

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON**



**ECOVIS AHL PLT** (LLP0003185-LCA) & (AF 001825)  
Chartered Accountants. Kuala Lumpur, Malaysia

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The Board of Directors  
**SCH GROUP BERHAD**  
Lot 35, Jalan CJ 1/1  
Kawasan Perusahaan Cheras Jaya  
43200 Cheras  
Selangor.

20 June 2018

Dear Sirs

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

**REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017**

We have completed our assurance engagement to report on the compilation of Pro Forma consolidated statements of financial position as at 31 August 2017 together with the notes thereon of SCH and its subsidiaries ("SCH Group" or the "Group") prepared by the Board of Directors of SCH ("the Board"). The Pro Forma consolidated statements of financial position which is set out in Appendix I (which we have stamped for the purpose of identification) has been compiled by the Board for inclusion in the circular to shareholders of SCH in connection with:

- (i) Proposed private placement up to 103,000,000 new ordinary shares in SCH ("Placement Shares") ("SCH Shares") at an indicative issue price of RM0.185 per placement shares ("Initial Placement Price") ("Proposed Private Placement");
- (ii) Proposed acquisition of the entire equity interest in TK Tent Air-Conditioning Rental Sdn. Bhd. ("TK Tent") comprising 11,800,000 ordinary shares in TK Tent, for a purchase consideration of RM50,000,000 to be satisfied in part by a cash consideration of RM15,000,000, which RM 10,500,000 from proceeds from Proposed Private Placement and RM 4,500,000 from internal funds, and bank borrowings amounting RM 35,000,000 ("Proposed Acquisition of TK Tent");
- (iii) Proposed acquisition of 83.33% equity interest in PKF Fertilizers (Sarawak) Sdn. Bhd. ("PKF Sarawak") comprising 15,000,000 ordinary shares in PKF Sarawak, for a purchase consideration of RM19,054,811 to be satisfied in part by a cash consideration of RM11,454,811, which RM8,000,000 from bank borrowings and RM 3,454,811 from proceeds from Proposed Private Placement, and issuance of 40,000,000 new ordinary shares in SCH shares ("Consideration Shares") at an issue price of RM 0.19 for Consideration Shares ("Issue Price") ("Proposed Acquisition of PKF Sarawak");

(Collectively referred to as the "Proposals").

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**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON**  
**(cont'd)**



The applicable criteria on the basis of which the Board of the Company have compiled the Pro Forma consolidated statements of financial position are described in Notes 1 and 3 of Appendix I.

The Pro Forma consolidated statements of financial position have been compiled by the Board to illustrate the impact of the Proposals on the audited consolidated statements of financial position of SCH as at 31 August 2017 as if the proposed exercises had taken place on that date. As part of this process, information about the Pro Forma Consolidated Statement of Financial Position as at 31 August 2017 has been extracted from the Company's audited Consolidated Statement of Financial Position as at 31 August 2017. Information about the financial position as at 30 June 2017 of TK Tent has been extracted from TK Tent's audited financial statements as at 30 June 2017 prepared in accordance with Malaysian Financial Reporting Standards ("MFRSS"). Information about the financial position as at 31 December 2017 of PKF Sarawak has been extracted from PKF Sarawak's audited financial statements as at 31 December 2017 prepared in accordance with Malaysian Private Entities Reporting Standards ("MPERSs").

The Pro Forma consolidated statements of financial position, because of its nature, may not be reflective of SCH's actual financial position. Furthermore, such information does not purport to predict the future financial position of SCH.

#### **Directors' Responsibilities**

It is the sole responsibility of the Board to prepare the Pro Forma consolidated statements of financial position as at 31 August 2017 on the basis described in notes to the Pro Forma consolidated statements of financial position as set out in Appendix I.

#### **Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion on the proper compilation of the Pro Forma consolidated statements of financial position as at 31 August 2017 in all material respects, by the Board on the basis of applicable criteria.

In providing this opinion, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma consolidated statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma consolidated statements of financial position.

The purpose of the Pro Forma consolidated statements of financial position is solely to illustrate the impacts of significant events or transactions on unadjusted financial information of the entity as if the events had occurred or the transactions have been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(cont'd)**



**Basis of Opinion**

We conducted our work in accordance with Malaysian Approved Standards on Assurance Engagements - (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board have compiled, in all material respects, the Pro Forma consolidated statements of financial position on the basis described in notes to the Pro Forma consolidated statements of financial position.

A reasonable assurance engagement to report on whether the Pro Forma consolidated statements of financial position have been compiled, in all material respects, on the basis described in notes to the Pro Forma consolidated statements of financial position, involves performing procedures to assess whether the compilation of the Pro Forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- (i) the related Pro Forma adjustments give appropriate effect to the Pro Forma consolidated statements of financial position; and
- (ii) the Pro Forma consolidated statements of financial position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma consolidated statements of financial position have been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Pro Forma consolidated statements of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (i) the Pro Forma consolidated statements of financial position of SCH as at 31 August 2017, which have been prepared by the Board, have been properly prepared, in all material respects, on the basis stated in the accompanying notes to the Pro Forma consolidated statements of financial position using the audited financial statements of SCH as at 31 August 2017, which were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with both the format of the consolidated statements of financial position and the accounting policies of SCH; and
- (ii) the adjustments made to the information used in the preparation of the Pro Forma consolidated statements of financial position are appropriate, in all material respects, for the purposes of preparing the Pro Forma consolidated statements of financial position.

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON  
(cont'd)**



**Other Matters**

This letter is issued for the sole purpose of inclusion in the circular to shareholders of SCH in connection with the Proposals. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Proposals described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this letter in connection with any type of transaction.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Ecovis", written over the printed name.

**ECOVIS AHL PLT**  
AF 001825  
Chartered Accountants

Kuala Lumpur  
20 June 2018

A handwritten signature in black ink, appearing to read "CHUA KAH CHUN", written over the printed name.

**CHUA KAH CHUN**  
No. 2696/09/19 (J)  
Chartered Accountant

**APPENDIX V**  
**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

APPENDIX 1

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON**

**SCH Group Berhad (972700-P)**

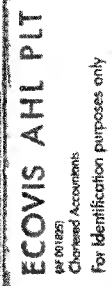
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 Tel : (603) 9082 2481 | Fax: (603) 9082 9697 | Website: www.schgroup.com.my

The pro forma consolidated statements of financial position of SCH Group Berhad as set out below are provided for illustrative purpose only and to show the effects of the transactions referred to in the notes accompanying as if they were effected on 31 August 2017.

		Pro forma I	Pro forma II	Pro forma III	Pro forma IV
	Audited Consolidated Statement of Financial Position of SCH Group Berhad as at 31.8.2017 RM	After private placement RM	After Pro forma (I) and Proposed Acquisition of TK Tent RM	After Pro forma (I), (II) and Proposed Acquisition of PKF Sarawak RM	After Pro forma (I), (II), (III) and Fully Exercise of Warrants RM
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	5.1 23,926,510	23,926,510	41,483,289	48,819,228	48,819,228
Investment properties	5.2 -	-	-	17,386,156	17,386,156
Goodwill on consolidation	5.3 -	-	32,169,828	32,741,828	32,741,828
<b>Total Non-Current Assets</b>	23,926,510	23,926,510	73,653,117	98,947,212	98,947,212
<b>Current Assets</b>					
Inventories	22,232,334	22,232,334	22,232,334	22,232,334	22,232,334
Trade receivables	20,475,065	20,475,065	23,258,060	39,600,612	39,600,612
Other receivables, deposits and prepayments	3,396,401	3,396,401	4,163,789	4,544,776	4,544,776
Tax recoverable	1,925,317	1,925,317	2,044,717	2,273,286	2,273,286
Fixed deposit with financial institutions	9,085,364	9,085,364	9,667,459	9,667,459	9,667,459
Cash and bank balances	3,044,118	21,749,118	6,868,974	3,302,575	23,914,126
	60,158,599	78,863,599	68,235,333	81,621,042	102,232,593
Asset held for sale	376,960	376,960	376,960	376,960	376,960
<b>Total Current Assets</b>	60,535,559	79,240,559	68,612,293	81,998,002	102,609,553
<b>Total Assets</b>	<b>84,462,069</b>	<b>103,167,069</b>	<b>142,265,410</b>	<b>180,945,214</b>	<b>201,556,765</b>

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**APPENDIX V**  
**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

APPENDIX I

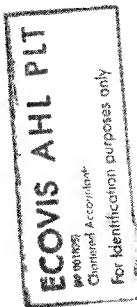
**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

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		Pro forma I	Pro forma II	Pro forma III	Pro forma IV
	Audited Consolidated Statement of Financial Position of SCH Group Berhad as at 31.8.2017 RM	After private placement RM	After Pro forma (I) and Proposed Acquisition of TK Tent RM	After Pro forma (I), (II) and Proposed Acquisition of PKF Sarawak RM	After Pro forma (I), (II), (III) and Fully Exercise of Warrants RM
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Share capital	5.9	52,129,101	71,184,101	79,356,101	99,967,652
Merger deficit		(24,514,828)	(24,514,828)	(24,514,828)	(24,514,828)
Translation reserve		276,150	276,150	276,150	276,150
Retained earnings	5.10	36,582,923	35,832,923	35,582,923	35,582,923
<b>Equity Attributable to Owners of the company</b>		<b>64,473,346</b>	<b>82,778,346</b>	<b>90,700,346</b>	<b>111,311,897</b>
Non-controlling interest	5.11	-	-	3,811,877	3,811,877
<b>Total Equity</b>		<b>64,473,346</b>	<b>82,778,346</b>	<b>94,512,223</b>	<b>115,123,774</b>
<b>Non-Current Liabilities</b>					
Lease liabilities	5.12	316,415	316,415	430,027	430,027
Bank borrowings	5.13	4,110,671	39,110,671	41,590,671	41,590,671
Deferred tax liabilities	5.14	108,143	108,143	6,560,644	6,560,644
<b>Total Non-Current Liabilities</b>		<b>4,535,229</b>	<b>42,926,229</b>	<b>48,581,342</b>	<b>48,581,342</b>



