SCH GROUP BERHAD**

(Company No. 972700-P)

(Incorporated in Malaysia under the Companies Act, 1965)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting ("EGM") of SCH Group Berhad ("SCH" or the "Company") will be held at Livia 1, Level UG, Ibis Styles Kuala Lumpur Cheras, Jalan C180/1, Dataran C180, 43200 Cheras, Selangor Darul Ehsan on Monday, 24 October 2016 at 2.00 p.m., for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions:-

**ORDINARY RESOLUTION 1**

**PROPOSED BONUS ISSUE OF 206,117,010 FREE DETACHABLE WARRANTS ("WARRANT(S)") ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 IN SCH ("SCH SHARE(S)") HELD BY THE ENTITLED SHAREHOLDERS ON THE ENTITLEMENT DATE ("PROPOSED BONUS ISSUE OF WARRANTS")**

**"THAT** subject to the approvals of all relevant authorities or parties (where required) being obtained, the Board of Directors of the Company ("Board") be and is hereby authorised to issue 206,117,010 Warrants in registered form and constituted by a deed poll ("Deed Poll") to the shareholders of the Company whose names appear on the Record of Depositors of the Company as at the close of business on an Entitlement Date to be determined and announced later by the Board, on the basis of one (1) Warrant for every two (2) existing SCH Shares held;

**THAT** the Board be and is authorised to fix the exercise price of the Warrants which in any event, shall not be lower than the par value of SCH Shares of RM0.10 each;

**THAT** fractional entitlements of the Warrants arising from the Proposed Bonus Issue of Warrants, if any, will be disregarded and shall be dealt with by the Board in such manner at its absolute discretion as it may deem fit and expedient in order to minimise the incidence of odd lots and in the best interest of the Company;

**THAT** the Board be and is hereby authorised to enter into and execute the Deed Poll with full powers to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or imposed by the relevant authorities or deemed necessary by the Board, and subject to all provisions and adjustments contained in the Deed Poll, to assent to any modifications and/or amendment to the exercise price, exercise period and/or number of Warrants as may be required or permitted to be revised as a consequence of any adjustments under the provisions of the Deed Poll, with full power to implement and to give effect to the terms and conditions of the Deed Poll, and to take all steps as the Board deems fit or expedient in order to implement, finalise and give full effect to the Deed Poll;

**THAT** the Board be and is hereby authorised to issue and allot such appropriate number of new SCH Shares arising from the exercise of the Warrants by the holders of the Warrants in accordance with the provisions of the Deed Poll;

**THAT** the new SCH Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment and issue, rank *pari passu* in all respects with the then existing SCH Shares in issue, save

and except that they will not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of the Company, the Entitlement Date of which is precedes the date of allotment of the said new SCH Shares issued pursuant to the exercise of the Warrants;

**AND THAT** the Board be and is hereby authorised to sign and execute all documents to give effect to the Proposed Bonus Issue of Warrants with full powers to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or imposed by the relevant authorities or deemed necessary by the Board, and to take all steps and do all such acts and matters in the manner as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Bonus Issue of Warrants."

## **ORDINARY RESOLUTION 2**

### **PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY FROM RM50,000,000.00 COMPRISING 500,000,000 SCH SHARES TO RM100,000,000.00 COMPRISING 1,000,000,000 SCH SHARES ("PROPOSED IASC")**

**"THAT**, subject to the passing of Ordinary Resolution 1 and the Special Resolution, the authorised share capital of SCH be increased from RM50,000,000.00 comprising 500,000,000 SCH Shares to RM100,000,000.00 comprising 1,000,000,000 SCH Shares;

**AND THAT** the Board be and is hereby authorised with full powers to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or imposed by the relevant authorities or deemed necessary by the Board and to take all steps and do all such acts and matters in the manner as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed IASC."

## **SPECIAL RESOLUTION**

### **PROPOSED AMENDMENTS TO THE COMPANY'S MEMORANDUM OF ASSOCIATION TO FACILITATE THE IMPLEMENTATION OF THE PROPOSED IASC ("PROPOSED AMENDMENTS")**

**"THAT** subject to the passing of Ordinary Resolutions 1 and 2, the Memorandum of Association of the Company be amended as follows to facilitate the implementation of the Proposed IASC:-

#### **Existing** **Memorandum of Association**

#### **CLAUSE 6 OF THE MEMORANDUM OF ASSOCIATION**

The authorised capital of the Company is RM50,000,000.00 divided into 500,000,000 ordinary shares of RM0.10 each. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special rights, privileges, conditions or restrictions as to dividend capital, voting or otherwise.

