

SCH GROUP BERHAD ("SCH" OR THE "COMPANY")

- (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 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 COMPRISING 500,000,000 SCH SHARES TO RM100,000,000 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")**

(COLLECTIVELY, REFERRED TO AS THE "PROPOSALS")

1. INTRODUCTION

On behalf of the Board of Directors of SCH ("Board"), M&A Securities Sdn Bhd ("M&A Securities") wishes to announce that SCH is proposing to undertake *inter-alia* 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 of SCH whose names appear in SCH's Record of Depositors ("Entitled Shareholders") on an entitlement date to be determined later ("Entitlement Date").

2. DETAILS OF THE PROPOSALS

2.1 Proposed Bonus Issue of Warrants

2.1.1 Basis and quantum

As at the date of this announcement, the issued and paid-up share capital of SCH is RM41,223,402 comprising 412,234,020 SCH Shares.

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.

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 Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("ACE Market LR") is not relevant with regards to the Proposed Bonus Issue of Warrants.

2.1.3 Basis 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 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 five (5)-day volume weighted average price ("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 of SCH.

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 this announcement.

2.1.4 Ranking of the Warrants and the new SCH Shares to be issued upon 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 constituting the Warrants 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 Entitlement to the Warrants

The Warrants to be issued will be allotted and issued to the shareholders of SCH whose names appear in the Record of Depositors of the Company on the Entitlement Date.

In determining the shareholders' entitlement to the Warrants, fractional entitlements, if any, shall be dealt with in such manner as the Board shall in its absolute discretion deems fit and expedient in order to minimise the incidence of odd lots and in the best interest of the Company.

2.1.6 Listing of the Warrants to be issued

An application will be made for the admission of the Warrants to the Official List of Bursa Securities as well as for the listing of the Warrants to be issued on the ACE Market of Bursa Securities.

2.1.7 Indicative salient terms of the Warrants

Terms	Details
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 ("Deed Poll").
Tenure	: Five (5) years from the date of issuance of the Warrants.
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 announcement 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 th) 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.
Modification of rights of Warrant holder	: 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 Malaysia Depository Sdn Bhd, Securities Industry (Central Depositories) Act, 1991 and/or ACE Market LR.

Terms**Details**

		<p>Subject to the approval of any relevant authority, 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.</p>
Rights of holders of Warrants	:	<p>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.</p>
Rights in the event of winding up, liquidation or an event of default	:	<p>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:</p> <ul style="list-style-type: none">(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. 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.

Terms	Details
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 denomination as may be prescribed by Bursa Securities.
Listing	: The Warrants will be listed on the ACE Market of Bursa Securities.
Transferability	: The Warrants are transferable by transfer prescribed by the rules of Bursa Malaysia Depository Sdn Bhd and in accordance with the provisions of the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Malaysia Depository Sdn Bhd.
Governing Law	: Laws of Malaysia

2.2 Proposed IASC

As at the date of this announcement, the authorised share capital of SCH is RM50,000,000 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 comprising 1,000,000,000 SCH Shares.

2.3 Proposed Amendments

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

Details of the Proposed Amendments are as follows:

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.

3. UTILISATION OF PROCEEDS

The Proposed Bonus Issue of Warrants will not raise any immediate funds upon the issuance of Warrants 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 on 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 borrowings and for future working capital requirements of SCH and its subsidiaries ("SCH Group" or "Group"), which include, amongst others, staff costs and other operating expenses. The proceeds to be utilised for each component of the borrowings and working capital and its timeframes are subject to SCH Group's operating requirements at the time of utilisation and therefore, cannot be determined at this juncture.

4. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

4.1 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:-

- (a) serves 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) provides 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) allows the existing shareholders to further participate in the future prospects and growth of the Company;
- (e) provides 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 of the Company at 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 the 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.

4.2 Proposed IASC

The Proposed IASC is to accommodate the issuance of 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.

4.3 Proposed Amendments

The Proposed Amendments is to facilitate the Proposed IASC.

5. FINANCIAL EFFECTS OF THE PROPOSALS

The Proposed IASC and the Proposed Amendments will not have any effect on the issued and paid-up share capital, net asset, net asset 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, net asset, net asset per Share, earnings, earnings per Share, gearing, convertible securities and substantial shareholders' shareholdings of the Company are as set out below:-

5.1 Issued and paid-up share capital

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

	No. of SCH Shares '000	RM'000
As at the date of this announcement	412,234	41,223
SCH Shares to be issued assuming full exercise of the Warrants	206,117	20,612
Enlarged share capital	618,351	61,835

5.2 Net assets and gearing

Based on the audited consolidated financial statements of the SCH Group as at 31 August 2015, the proforma effects of the Proposed Bonus Issue of Warrants on the net assets and gearing of the SCH Group are as follows:-

	As at 31 August 2015	(I) (ii) After the Proposed Bonus Issue of Warrants	(II) After (I) and assuming full exercise of Warrants
	RM'000	RM'000	RM'000
Share Capital	41,223	41,223	61,835
Share Premium	10,906	10,906	10,906
Merger Deficit Reserve	(24,515)	(24,515)	(24,515)
Warrants reserve	-	(iii)32,979	-
Other reserves	-	(32,979)	-
Foreign Exchange Translation Reserve	205	205	205
Retained Earnings	36,632	(i)36,532	36,432
Net Assets	64,451	64,351	84,963
No. of shares outstanding (^000)	412,234	412,234	618,351
Net Assets per share (RM)	0.16	0.16	0.14
Borrowings (RM'000)	9,515	9,515	(iv)-
Gearing (times)	0.15	0.15	(iv)-

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.
- (iv) Assuming the proceeds raised from the exercise of the Warrants will be utilised to first fully pare down bank borrowings of the Group and the balance thereto shall be utilised for working capital purposes of the Group.

5.3 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.

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 of the SCH Group.

5.4 Existing convertible securities

As at the date of this announcement, SCH does not have any convertible securities.

5.5 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 all the Entitled Shareholders. However, the number of SCH Shares held by each substantial shareholder will increase proportionately as a result of the Proposed Bonus Issue with Warrants.

6. APPROVALS REQUIRED

The Proposals are subject to the following approvals:-

- (a) Bursa Securities, for the following:-
 - (i) the listing of the Warrants and new Shares pursuant to the exercise of the Warrants to be issued; and
 - (ii) the admission of the Warrants to the Official List pursuant to the Proposed Bonus Issue of Warrants,on the ACE Market of Bursa Securities;
- (b) the shareholders of SCH at an extraordinary general meeting of the Company to be convened; and
- (c) any other relevant regulatory authority, if required.

Each component of the Proposals are inter-conditional with each other. The Proposals are not conditional upon any other proposals undertaken or to be undertaken by the Company, if any.

7. DIRECTORS' AND/OR 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.

8. DIRECTORS' STATEMENT

After having considered all aspects of the Proposals, including the rationale as set out in Section 4 of this announcement, the Board is of the opinion that the Proposals are in the best interest of the Company.

9. ADVISER

M&A Securities has been appointed as Adviser for the Proposals.

10. APPLICATIONS TO THE RELEVANT AUTHORITIES AND ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, applications to the relevant authorities in respect of the Proposed Bonus Issue of Warrants are expected to be submitted within two (2) months from the date of this announcement. The Proposals are expected to be completed in the fourth quarter of 2016.

This announcement is dated 15 August 2016.

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