**APPENDIX V**  
**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (Cont'd)**

APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

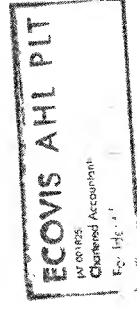
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		<b>Pro forma I</b>	<b>Pro forma II</b>	<b>Pro forma III</b>	<b>Pro forma IV</b>
	<b>Audited Consolidated Statement of Financial Position of SCH Group Berhad as at 31.8.2017 RM</b>	<b>After private placement RM</b>	<b>After Pro forma (I) and Proposed Acquisition of TK Tent RM</b>	<b>After Pro forma (I), (II) and Proposed Acquisition of PKF Sarawak RM</b>	<b>After Pro forma (I), (II), (III) and Fully Exercise of Warrants RM</b>
<b>Current liabilities</b>					
Trade payables	5.15	1,950,165	2,057,311	17,116,027	17,116,027
Other payables and accruals	5.16	1,254,178	2,029,906	2,647,722	2,647,722
Amount due to a Director		19,000	19,000	19,000	19,000
Lease liabilities	5.12	161,398	385,865	480,147	480,147
Bank borrowings	5.13	12,031,534	12,031,534	17,551,534	17,551,534
Tax liabilities		37,219	37,219	37,219	37,219
<b>Total Current Liabilities</b>		<b>15,453,494</b>	<b>16,560,835</b>	<b>37,851,649</b>	<b>37,851,649</b>
<b>Total Liabilities</b>		<b>19,988,723</b>	<b>59,487,064</b>	<b>86,432,991</b>	<b>86,432,991</b>
<b>Total Equity and Liabilities</b>		<b>103,167,069</b>	<b>142,265,410</b>	<b>180,945,214</b>	<b>201,556,765</b>
No. of SCH Shares					
Net assets per SCH Shares * (RM)		515,235,520	515,235,520	555,235,520	761,351,030
Interest bearing borrowings (RM)		0.16	0.16	0.16	0.15
Gearing# (times)		16,620,018	51,844,485	60,052,379	60,052,379
		0.26	0.63	0.66	0.54

\* Net assets is defined as equity attributable to owners of the Company

# Gearing ratio is calculated on total borrowings divided by net assets



**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

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**1. INTRODUCTION**

The pro forma consolidated statement of financial position of SCH Group Berhad ("SCH" or "Company") and its subsidiaries ("SCH Group" or "Group"), for which the Directors of the Company are solely responsible, has been prepared for illustrative purpose only for inclusion in the Circular to Shareholders of the Company ("Circular") to be issued in connection with the following:

- (i) Proposed private placement up to 103,000,000 new ordinary shares of SCH ("Placement Shares") ("SCH Shares") at an indicative issue price of RM0.185 per placement shares ("Initial Placement Price") ("Proposed Private Placement");
- (ii) Proposed acquisition of the entire equity interest in TK Tent Air-Conditioning Rental Sdn. Bhd. ("TK Tent") comprising 11,800,000 ordinary shares in TK Tent ("Sale Shares of TK Tent"), for a purchase consideration of RM50,000,000 to be satisfied by cash ("Purchase Consideration of TK Tent"), which RM 10,500,000 from proceeds from Proposed Private Placement, RM 4,500,000 from internal funds, and bank borrowings amounting RM 35,000,000 ("Proposed Acquisition of TK Tent");
- (iii) Proposed acquisition of 83.33% equity interest in PKF Fertilizers (Sarawak) Sdn. Bhd. ("PKF Sarawak") comprising 15,000,000 ordinary shares in PKF Sarawak ("Sale Shares of PKF Sarawak"), for a purchase consideration of RM19,054,811 ("Purchase Consideration of PKF Sarawak"), to be satisfied via a combination of cash consideration of RM11,454,811, which maximum of RM 8,000,000 from bank borrowings and RM 3,454,811 from proceeds from Proposed Private Placement, and issuance of 40,000,000 new ordinary shares in SCH shares ("Consideration Shares") at an issue price of RM 0.19 for Consideration Shares ("Issue Price") ("Proposed Acquisition of PKF Sarawak").

(Collectively referred to as the "Proposals")

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**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

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**2. DETAILS OF THE PROPOSED ACQUISITIONS**

**2.1 PROPOSED ACQUISITION OF TK TENT**

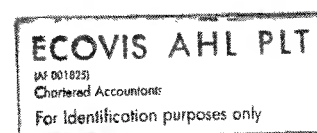
On 2 February 2018, SCH announced that the Company had on even date, entered into a conditional share sale agreement ("TK Tent SSA") with Hextar Holdings Sdn Bhd ("HHSB") for the Proposed Acquisition of TK Tent for a cash consideration of RM 50,000,000.

**2.2 PROPOSED ACQUISITION OF PKF SARAWAK**

On 7 March 2018, SCH announced that the Company had on even date, entered into a conditional share sale agreement ("PKF Sarawak SSA") with PK Fertilizers Sdn. Bhd. ("PKFSB") for the Proposed Acquisition of PKF Sarawak in the following matters:

- i) Cash consideration amounting RM 11,454,811; and
- ii) Issuance of 40,000,000 new ordinary shares of SCH shares at an issue price of RM 0.19 per SCH Shares.

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**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad** (972700-P)

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**3. BASIS OF PREPARATION**

- 3.1 The pro forma consolidated statements of financial position of SCH Group as at 31 August 2017, for which the Board of Directors of SCH ("Board") are solely responsible, is prepared for illustrative purposes only, to show the effects of the pro forma consolidated financial position of SCH Group as at 31 August 2017 had the Proposals been effected on that date, and should be read in conjunction with the notes accompanying thereto.

The pro forma consolidated statements of financial position is prepared for illustrative purposes only, such information, because of its nature, does not give a true picture of the effects of the Proposals on the financial position of SCH Group presented had the transactions or events occurred on 31 August 2017. Further, such information does not purport to predict the Group's future financial position.

- 3.2 For purpose of illustration only, the effects of the Proposals are shown using the financial position of SCH as at 31 August 2017, the financial position of TK Tent as at 30 June 2017 and the financial statement of PKF Sarawak as at 31 December 2017 on the assumption that the Proposed Acquisition I and II had been effected on 31 August 2017.
- 3.3 The pro forma consolidated statements of financial position after adjustments incorporating the effects of the Proposals and consolidation eliminations were compiled using the:
- i) audited consolidated statements of financial position of SCH as at 31 August 2017 prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") was audited by Messrs. ECOVIS AHL PLT;
  - ii) audited statements of financial position of TK Tent as at 30 June 2017 prepared in accordance with MFRSs, which were audited by Messrs. Crowe Horwath; and
  - iii) audited statements of financial position of PKF Sarawak as at 31 December 2017 prepared in accordance with Malaysian Private Entities Reporting Standards ("MPERSs"), which were audited by Messrs. Ernst & Young.

As the Proposed Acquisition of PKF Sarawak complete, the PKF Sarawak will be adopting MFRSs under the Group's accounting standards. The initial adoption of MFRSs by PKF Sarawak is not expected to have a material impact to the Pro Forma Consolidated Financial Statement of the Group.

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad** (972700-P)

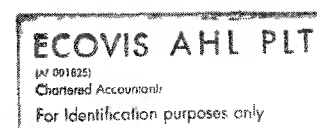
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3. BASIS OF PREPARATION (CONT'D)

- 3.4 The estimated expenses for the Proposals is RM1,000,000 which has been adjusted in the pro forma consolidated statements of financial position.
- 3.5 A Purchase Price Allocation ("PPA") exercise will be conducted as at the acquisition date, at which point adjustments may be made to the goodwill amount currently recorded for illustrative purposes.
- 3.6 The pro forma consolidated statements of financial position was prepared using non-conterminous year ends i.e. 31 August for SCH, 30 June for TK Tent and 31 December for PKF Sarawak.
- 3.7 The historical financial information of SCH, TK Tent and PKF Sarawak are presented in Ringgit Malaysia ("RM"), which is also SCH's, TK Tent's and PKF Sarawak's functional currency.

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**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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**4. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017**

Pro forma adjustments to the pro forma consolidated statements of financial position, which show the effects of the Proposals are illustrated as follows:

**4.1 Pro forma I - After Proposed Private Placement**

Upon completion of the proposed private placement, the issued share capital of SCH will be increased to RM 71,184,101.

The gross proceeds raise from the Propose Private Placement is RM 19,055,000 would increase in cash and cash equivalents of SCH. Transaction cost in relation to the issuance of share capital are assumed to be negligible as at the date of this report.

The estimated expenses is RM 350,000.

**4.2 Pro forma II - After Pro forma I and After Proposed Acquisition of TK Tent.**

**(a) Adjustments for the acquisition of TK Tent**

The acquisition of shares in TK Tent would give rise to an increase of RM50,000,000 in the investment in subsidiaries of SCH. Correspondingly, the payment for the acquisition would decrease the cash and cash equivalents of SCH of RM15,000,000 and increase in bank borrowings of SCH of RM 35,000,000.

The estimated expenses is RM 400,000.

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**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

Tel: (603) 9082 2481 | Fax: (603) 9082 9697 | Website: www.schgroup.com.my

**4. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

Pro forma adjustments to the pro forma consolidated statements of financial position, which show the effects of the Proposals are illustrated as follows (cont'd):

**4.2 Pro forma II - After Pro forma I and After Proposed Acquisition of TK Tent (cont'd)**

**(b) Adjustment for goodwill on business combination**

The adjustment for the goodwill on business combination illustrates the effect of the goodwill arising from the Proposed Acquisition of TK Tent. Details of the provisional fair value of assets and liabilities acquired are as follows:

	<b>RM</b>
Property, plant and equipment	17,556,779
Trade receivables	2,782,995
Other receivable, deposits and prepayments	767,388
Tax recoverable	119,400
Deposits with financial institutions	582,095
Cash at bank	519,856
Trade payables	(107,146)
Other payables and accruals	(775,728)
Lease liabilities	(224,467)
Deferred tax liabilities	(3,391,000)
	<u>17,830,172</u>
Goodwill on business combination (Note 5.3)	32,169,828
Purchase consideration	<u>50,000,000</u>

The assumption used in the calculation of goodwill on business combination is that the fair values as at 30 June 2017 would be used to derive the illustrative impact on the pro forma consolidated statement of financial position as at 31 August 2017.

The fair value of the Purchase Consideration of TK Tent comprises:

	<b>RM</b>
Cash	15,000,000
Bank borrowings	35,000,000
	<u>50,000,000</u>



**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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**4 PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**4.2 Pro forma II - After Pro forma I and After Proposed Acquisition of TK Tent (cont'd)**

**(b) Adjustment for goodwill on business combination (cont'd)**

The Board of the Company are of the view that fair values of the assets and liabilities of TK Tent approximate their book values at that date and have not been adjusted for the purpose of this pro forma. Actual adjustment may differ based on the financial information of TK Tent on the actual acquisition date.

Upon completion of the Proposed Acquisition of TK Tent, the goodwill of the Group will increase by RM 32,169,828 and its corresponding entries would decrease the Group's consolidated retained earnings by the pre-acquisition reserves of RM6,030,172 and share capital of the subsidiary acquired of RM11,800,000 and eliminate the investment in subsidiaries by RM50,000,000.

A Purchase Price Allocation ("PPA") exercise will be conducted as at the acquisition date, at which point adjustment may be made to the goodwill amount recorded for illustrative purpose.