#### **Proposed** **Memorandum of Association**

#### **CLAUSE 6 OF THE MEMORANDUM OF ASSOCIATION**

The authorised capital of the Company is RM100,000,000.00 divided into 1,000,000,000 ordinary shares of RM0.10 each. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto respectively any preferential, deferred or other special rights, privileges, conditions or restrictions as to dividend capital, voting or otherwise.

**AND THAT** the Board be and is hereby authorised with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or imposed by the relevant authorities or deemed necessary by the Board and to take all steps and do all such acts and matters in the manner as the Board may consider necessary or expedient to implement, finalise and give full effect to the Proposed Amendments.”

**BY ORDER OF THE BOARD**

**TAN TONG LANG (MAICSA 7045482)**  
**CHONG VOON WAH (MAICSA 7055003)**  
Company Secretaries

**Kuala Lumpur**  
30 September 2016

**Notes:**

1. *A member of the Company who is entitled to attend and vote at the EGM is entitled to appoint up to two (2) proxies to attend and vote on his/her behalf.*
2. *A proxy may but need not be a member of the Company. The provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.*
3. *Where the member of the Company appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy.*
4. *If the proxy is executed by a corporation, the Proxy Form must be under its common seal or the hand of an officer or attorney duly authorised.*
5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
6. *The instrument appointing the proxy must be deposited at the Registered Office of the Company at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the EGM or adjourned EGM.*
7. *Depositors who appear in the Record of Depositors as at 17 October 2016 shall be regarded as a member of the Company and is entitled to attend the EGM or appoint a proxy to attend and vote on his/her behalf.*



**SCH GROUP BERHAD**

(Company No. 972700-P)

(Incorporated in Malaysia under the Companies Act, 1965)

CDS Account No.	No. of Shares held

**PROXY FORM**

I/We,.....  
(Full name in block letters)

NRIC/Company No .....of.....

.....  
(Full address)

being a member(s) of SCH GROUP BERHAD hereby appoint .....

.....NRIC No.....

.....  
(Full name in block letters)

of.....  
(Full address)

or failing him/her, the Chairman of the Meeting as \*my/our proxy to attend and vote for \*me/us on \*my/our behalf at the Extraordinary General Meeting ("EGM") of the Company to be held at Livia 1, Level UG, Ibis Styles Kuala Lumpur Cheras, Jalan C180/1, Dataran C180, 43200 Cheras, Selangor Darul Ehsan on Monday, 24 October 2016 at 2.00 p.m. or at any adjournment thereof.

\*My/Our proxy is to vote as indicated below:-

Resolution	Ordinary Business	FOR	AGAINST
Ordinary Resolution 1	Proposed Bonus Issue of Warrants		
Ordinary Resolution 2	Proposed IASC		
Special Resolution	Proposed Amendments		

Please indicate with an "X" in the spaces provided how you wish your vote to be cast. If no specific instruction is given on the voting, the proxy/proxies will vote or abstain from voting on the resolution at his/her discretion.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2016

\_\_\_\_\_  
Signature of shareholder(s) or Common Seal

(\* Delete if not applicable)

**Notes:**

1. A member of the Company who is entitled to attend and vote at the EGM is entitled to appoint up to two (2) proxies to attend and vote on his/her behalf.
2. A proxy may but need not be a member of the Company. The provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. Where the member of the Company appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy.
4. If the proxy is executed by a corporation, the Proxy Form must be under its common seal or the hand of an officer or attorney duly authorised.
5. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
6. The instrument appointing the proxy must be deposited at the Registered Office of the Company at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the EGM or adjourned EGM.
7. Depositors who appear in the Record of Depositors as at 17 October 2016 shall be regarded as a member of the Company and is entitled to attend the EGM or appoint a proxy to attend and vote on his/her behalf.



*Fold this flap for sealing*

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*Then fold here*

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AFFIX  
STAMP

The Company Secretaries  
**SCH Group Berhad** (972700-P)  
Suite 10.03, Level 10  
The Gardens South Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia

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