**4.3. Pro forma III - After Pro forma II and After Proposed Acquisition of PKF Sarawak**

**(a) Adjustments for the acquisition of PKF Sarawak**

The acquisition of shares in PKF Sarawak would give rise to an increase of RM 19,626,811 in the investment in subsidiaries of SCH. Correspondingly, the payment for the acquisition would give rise to a decrease in the cash and cash equivalents of SCH of RM3,454,811, increase in bank borrowings of SCH of RM 8,000,000 and the issuance of 40,000,000 new ordinary shares in SCH at an issue price of RM 0.2043 per Consideration Shares ("Fair Value of the Consideration Shares")<sup>\*1</sup>, thereby increasing the issued share capital of SCH by RM 8,172,000. Transaction cost in relation to the issuance of share capital are assumed to be negligible as at the date of this report.

The estimated expenses is RM 250,000.

<sup>\*1</sup> Fair value of consideration shares stated at The 5-day volume weighted average market price ("5D-VWAMP") of SCH shares up to and including 6 March 2018, being the market day proceeding the date of SSA

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

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**4. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**4.3. Pro forma III - After Pro forma II and After Proposed Acquisition of PKF Sarawak (cont'd)**

**(b) Adjustment for goodwill on business combination**

The adjustment for the goodwill on business combination illustrates the effect of the goodwill arising from the Proposed Acquisition of PKF Sarawak. Details of the provisional fair value of assets and liabilities acquired are as follows:

	RM
Property, plant and equipment	24,722,095
Trade receivables	16,342,552
Other receivable, deposits and prepayments	380,987
Tax recoverable	228,569
Cash at bank	138,412
Trade payables	(15,058,716)
Other payables and accruals	(617,816)
Lease liabilities	(207,894)
Deferred tax liabilities	(3,061,501)
	<u>22,866,688</u>
Less: Non-controlling interest of net assets (16.67%) (Note 5.11)	(3,811,877)
Goodwill on business combination (Note 5.3)	572,000
Purchase consideration	<u>19,626,811</u>

The assumption used in the calculation of goodwill on business combination is that the fair values as at 31 December 2017 would be used to derive the illustrative impact on the pro forma consolidated statement of financial position as at 31 August 2017.

The fair value of the Purchase Consideration of PKF Sarawak comprises:

	RM
Cash	3,454,811
Bank borrowings	8,000,000
Ordinary shares issued	
(40,000,000 Consideration shares at RM 0.2055 per share)*2	8,172,000
	<u>19,626,811</u>

\*2 Fair value of consideration shares stated at 5D-VWAMP.

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

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**4. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

Pro forma adjustments to the pro forma consolidated statements of financial position, which show the effects of the Proposals are illustrated as follows (cont'd):

**4.3. Pro forma III - After Pro forma II and After Proposed Acquisition of PKF Sarawak (cont'd)**

**(b) Adjustment for goodwill on business combination (cont'd)**

The Board of the Company are of the view that fair values of the assets and liabilities of PKF Sarawak approximate their book values at that date and have not been adjusted for the purpose of this pro forma. Actual adjustment may differ based on the financial information of PKF Sarawak on the actual acquisition date.

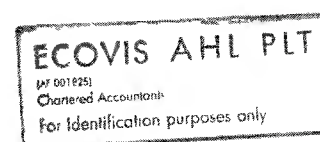
Upon completion of the Proposed Acquisition of PKF Sarawak, the goodwill of the Group will increase by RM 572,000 and its corresponding entries would decrease the Group's consolidated retained earnings by the pre-acquisition reserves of RM3,616,688 and share capital of the subsidiary acquired of RM16,254,350 and eliminate the investment in subsidiaries by RM19,626,811 and increase of non-controlling interest of RM3,811,877.

A PPA exercise will be conducted as at the acquisition date, at which point adjustment may be made to the goodwill amount recorded for illustrative purpose.

**4.4 Pro forma IV – After Pro forma III and Full Exercise of the Warrants**

Pro forma IV incorporates the effects of Pro forma III and assuming full exercise of 206,115,510 outstanding SCH warrants 2016/2021 ("Warrants").

Assuming Full Exercise of the Warrants at the indicative exercise price of RM0.10 each, the issued share capital of SCH will be increased to RM99,967,652.



**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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**5. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017**

**5.1 Property, plant and equipment**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	23,926,510
Proposed Acquisition of TK Tent:	
- Per audited statement of financial position ("SOFP") of TK Tent as at 30 June 2017	17,556,779
Pro forma II	41,483,289
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	24,722,095
- Reclassification to investment properties	(17,386,156)
Pro forma III, Pro forma IV	48,819,228

#1 Reclassification of property, plant and equipment to investment properties arising from rental agreement on leasehold land and building with the former owner of PKF Sarawak. The rental agreement expires on 31 December 2018.

**5.2 Investment properties**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	-
Pro forma II	
- Reclassification from Property, plant and equipment	17,386,156
Pro forma III, Pro forma IV	17,386,156

**5.3 Goodwill on consolidation**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	-
Proposed Acquisition of TK Tent:	
- Goodwill arising from business combination	32,169,828
Pro forma II	32,169,828
Proposed Acquisition of PKF Sarawak:	
- Goodwill arising from business combination	572,000
Pro forma III, Pro forma IV	32,741,828

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor, Malaysia.

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**5. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**5.4 Trade receivable**

	RM
Audited as at 31 August 2017, Pro forma I	20,475,065
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	2,782,995
Pro forma II	23,258,060
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	16,342,552
Pro forma III, Pro forma IV	<u>39,600,612</u>

**5.5 Other receivables, deposits and prepayments**

	RM
Audited as at 31 August 2017, Pro forma I	3,396,401
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	767,388
Pro forma II	4,163,789
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	380,987
Pro forma III, Pro forma IV	<u>4,544,776</u>

**5.6 Tax recoverable**

	RM
Audited as at 31 August 2017, Pro forma I	1,925,317
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	119,400
Pro forma II	2,044,717
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	228,569
Pro forma III, Pro forma IV	<u>2,273,286</u>



**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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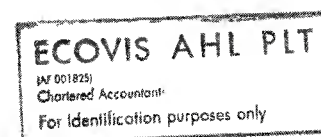
**5. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**5.7 Fixed deposits with financial institutions**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	9,085,364
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	582,095
Pro forma II, Pro forma III, Pro forma IV	<u>9,667,459</u>

**5.8 Cash and bank balances**

	<b>RM</b>
Audited as at 31 August 2017	3,044,118
- Proceed from Proposed Private Placement	19,055,000
- estimated expenses incurred for Proposed Private Placement	<u>(350,000)</u>
Pro forma I	21,749,118
- Cash consideration for the Proposed Acquisition of TK Tent	<u>(15,000,000)</u>
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	519,856
- estimated expenses incurred for Proposed Acquisition of TK Tent	<u>(400,000)</u>
Pro forma II	6,868,974
- Cash consideration for the Proposed Acquisition of PKF Sarawak	<u>(3,454,811)</u>
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	138,412
- estimated expenses incurred for Proposed Acquisition of PKF Sarawak	<u>(250,000)</u>
Pro forma III	3,302,575
- Full Exercise of Warrants	<u>20,611,551</u>
Pro forma IV	<u>23,914,126</u>



**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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**5. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**5.9 Share capital**

	<b>RM</b>
Audited as at 31 August 2017	52,129,101
Proposed Private Placement	
- Issuance of 103,000,000 new ordinary shares	19,055,000
Pro forma I, Proforma II	71,184,101
Proposed Acquisition of PKF Sarawak:	
- Issuance of 40,000,000 new ordinary shares	8,172,000
Pro forma III	79,356,101
Full Exercise of Warrants	20,611,551
Pro forma IV	99,967,652

**5.10 Retained earnings**

	<b>RM</b>
Audited as at 31 August 2017	36,582,923
- estimated expenses incurred for Proposed Private Placement	(350,000)
Pro forma I	36,232,923
- estimated expenses incurred for Proposed Acquisition of TK Tent	(400,000)
Pro forma II	35,832,923
- estimated expenses incurred for Proposed Acquisition of PKF Sarawak	(250,000)
Pro forma III, Pro forma IV	35,582,923

**5.11 Non-controlling interest**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I, Proforma II	-
Proposed Acquisition of PKF Sarawak:	
- Non-controlling interest arising from business combination	3,811,877
Pro forma III, Pro forma IV	3,811,877

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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**5. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**5.12 Lease liabilities**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	477,813
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	224,467
Pro forma II	702,280
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	207,894
Pro forma III, Pro forma IV	910,174
Lease liabilities are repayable:	
- current	480,147
- non current	430,027
	910,174

**5.13 Bank borrowings**

	<b>RM</b>
Audited as at 31 August 2017, Proforma I	16,142,205
Proposed Acquisition of TK Tent:	
- Bank borrowings offered	35,000,000
Pro forma II	51,142,205
Proposed Acquisition of PKF Sarawak:	
- Bank borrowings offered	8,000,000
Pro forma III, Proforma IV	59,142,205
Bank borrowings are repayable:	
- current	17,551,534
- non current	41,590,671
	118,284,410

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

## APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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**5. NOTES TO THE EFFECTS ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 AUGUST 2017 (CONT'D)**

**5.14 Deferred tax liabilities**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	108,143
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	3,391,000
Pro forma II	<u>3,499,143</u>
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	3,061,501
Pro forma III, Pro forma IV	<u>6,560,644</u>

**5.15 Trade payable**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	1,950,165
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	107,146
Pro forma II	<u>2,057,311</u>
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017 <sup>#3</sup>	15,058,716
Pro forma III, Pro forma IV	<u>17,116,027</u>

<sup>#3</sup> The trade payable was reclassified from the amount owing to former immediate holding company, namely PK Fertilizers Sdn. Bhd.

**5.16 Other payable and accruals**

	<b>RM</b>
Audited as at 31 August 2017, Pro forma I	1,254,178
Proposed Acquisition of TK Tent:	
- Per audited SOFP of TK Tent as at 30 June 2017	775,728
Pro forma II	<u>2,029,906</u>
Proposed Acquisition of PKF Sarawak:	
- Per audited SOFP of PKF Sarawak as at 31 December 2017	617,816
Pro forma III, Pro forma IV	<u>2,647,722</u>

**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SCH AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANT'S LETTER THEREON (cont'd)**

APPENDIX I

**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SCH GROUP AS AT 31 AUGUST 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)**

**SCH Group Berhad (972700-P)**

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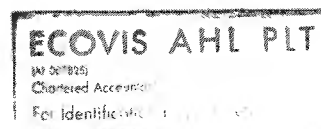
Tel: (603) 9082 2481 | Fax: (603) 9082 9697 | Website: [www.schgroup.com.my](http://www.schgroup.com.my)

**APPROVAL BY BOARD OF DIRECTORS**

Approved and adopted by the Board of Directors of SCH Group Berhad in accordance with a resolution dated **20 JUN 2018**



Khoo Chee Siang  
Director





## DIRECTORS' REPORT ON TK TENT

**TK TENT & AIR-CONDITIONING RENTAL SDN. BHD.** (884835-W)

Emergency Cooling Specialist, Rental of Air-Cond, Tent, Generator, Mist Fan, Electrical Works, etc.

The largest air-conditioning rental company, management team since 1978 in this industry

No. 22, Jalan Industri Taming Mas, Pusat Industri Taming Mas, 43300 Seri Kembangan, Selangor.

Rental Direct line: 603-8961 1253, 8961 1254, 8961 1048, 012-210 7771 Fax: 603-8962 1862

General line: 603-8961 9988 (18 Lines) E-mail: rental@tktent.com Website: www.tktent.com

Date: **20 JUN 2018****The Shareholders of SCH Group Berhad**

Dear Sir/Madam,

On behalf of the Board of Directors ("Board") of TK Tent & Air-Conditioning Rental Sdn Bhd ("TK Tent" or the "Company"), I report after due inquiry that during the period from 30 June 2017 (being the date to which the last audited financial statements of the Company has been made up) to the date hereof (being a date not earlier than fourteen (14) days before the issue of this Circular), that:-

- (a) the business of the Company has, in the opinion of the Board, has been satisfactory maintained;
- (b) in the opinion of the Board, no circumstances have arisen since the last audited financial statements of the Company which have adversely affected the trading or the value of the assets of the Company;
- (c) the current assets of the Company that appear in the books are at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have risen by reason of any guarantees or indemnities given by the Company;
- (e) since the last audited financial statements of the Company, the Board is not aware of any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) since the last audited financial statements of the Company, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Company.

Yours faithfully,

For and on behalf of the Board of Directors of

**TK TENT & AIR-CONDITIONING RENTAL SDN BHD**

**Teh Li King**  
Director

## IMR REPORT

PROTEGE ASSOCIATES SDN BHD  
 SUITE C-06-06, PLAZA MONT' KIARA  
 2 JALAN KIARA, MONT' KIARA  
 50480 KUALA LUMPUR, MALAYSIA  
 GEN +603 6201 9301 FAX +603 6201 7302  
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Protégé  
 ASSOCIATES

BRAND | FINANCE | MARKET

The Board of Directors  
 SCH Group Berhad  
 Suite 10.03, Level 10  
 The Gardens South Tower  
 Mid Valley City  
 Lingkaran Syed Putra  
 59200 Kuala Lumpur

20 June 2018

Dear Sirs/Madams,

**Independent Market Research Overview of the Event Equipment Supply Market  
 and Fertiliser Industry in Malaysia**

This Independent Market Research Overview of the Event Equipment Supply Market and the Fertiliser Industry in Malaysia is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the circular of SCH Group Berhad in relation to its proposed private placement, proposed acquisitions and proposed diversifications.

Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key competitive landscape, demand and supply conditions, government regulations, industry trends and the outlook of the industry.

Mr. Seow Cheow Seng is the Managing Director of Protégé Associates. He has 18 years of experience in market research starting his career at Frost & Sullivan where he spent 7 years. He has been involved in a multitude of industries covering Automotive, Electronics, Healthcare, Energy, IT, Oil and Gas, etc. He has also provided his market research expertise to government agencies such as Malaysia Digital Economy Corporation Sdn Bhd ("MDec"), Malaysia Debt Ventures Berhad ("MDV") and Malaysia Technology Development Corporation Sdn Bhd ("MTDC").

We have prepared this report in an independent and objective manner and have taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours sincerely,

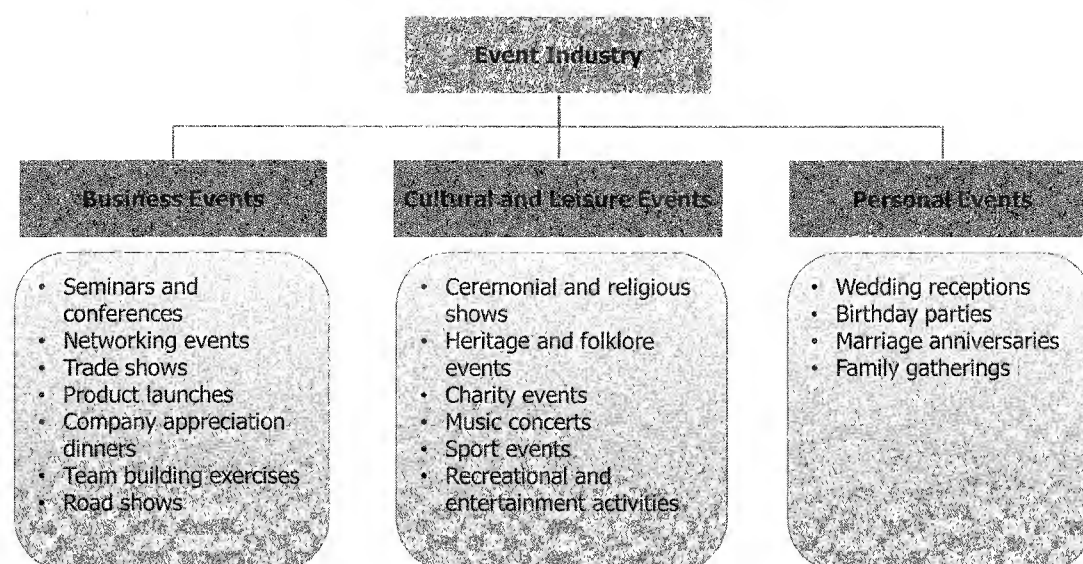


SEOW CHEOW SENG  
 Managing Director

IMR REPORT (*cont'd*)**1.0 Overview of the Event Equipment Supply Market in Malaysia****1.1 The Event Industry in Malaysia**

An event is described as an assembly for the purpose of celebration, education or marketing. The event industry in Malaysia generated RM1.24 billion in revenue in 2017. This was mainly contributed by the growth in its business events segment. The business events segment particularly international events have been gaining traction since the establishment of the Malaysia Convention and Exhibition Bureau ("MyCEB") tasked to promote Malaysia as a destination to host events.

The event industry can be categorised by the types of the events being organised, namely business events, cultural and leisure events, and personal events, as depicted in Figure 1 below.

**Figure 1: Event Industry Landscape**

*Note: The examples given for each category of events are not exhaustive.*

*Source: Protégé Associates*

Personal events are for individuals who book a venue for wedding receptions, birthday parties, marriage anniversaries and family gatherings. They involve a smaller group of guests or use a specific guest list to ensure the venue is not open to the public. Private events such as these are likely to generate smaller revenue for the event industry.

Business events are used by corporations and organisations to promote their corporate image and products. The types of business events are seminars and conferences, networking events, trade shows, product launch events, company appreciation dinners and team building exercises. Business events are commonly used as a marketing tool to support business

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objectives such solicit new business, create a brand image as well as to retain and build loyalty with existing customers and suppliers.

The Malaysian Government indicated via the Economic Transformation Programme ("ETP") that there is potential for the Meetings, Incentives, Conferences, and Events ("MICE") sector, a segment of business tourism, to act as a catalyst for economic growth. The MICE is a segment of business tourism to encourage businesses to conduct any form of business events except for incentives tourism (a form of reward given by the company to their employees). According to the International Congress and Convention Association, Malaysia is ranked 35<sup>th</sup> in the world and 9<sup>th</sup> in the Asia Pacific region as a location to host business events. The Malaysian Government projected that, with the inclusion of the MICE sector, the business tourism sector is anticipated to contribute a Gross National Income ("GNI") RM3.9 billion by 2020.

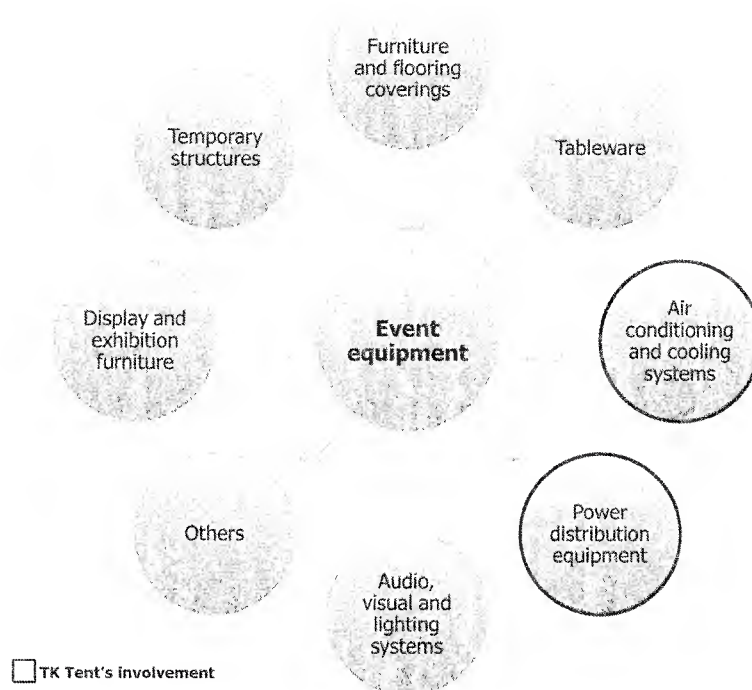
Meanwhile, cultural and leisure events are organised for recreational and entertainment purposes. They are typically open for the public and attract large audiences. The examples of leisure events are sports events, music concerts and theatrical shows. Malaysia has hosted a variety of local and international sporting events over the past such as the 2010 Thomas & Uber Cup, 2014 Badminton World Federation World Junior Championships and 2017 Southeast Asian Games.

The event industry relies on the event equipment supply market to provide the relevant event equipment to set up an event. The following section provides a description of the types of event equipment that are typically used in an event setting.

### **1.1 Introduction to Event Equipment**

The event equipment supply market covers the supply of seven major product segments namely; furniture and floor coverings, tableware, air conditioning and cooling systems, power distribution equipment, audio, visual and lighting systems, display and exhibition furniture, and temporary structures. Other relevant equipment segments include traffic and control accessories and security and access control system.

Figure 2: Types of Event Equipment



Source: Protégé Associates

The following are some examples of major product segments for the event equipment:

- Furniture and floor coverings – tables, chairs, stools, lounges, ottomans, occasionals (i.e. bean bags and deck chairs), carpets, floor rugs and tiles.
- Tableware – table cloths and skirts, chair covers and sashes, crockery, cutlery, glassware and table accessories.
- Air conditioning and cooling systems – portable units such as heaters and fans, air conditioners and fully ducted systems that are professionally installed.
- Power distribution equipment – electric generators and power cables.
- Audio, visual and lighting systems – microphone and musical instruments, LED displays and projectors, lighting systems such as chandeliers, fluorescent lighting and pendant lights.
- Temporary structure – Canopy and marquee tent, modular chalets, temporary stages, portable toilets, landscaping.



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- Display and exhibition furniture – signage and display panel and other décor accessories such service counters.

Events are generally organised and held over a short duration of time, thus events equipment are installed and dismantled over a short time as well. Therefore, it would not be financially feasible for event organisers to own their own event equipment. In addition, there is a need for continuous improvement and innovation in terms of product offerings. Thus, the demand for event equipment that helps to create the necessary atmosphere at an event as per the criteria of event organisers creates an opportunity for the event equipment supply market. This further ensures development of more sophisticated and technically advanced solutions for the event equipment market to meet the needs of event organisers.

### 1.3 Historical Performance and Growth Forecast

Protégé Associates estimates that the event equipment supply market in Malaysia was worth RM473.7 million in 2017. The revenue growth for this market reflects the stable demand for event equipment in Malaysia.

**Figure 3: Historical Performance and Growth Forecast for the Event Equipment Supply Market in Malaysia, 2016-2022**

Year	Revenue <sup>1)</sup> (RM million)	Growth Rate (%)
2016	464.4	-
2017	473.7	2.0
2018*	484.1	2.2
2019*	496.7	2.6
2020*	511.6	3.0
2021*	524.4	2.5
2022*	535.9	2.2

Compound annual growth rate ("CAGR") (2018-2022) (base year of 2017): 2.5 percent.

Notes:

- 1) All figures are rounded
- 2) \* denotes forecast

Source: Protégé Associates

The event equipment supply market is largely dependent on the event industry. Any changes in the event industry in terms of demand and supply will be reflected as trends within the event equipment supply market. The outlook for the event equipment supply market in Malaysia is encouraging in light of favourable growth in the event industry moving forward.

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The event equipment supply market expanded by 2.0 percent in 2017, mainly attributed to the increase in demand for event equipment due to the growth in the business events and cultural and leisure events segments of the event industry. MyCEB supported 287 business events comprised of 192 corporate meetings and incentives, 68 association conferences and 27 exhibitions. In terms of cultural and leisure events, MyCEB supported 10 sports events and 13 arts, lifestyle and entertainment events.

From 2018 to 2022, sustained growth between 2.2 percent to 3.0 percent is expected for the event equipment supply market, with a spike peaking in 2020 due to the Government's initiatives toward the business tourism sectors. Apart from that, the demand for event equipment is likely to come from increasing in the number of events driven by expected positive consumer and business confidence in the country's economy as well as higher per capita disposable income.

Moving forward, the event equipment supply market in Malaysia is projected to grow at a CAGR of 2.5 percent during the forecast period from 2018 to 2022. The market is expected to reach RM535.9 million in 2022.

#### **1.4 Competitive Analysis**

The event equipment supply market is highly fragmented with no company dominating the domestic or international market. There are 3,000 event equipment and services suppliers estimated to be in Malaysia. The event equipment supply market has a low barrier to entry, with minimal to moderate capital requirements for start-up and no government regulations that prevent new companies from entering.

However, in order to respond to the evolving event industry and to further expand or enhance existing products and services, market players require large sums of investment to purchase and maintain equipment. Smaller market players typically service low capacity and local events, but the capital intensive nature of the market and a shortage of skilled labour can inhibit their ability to expand. The knowledge, expertise and product diversity required to service larger events is significant. Event equipment suppliers differentiate their offerings based on price, quality of service, quality of products, strength of relationship and reputation.

#### **Comparable Market Players**

TK Tent & Air Conditioning Rental Sdn Bhd ("TK Tent") is principally involved in the provision of event equipment rental services. The product segments that TK Tent primarily provides are temporary structures for tents, air-conditioning and coling systems and power generation

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systems. For comparison purpose, Protégé Associates has selected market players that are involved in the same product segments that are comparable with TK Tent. The table below provides a comparison between TK Tent and selected market players.

**Figure 4: Selected Market Players within the Event Equipment Supply Market**

Company Name	Key Activities	Latest Financial Results
Asia Tents Arena Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 4 April 2013.</li> <li>A wholly-owned subsidiary of Arena Events Group plc listed on the AIM market on the London Stock Exchange plc.</li> <li>The nature of its business is the provision of rental and services of structure tents and its related components.</li> <li>Their product range includes temporary structures, interior structures and air conditioning and cooling systems.</li> <li>Won awards including Asia Pacific MICE Award 2015 for Best Event Supplier Contractor, International Sports Event Management Awards and 50 Companies Shaping Sport in 2014.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2016</li> <li><b>Revenue:</b> RM30.1 million</li> <li><b>Profit before Tax:</b> RM5.9 million</li> </ul>
TK Tent	<ul style="list-style-type: none"> <li>Established on 5 January 2010.</li> <li>The principal activity of TK Tent is the provision of event related equipment rental and trading of temperature control systems, energy products/ equipment and other event equipment such as tents, furniture, stages, platforms, portable toilets and decorations.</li> <li>TK Tent's event equipment are mainly used by various trade fairs/shows, exhibitions, office buildings, conventions and national level events held in Malaysia and Asia.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 30 June 2017</li> <li><b>Revenue:</b> RM11.9 million</li> <li><b>Profit before Tax:</b> RM0.9 million</li> </ul>
KEB Modular Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 11 November 1992.</li> <li>The nature of its business is supplying and erecting of portable and modular buildings.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2016</li> <li><b>Revenue:</b> RM10.9 million</li> <li><b>Profit before Tax:</b> RM1.3 million</li> </ul>
Keruilai Pacific Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 7 April 2009.</li> <li>The company provides air-conditioner rental services for events, functions, back-up purposes and emergency cooling.</li> <li>The company is a manufacturer of industrial evaporative air cooling and ventilation system under Keruilai brand.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 March 2017</li> <li><b>Revenue:</b> RM3.9 million</li> <li><b>Profit before Tax:</b> RM0.2 million</li> </ul>



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Company Name	Key Activities	Latest Financial Results
Sun - Tent Sdn Bhd	<ul style="list-style-type: none"> <li>Established 18 April 1990.</li> <li>The company is deals in and hires out canvas coverings, furniture and equipment.</li> <li>Their product range includes tents, canopies, stages, LED products, air conditioners and coolers, fans and lighting, electric generators and customised products.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 May 2017</li> <li><b>Revenue:</b> RM4.8 million</li> <li><b>Profit before Tax:</b> RM0.6 million</li> </ul>
ACS Cooling System Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 12 August 2014.</li> <li>The nature of its business is the provision of cooler air and chilled water for cooling purposes.</li> <li>The company provides air-conditioner rental services for events.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2016</li> <li><b>Revenue:</b> RM2.2 million</li> <li><b>Loss before Tax:</b> RM97,017</li> </ul>

*Sources: Companies Commission of Malaysia and Protégé Associates*

#### 1.4.1 Market Share Analysis

For the financial year ended 30 June 2017, TK Tent generated total revenue of RM11.9 million. This is equivalent to 2.5 percent share of the event equipment supply market during the year. This based on TK Tent's revenue of RM11.9 million against the event equipment supply market revenue of RM473.7 million in 2017.

#### 1.5 Demand and Supply Conditions (2018-2022)

##### 1.5.1 Demand Conditions

##### **Positive Consumer and Business Confidence in the Economy**

Consumer and business confidence in the economy play a role in the demand for event equipment as they are dependent on the willingness of consumers and businesses to spend money to host events. According to the Malaysian Institute of Economic Research, the consumer sentiment index in the fourth quarter of 2017 ("Q4 2017") improved by 5.5 points from 77.1 in the third quarter of 2017 ("Q3 2017") to 82.6 points. Consumers are optimistic about their future income. Meanwhile, the business conditions index in the Q4 2017 improved by 3.2 points from 100.3 in Q3 2017 to 103.5. Businesses remained optimistic as the index is above the 100-point threshold of optimism.

The increasing consumer confidence level indicates that consumers are more optimistic about the future, thus being more likely to spend more on goods and services, including on leisure and entertainment. Similarly, positive business confidence indicates that companies are likely to spend more, such as hosting business events. Improving consumer and business

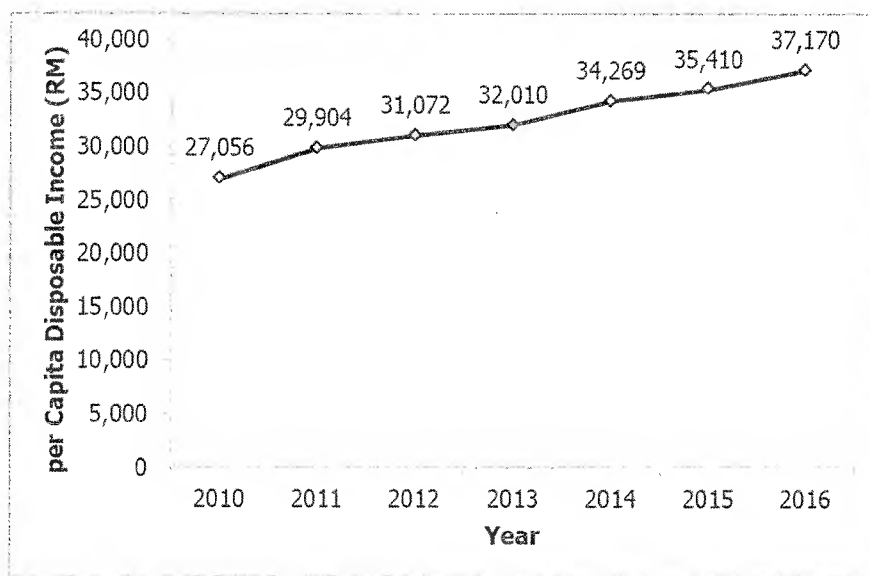
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confidences levels will boost demand for events, and are likely to result in an increase in the demand for event equipment.

#### **Increase in Disposable Income Encourages Consumer Spending**

Malaysians are experiencing an improved standard of living as seen in the increase in the per capita disposable income over the years. The gross disposable income measures the total incomes Malaysian residents received, not only domestically but also net income flows from overseas. Effectively, the per capita disposable income represents the monetary resources that each Malaysian has at his disposable for consumption and saving.

**Figure 5: Malaysia per Capita Disposable Income, 2010-2016**



*Note: Based on current prices.*

*Source: Department of Statistics, Malaysia*

The Malaysia per capita disposable income has doubled over the past seven years from RM27,056 in 2010 to RM37,170 in 2016. In addition, Malaysia's per capita disposable income is anticipated to continue on a growth trend over the forecast period between 2018 to 2022. The increase in disposable income within a nation leads to the growing affluence of its population, and results in more discretionary income. As discretionary income strengthens, Malaysian are likely to direct their spending on non-essentials such as leisure and entertainment activities (i.e. host or attending events), which directly influences the demand for event equipment.



### **Government's Support to Grow the Business Tourism Sector**

The business tourism sector was identified as growth area of the tourism industry under the ETP to enhance the tourism industry's contribution to Malaysia's economy. There were an estimated 1.5 million business travellers that travelled to Malaysia in 2016. Business tourists generally spend more as compared to leisure tourists. Hence, business events are a key enabler to attract business travellers.

The Malaysia Convention and Exhibition Bureau ("MyCEB") was established to promote Malaysia as a MICE destination. MyCEB identifies potential business events, facilitates in the bidding processes, promotes government and industry collaboration as well as provides event support and marketing services. In 2017, a total of 287 business events, comprising corporate meetings, incentive travels, conventions and exhibitions were held in Malaysia.

In addition, the Malaysian Government has also implemented key measures to facilitate the tourism arrivals including business travellers. These key measures include the introduction of the tourist refund scheme that allows foreign tourists to claim a refund of GST paid for certain goods purchased in Malaysia from tax free shops and the commissioning of the e-visa facility that can help to ease visa applications to enter the country.

Business travellers to Malaysia are projected to reach 1.69 million travellers in 2018. Business events are a major source of revenue for the event equipment supply market, and therefore with the government's continuous support to grow the business tourism sector, demand for event equipment is expected to increase during the forecast period.

### **Availability of Event Facilities to Host More Events**

Malaysia offers many venues to host events. To name a few notable venues, there are the Putra World Trade Centre, the Kuala Lumpur Convention Centre, the Kota Kinabalu Convention Centre, the Malaysia International Trade & Exhibition Centre, and the Sepang International Circuit. Malaysia is set to build on its status as a preferred destination to host events with new facilities currently under construction. These include the expansion of the Kuala Lumpur Convention Centre, which is scheduled for completion in 2018. When operational, this extension will provide an additional 10,000 square metres of flexible and multipurpose floor space to its existing 22,659 square meters, allowing it to accommodate not only larger international meetings but also concurrent events. Sabah is also expected to see the completion of the Kota Kinabalu Convention Centre which will be able to accommodate 5,000 guests by mid-2018. The availability of venues means that there will be necessary



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manpower assigned to ensure that these venues are marketed to event organisers. This will likely lead to a greater number of events being held, and hence increasing the demand for event equipment.

In addition to these large venue spaces, in recent years, there has also been a flourishing group of creative hubs such as studios, co-working spaces, and retail and café spaces taking on the role of hosting events. These creative hubs include small shoplots in downtown Kuala Lumpur, spaces on repurposed industrial land and residential areas, or even spaces amid lush greenery on the outskirts of a village. These additional areas and spaces will enable a better scale and diversity of events to be held in Malaysia, which is likely to also indirectly increase the demand for event equipment in Malaysia.

### **1.5.2 Supply Conditions**

#### **Technological Advancement Changes Consumer Behaviour**

Technological advancement impacts the event equipment supply market in two ways. Firstly, the market player's marketing and advertising methods will evolve with technology, while secondly, market players will also buy and utilise more efficient event equipment.

The Internet has changed customers' information consumption pattern whereby customers are able to find relevant information of event equipment such as service offerings, reviews and ratings before deciding on which suppliers to engage. Event equipment suppliers are now changing their business methods such as providing informative and appealing website, managing their social media platforms and setting up web-based communications to ensure constant engagement with their customers.

Technological advancement has also lead to the availability of higher efficiency and lower cost event equipment. Improvement in technology now allows companies to purchase the right event equipment and get a faster return on investment from their purchases of equipment. In addition, improvements in software applications such as live videos to monitor the installation of event equipment can improve the productivity and efficiency of the event equipment supply companies. Therefore, this supply condition is expected to result in an increase in the supply for the event equipment supply market in the forecast period.

#### **Growing Need for Low Total Cost of Ownership**

The total cost of ownership comprises the upfront costs for the purchase of event equipment, installation and maintenance expenses. Traditionally, event management service providers

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required large amounts of capital investment to set up an event, as funds were needed for the purchase, installation and maintenance of the event equipment.

Presently, the majority of event equipment suppliers offer rental or pay-per-use options for event equipment. In addition, event equipment suppliers are responsible for the installation and maintenance of event equipment which reduces the need for internal installation teams. The service also eliminates the need to incur capital expenditure as it is based on the rental model, where customers only rent the event equipment. The rental or pay-per-use business model creates an opportunity for customers to save money and lower their total cost of ownership.

The growing need for low total cost of ownership from the event organisers creates demand for the event equipment rental services, which will benefit the event equipment supply market.

#### **1.6 Prospects and Outlook**

The event equipment supply market in Malaysia was valued at RM473.7 million in 2017. The event equipment supply market in Malaysia is projected to continue on a steady growth path during the 2018 to 2022 forecast period. The outlook for the market is encouraging in light of favourable growth in the event industry

The positive outlook in the demand for event equipment in Malaysia stems mainly from the positive consumer and business confidence in the economy, the increasing per capita disposable income, government's support to grow the business tourism sector as well as the availability of event facilities to host more events.

The increasing consumer confidence level indicates that consumers are more optimistic about the future, thus being more likely to spend more on goods and services, including on leisure and entertainment. Similarly, positive business confidence indicates that companies are likely to spend more, such as hosting business events. Similarly, the increase in disposable income leads to the growing affluence of its population, and results in more discretionary income. As discretionary income strengthens, Malaysian are likely to direct their spending on non-essentials such as leisure and entertainment activities (i.e. host or attending events), which directly influences the demand for event equipment.

In addition, the Malaysian Government has continued to provide its support via the MyCEB to spur the business tourism sector. MyCEB identifies potential business events, facilitates the

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bidding processes, promotes government and industry collaboration as well as provides event support and marketing services. Malaysia offers many venues to host events. To name a few notable venues, there are the Putra World Trade Centre, the Kuala Lumpur Convention Centre, the Kota Kinabalu Convention Centre, the Malaysia International Trade & Exhibition Centre, and the Sepang International Circuit. In addition to these large venue spaces, in recent years, there has also been a flourishing group of creative hubs such as studios, co-working spaces, and retail and café spaces taking on the role of hosting events. These creative hubs include small shoptots in downtown Kuala Lumpur, spaces on repurposed industrial land and residential areas, or even spaces amid lush greenery on the outskirts of a village. These additional areas and spaces will enable a better scale and diversity of events to be held in in Malaysia. These demand conditions are likely to encourage the demand for events, and by extension, the equipment for such events.

On the supply side, the advancement in technology is expected to boost the development and product range in the event equipment supply market. Event equipment suppliers are now changing their business methods to utilise communications to ensure constant engagement with their customers. They are also obtaining higher efficiency and lower cost equipment that are available due to technological improvements. In addition, the majority of event equipment suppliers offer rental or pay-per-use options for event equipment. The rental or pay-per-use business model creates an opportunity for customers, such as event organisers to save money and lower their total cost of ownership.

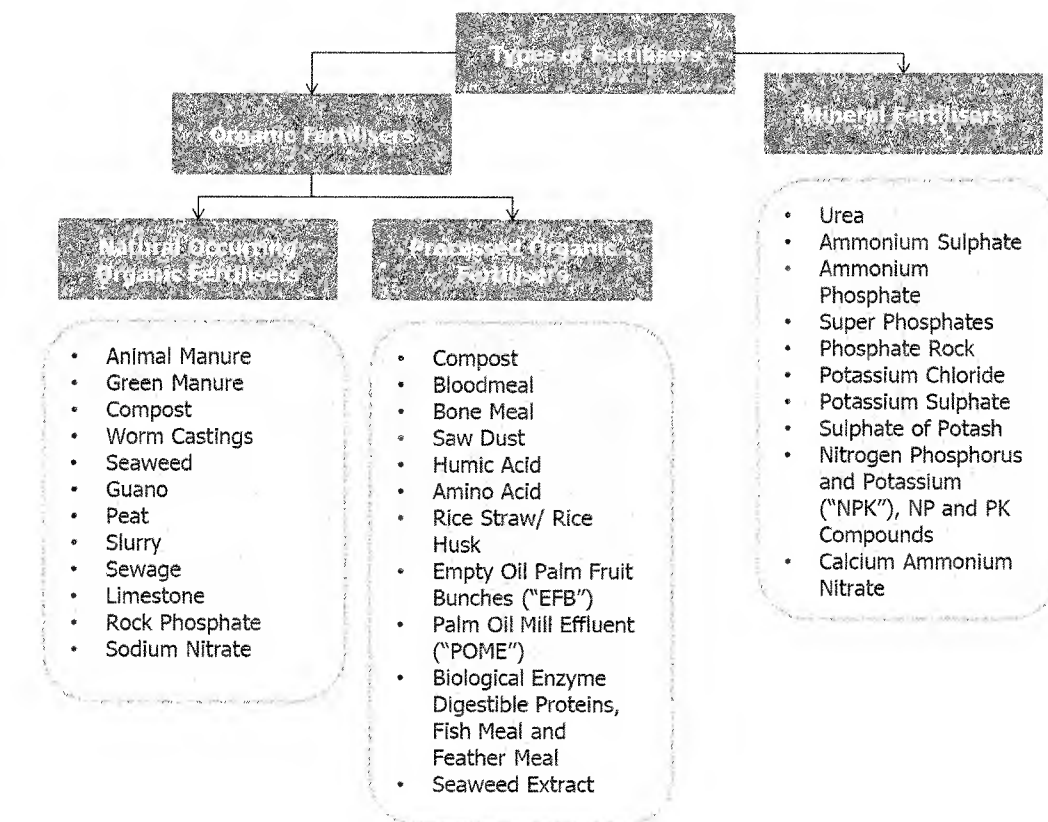
Moving forward, the market for event equipment in Malaysia is projected to expand from RM473.7 million in 2017 to RM535.9 million in 2022. The forecast CAGR for the event equipment supply market is 2.5 percent for the 2018 to 2022 forecast period.

## 2.0 Overview of the Fertiliser Industry in Malaysia

### 2.1 Introduction to Fertilisers

A fertiliser is a compound that enhances or boosts the growth of plants by providing essential nutrients to it. There are two main types of fertilisers which are organic fertilisers and mineral fertilisers. Organic fertilisers are fertilisers composed of plant or animal wastes and minerals occurring in nature. Mineral fertilisers are fertilisers composed of synthetic minerals or chemicals. Figure 1 illustrates the breakdown of the types of fertilisers and relevant examples.

**Figure 6: Types of Fertilisers**



Source: Protégé Associates

Fertiliser production and use in Malaysia is currently dominated by mineral fertilisers, representing more than 90 percent of all local fertiliser production and use. Mineral fertilisers are preferred as they increase yields at a faster rate and are able to more accurately prescribe and fix nutrient deficiency in plants. Measurable amounts of the macro and micro nutrients in mineral fertilisers also allow planters to monitor their plant needs more accurately.

Mineral fertilisers are manufactured and made available in various forms, ranging from straight fertilisers to complex compound fertilisers, as shown in Figure 7.

**Figure 7: Forms of Mineral Fertilisers Manufactured/ Used in Malaysia**

Type of Mineral Fertiliser	Characteristics
Straight Fertilisers	<ul style="list-style-type: none"> <li>• Single nutrient fertilisers.</li> <li>• Mostly imported; urea is the most commonly locally-produced straight fertiliser.</li> </ul>
Blended Fertilisers	<ul style="list-style-type: none"> <li>• Locally produced/ mixed using mostly imported straight fertilisers to create fertilisers with complete nutrients.</li> </ul>
Granulated Compound Fertilisers	<ul style="list-style-type: none"> <li>• Primarily locally manufactured using mostly local and imported straight fertilisers.</li> </ul>
Complex Compound Fertilisers	<ul style="list-style-type: none"> <li>• Mostly imported.</li> <li>• Most homogenous and consistent in quality.</li> <li>• Most expensive.</li> </ul>

*Source: Fertilizer Industry Association of Malaysia*

Most fertiliser companies in Malaysia produce blended fertilisers using straight, single nutrient fertilisers, many of which are not available locally. The straight fertiliser most commonly produced in Malaysia is urea. However, locally produced urea is usually exported in prilled form and it's not used locally. This is because its premium quality allows it to command a higher price internationally. Therefore, imported urea is used for local fertiliser production and consumption.

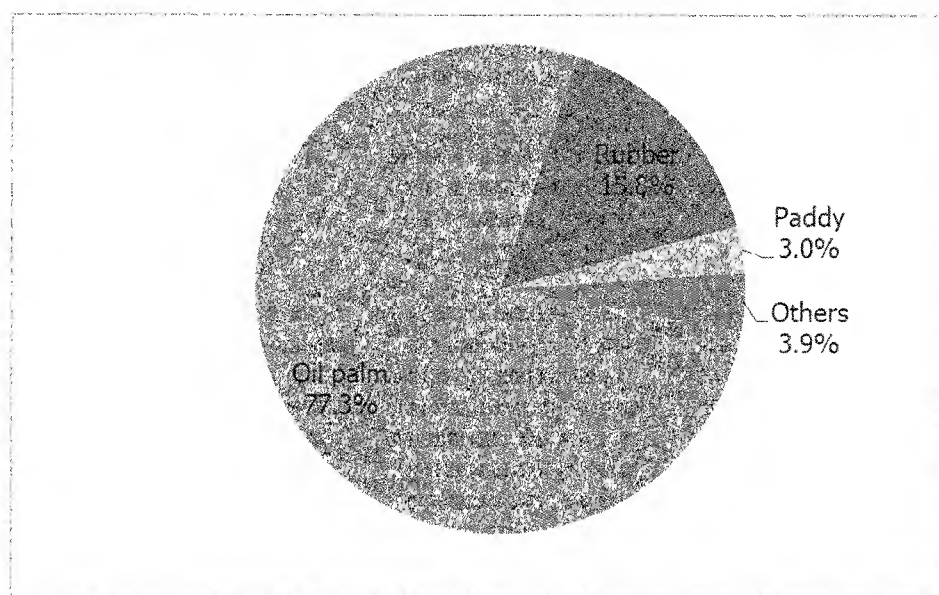
Organic fertilisers, while able to improve the soil structure and fertility in the long run, is harder to control in terms of efficacy due to the slow release of nutrients. A bigger amount and a longer time span is required for organic fertilisers to release their nutrients to the same effect as that of mineral fertilisers, which is not ideal in terms of cost and time considerations. Organic fertilisers, if not manufactured correctly may also contain naturally occurring pathogens or microbes which are damaging to plants. These organic materials are however finding new favour among certain quarters of users due to the environmental friendliness of organic fertiliser, the benefit that it brings in the long run and its safety to human exposure.



IMR REPORT (*cont'd*)**2.2 Overview of Fertiliser Industry**

There are two main industries that use fertilisers; the agriculture and landscaping industries. The agriculture sector is the foremost user of fertiliser in the country, while the landscaping industry has been using a lot of fertilisers in newer property developments which have more greenery, hence representing a smaller, but growing market.

Within the agriculture sector, there are three types of crops that require the usage of fertilisers - namely industrial crops, fruit crops and vegetable crops. Industrial crops are crops grown to produce goods for manufacturing. Examples of industrial crops are oil palm, rubber, paddy, cocoa and coconut. Fruit crops and vegetable crops are crops grown for consumption. Examples of fruit and vegetable crops are bananas, durians, rambutans, pineapples, pepper and chillies.

**Figure 8: Fertiliser Consumption by Major Crops, 2016**

*Note: Others indicate other crops such as cocoa, coconuts, bananas, durians, rambutans, pineapples, cempedak (jackfruits), pepper and chillies*

*Source: Protégé Associates*

Industrial crops, particularly oil palm is the largest consumer of fertilisers in the country, accounting for 77.3 of the fertiliser consumption, followed by rubber. Malaysia is a globally renowned oil palm planter and palm oil manufacturer and exporter. In 2016, the total planted area for oil palm in the country stood at 5.7 million hectares. Malaysia is the second largest palm oil producer and exporter in the world, behind only Indonesia. Apart from industrial



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crops, banana and pepper plantations are also major fertiliser consumers for the fruit crops and vegetable crops categories respectively.

Other than agriculture, fertilisers are also used for landscaping applications. The local landscaping industry is gradually growing in Malaysia, spurred by the Malaysian Government's initiative to go green. Fertilisers are used in the management and maintenance of softscape, which is the use of living elements such as flora and fauna and natural elements like landforms and terrain shape to be incorporated into the landscape. In tandem with trends to re-inject softscape into urban settings, many property developers are consciously and increasingly injecting greeneries into their projects. The Malaysian Government also encourages the allocations of parks and greeneries in city areas, along highways and in public areas as the need to balance the natural versus man-made ecosystem grows.

### 2.3 Historical Performance and Growth Forecast

Protégé Associates estimates that the fertiliser industry in Malaysia was worth RM7.03 billion in 2017. The revenue growth for this industry reflects the stable demand for fertilisers in Malaysia.

**Figure 9: Historical Performance and Growth Forecast for the Fertiliser Industry in Malaysia, 2016-2022**

Year	Revenue (RM billion)	Growth Rate (%)
2016	7.43	-
2017	7.03	-5.4
2018*	7.59	8.0
2019*	8.35	10.0
2020*	9.23	10.5
2021*	9.69	5.0
2022*	10.14	4.6

Compound annual growth rate ("CAGR") (2018-2022) (base year of 2017): 7.6 percent.

Notes:

- 3) Includes sales from local manufactured and imported fertilisers
- 4) All figures are rounded; and
- 5) \* denotes forecast

Source: Protégé Associates

Malaysia's fertiliser industry is very much dependent on its main consumers in the agricultural industry that cultivate crops such as oil palm, rubber and paddy. Any drastic changes in the

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market for these commodities in terms of price, demand and supply will be reflected as trends within the fertiliser industry.

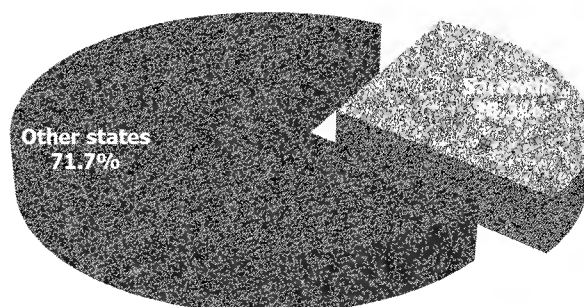
The fertiliser industry saw a decline in 2017. Volatile fluctuation of commodity prices (including palm oil and rubber prices) has reduced plantation activities as well as the demand for fertilisers. In addition, unfavourable weather conditions during the year have also disrupted crops cultivation activities. As demand reduced, fertiliser prices reduced too. Even though the price of fertilisers remained low, palm oil planters still reduced fertiliser usage to sustain profitability during the period of low crude palm oil prices. The accumulated supply from end of 2016 coupled with low demand caused fertiliser prices to drop in 2017. The year was therefore marked by a decline of 5.4 percent.

From 2018 to 2022, sustained moderate growth is expected for the fertiliser industry, with a spike peaking in 2020 due to the Government's initiatives towards replanting of low-yield oil palm crop of over 25 years old. An average of 125,610 hectares is expected to be replanted annually according to the ETP. Apart from that, the price of fertilisers is likely to remain high due to the higher fuel prices in the years to come as well as depleting mineral resources. However, as alternative cropping methods and more efficient fertilizing methods are practiced at Malaysian plantations, the growth in demand for fertilisers is expected to normalise between 2021 and 2022.

Protégé Associates estimates that Malaysia's fertiliser industry was valued at RM7.03 billion in 2017. Of this, 28.3 percent or RM1.99 billion was contributed by Sarawak as illustrated in Figure 10 below. Moving forward, the fertiliser industry in Malaysia is projected to grow at a CAGR of 7.6 percent during the forecast period to RM10.14 billion in 2022.

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**Figure 10: Sarawak's Share in the Fertiliser Industry in Malaysia, 2017**

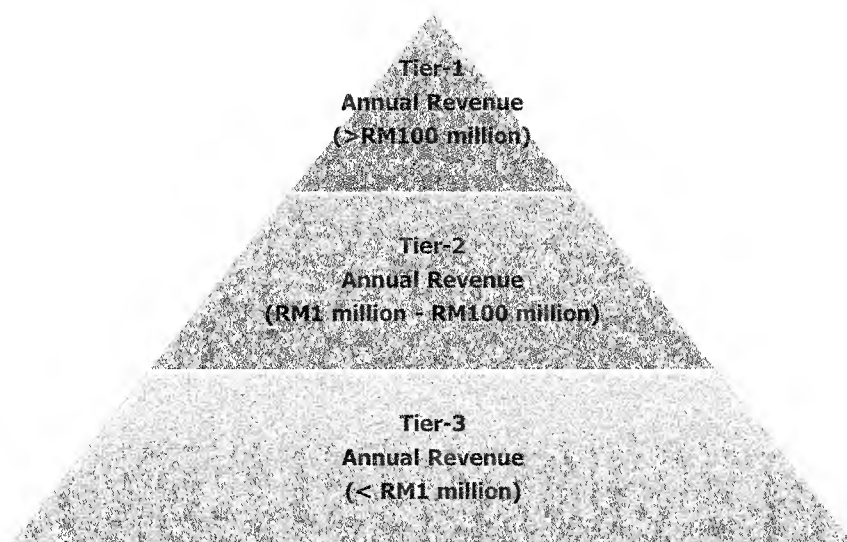


*Source: Protégé Associates*

#### **2.4 Competitive Analysis**

The market players in the fertiliser industry can be divided into three tiers: namely Tier-1, Tier-2 and Tier-3. Market players are generally differentiated by the size of their operations and revenue, as well as the industries they cater to:

**Figure 11: Categories of the Market Players in the Fertiliser Industry**



*Source: Protégé Associates*

##### **Tier-1**

Tier-1 consists of large market players with an annual revenue of above RM100 million. The market players that belong to this group are typically well capitalised, possess their own fertilisers processing plant or warehouses providing bagging, bulk blending and/or granulation

IMR REPORT (*cont'd*)

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or compaction services, and have technical knowledge and competencies that are higher than their counterparts. Tier-1 is dominated by 20 to 25 manufacturers which produce fertilisers mainly for large-scale industrial agriculture companies/ plantations. Examples of Tier-1 market players are Agromate Holdings Sdn Bhd, Agrifert Malaysia Sdn Bhd, Hapseng Fertilizer Sdn Bhd, FPM Sdn Bhd, Union Harvest (M) Sdn Bhd.

**Tier-2**

Tier-2 consists of market players with an annual revenue of RM1 million to RM100 million. Compared to Tier-1 market players, Tier-2 market players generally have a different target audience, supplying fertilisers for household use, smaller scale agriculture and commercial landscaping purposes. Some of their products are available in the supermarket, hardware stores, speciality stores and other retail outlets. These market players commonly sell their products in smaller quantities to meet the demand of the household target market. Players from this category also cater their fertilisers for the agriculture industry, which includes some industrial crops users and the majority of fruit and vegetable crops cultivators. Players in Tier-2 also supply fertilisers for commercial scale landscaping and golf courses. There are approximately 30 to 50 players classified in Tier-2.

**Tier-3**

Tier-3 consists of backyard industries, nurseries and small-time producers of gardening supplies. This tier is highly fragmented comprising many small-sized manufacturers with annual revenue below RM1 million. Tier-3 players are usually very small in size – and for many, manufacturing fertilisers may not be their core business. Tier-3 players may include those who manufacture fertilisers as a supplementary business or as an extension of their core business. They may include nurseries, livestock farmers, slaughter houses and chemical traders/ manufacturers which make use of wastes or resources produced as by-products of their core business. Some of these players may produce compost for sale as generic products.

**Comparable Market Players**

PK Fertilizers (Sarawak) Sdn Bhd ("PKF Sarawak") was established primarily as a provider of fertilisers. It operates a warehouse and processing plant at Bintulu, Sarawak with production capacity of up to produce 148,000 tonnes of fertilisers per annum. For comparison purpose, Protégé Associates has selected market players that possess their own fertilisers processing plant or warehouses providing bagging, bulk blending and/or granulation or compaction



services that are comparable with the PKF Sarawak. The table below provides a comparison between PKF Sarawak and selected market players.

**Figure 12: Selected Market Players within the Malaysian Fertiliser Industry**

Company Name	Key Activities	Latest Results	Financial
<b>Tier-1 Market Players</b>			
Agromate Holdings Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 29 September 1988.</li> <li>Imports and exports fertilisers</li> <li>Manufacturer of NPK compound fertilisers via its subsidiary, Agro-Teck NPK (M) Sdn Bhd.</li> <li>Operates warehouses in Prai, Kuantan, Port Klang and Pasir Gudang in Peninsular Malaysia; Lahad Datu in Sabah; and Bintulu in Sarawak. The warehouses are equipped with bulk blending, mixing and storage facilities</li> <li>Supplies a range of nitrogenous, phosphoric, potassic, and mineral fertilisers to large plantations (including oil palm, rubber, cocoa) as well as orchards and vegetable farms in both public and private sectors</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2016</li> <li><b>Revenue:</b> RM1,602.0 million</li> <li><b>Profit before Tax:</b> RM88.7 million</li> </ul>	
Agrifert Malaysia Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 20 December 1979.</li> <li>NPK compound fertiliser manufacturer and straight fertiliser supplier.</li> <li>Has five NPK compound plants in Malaysia and two in Palembang, Indonesia.</li> <li>Manufactures NPK compound fertiliser under Hikay-Plus, Peat-Kay Plus, and Hi-Kay Bio Brands.</li> <li>Fertilisers are primarily for oil palm.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2016</li> <li><b>Revenue:</b> RM1,477.7 million</li> <li><b>Profit before Tax:</b> RM56.3 million</li> </ul>	
Hap Seng Fertilizers Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 30 December 1969.</li> <li>A wholly-owned subsidiary of Hap Seng Consolidated Berhad.</li> <li>Principal activities include trading and distribution of fertilisers and agri-chemicals for the plantation industry in Malaysia.</li> <li>Has a NPK granulation plant in Lahad Datu, Sabah with production capacity of 50,000 metric tonnes per annum.</li> <li>Market their NPK fertilisers under the brand NAGA.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2016</li> <li><b>Revenue:</b> RM1,011.7 million</li> <li><b>Profit before Tax:</b> RM30.7 million</li> </ul>	
FPM Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 31 December 1975.</li> <li>Fully owned by Felda Holdings Bhd.</li> <li>Has two NPK compound plants in Malaysia with the production capacity of up to 450,000 tonnes of NPK compound</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2014</li> <li><b>Revenue:</b> RM593.2 million</li> <li><b>Profit before Tax:</b></li> </ul>	

## IMR REPORT (cont'd)



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Company Name	Key Activities	Latest Results	Financial
	fertiliser per annum. <ul style="list-style-type: none"> <li>Felda Group of Companies, Risda Baja Sdn Bhd, Far East Holdings Bhd, LKPP Corporation Sdn Bhd, TH Plantations Bhd and Sime Darby Plantation Sdn Bhd are among its clients.</li> <li>Also manufactures medicines and remedies for fruit agriculture; and vegetable cultivation.</li> </ul>	RM34.5 million	
Union Harvest (M) Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 5 August 2014.</li> <li>Has a NPK compound plant in Kuantan with production capacity of 150,000 tonnes of fertilisers per annum.</li> <li>Has two warehouses in Port Klang, and Kuantan in Peninsular Malaysia and one warehouse in Lahad Datu, Sabah</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2015</li> <li><b>Revenue:</b> RM179.9 million</li> <li><b>Profit before Tax:</b> RM9.6 million</li> </ul>	
<b>Tier-2 Market Players</b>			
Twin Arrow Fertilizer Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 11 June 1990.</li> <li>Principal activities include manufacturing and trading of NPK fertilisers and related agricultural products.</li> <li>Won awards including Golden Bull Award, Superbrand Award, SMI Recognition Award, SME Enterprise 50 Award and QMS ISO 9001:2008 certified.</li> <li>Has two production plants that are able to produce 250,000 metric tonnes of fertilisers per annum.</li> <li>Produce organic, compound and granular blend fertilisers that are suitable for most crops on top of NPK compound fertilisers.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 October 2016</li> <li><b>Revenue:</b> RM94.0 million</li> <li><b>Profit before Tax:</b> RM6.1 million</li> </ul>	
PKF Sarawak	<ul style="list-style-type: none"> <li>Established on 6 July 2004.</li> <li>Principal activities include warehousing and distribution of organic, compound, granular blend and straight fertilisers.</li> <li>Provides planting advisory services.</li> <li>Operates a warehouse and processing plant at Bintulu, Sarawak with production capacity up to produce 148,000 tonnes of fertilisers per annum.</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 December 2017</li> <li><b>Revenue:</b> RM43.7 million</li> <li><b>Loss before Tax:</b> RM411,681</li> </ul>	
Kean Beng Lee Industries (M) Sdn Bhd	<ul style="list-style-type: none"> <li>Established on 22 August 1996.</li> <li>Principal activities include manufacturing flower pots, gardening accessories, fertilisers and planting soil under the brand Baba and Tenen.</li> <li>Popular with its indoor and outdoor non-toxic organic fertilisers</li> </ul>	<ul style="list-style-type: none"> <li><b>Financial Year End:</b> 31 October 2016</li> <li><b>Revenue:</b> RM20.2 million</li> <li><b>Profit before Tax:</b> RM3.3 million</li> </ul>	



## IMR REPORT (cont'd)

**Protégé**  
ASSOCIATES

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Company Name	Key Activities	Latest Results	Financial
	<ul style="list-style-type: none"> <li>• Products are exported to more than 30 countries worldwide.</li> <li>• Its Baba brand has claimed a few awards including the Superbrands Malaysia award, Golden Bull Award and 3<sup>rd</sup> Asia Pacific/ Malaysia e-Entrepreneur Excellence Award.</li> <li>• Household brand.</li> </ul>		

*Sources: Companies Commission of Malaysia and Protégé Associates*

#### **2.4.1 Market Share Analysis**

For the Financial Year Ended 31 December 2017, PKF Sarawak generated total revenue of RM43.7 million. This is equivalent to a 2.2 percent share of the fertiliser industry in Sarawak during the year. This based on PKF Sarawak's revenue of RM43.7 million against Sarawak's fertiliser industry revenue of RM1.99 billion in 2017.

#### **2.5 Demand and Supply Conditions (2018-2022)**

##### **2.5.1 Demand Conditions**

##### **Government's Continuous Interest in Industrial Crops**

The Malaysian Government indicated via the ETP on the potential of palm oil to be the country's second GNI generator by year 2020. The palm oil industry is targeted to contribute a GNI of RM178.0 billion in 2020 from RM64.9 billion in 2016. With the government's continuous interest for the palm oil industry, which is also the main consumer of fertilisers in Malaysia, a steadily increasing demand for fertilisers is expected in years to come.

The demand is also spurred by competition from Indonesia that took over the lead from Malaysia as the world's largest crude palm oil producer, contributing 55 percent to the global supply in 2016 with Malaysia trailing at 30 percent. The insufficient land bank to compete with Indonesia increases the need to generate higher oil palm yield through more efficacious fertilizing. This is likely to increase fertiliser demand moving forward.

##### **Government's Effort to Accelerate the Replanting of Oil Palm Trees**

In 2016, 5.7 million hectares of oil palm trees were planted, which accounted for 72.1 percent of the agricultural land available in Malaysia including Sarawak. The oil palm industry in Sarawak recorded 1.5 million hectares of planted area. Palm oil is seen as one of Malaysia's most important commodities. Therefore, the demand for fertilisers is highly dependent on the state of the palm oil industry. In the ETP, the Malaysian Government has underlined an Entry

IMR REPORT (*cont'd*)

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Point Project ("EPP") to carry out the replanting of oil palm trees above 25 years old that have lower yield and currently occupy a large land space – and increasingly scarce commodity – that could be better utilised to generate higher oil palm yield. This is important in order to garner better harvest and faster growth. The mentioned EPP 1 that covers more than 365,000 hectares of land will be fully replanted within three years in conjunction with the plans to increase the average yield of 26 tonnes per hectare per year by 2020 from the current 18 tonnes per hectare per year. Therefore, there will be a steep increase of demand for fertilisers within the next two to five years to accommodate the need from the EPP 1's execution. This is due to the fact that the usage of fertilisers is especially high between the first and third year after the tree has been planted.

### **Rising Commodity Prices**

The demand for fertilisers is likely to be spurred by the increase in price of major agriculture commodities. For example, the price for crude palm oil is expected to rise in the long term, thus increasing the demand for fertilisers as planters seek to increase the crude palm oil production to capture the resulting profit. However, if the commodity price goes down, it will bring down the demand for fertilisers. A big portion of the agriculture industry's cost comes from fertilisers. When the crops do not fetch much profit, the planters will not have enough funds to purchase fertilisers. They will hold back on fertilizing to reduce expenses, which leads to lower demand.

Nevertheless, food commodity prices are still likely to increase in the long run due to food's crucial role to human sustenance, which will create a stable demand for fertilisers from fruit and vegetable crop cultivators. In addition, demand for Malaysia's major agriculture products such as palm oil and rubber are also expected to continue, providing demand for fertiliser demand in the long run.

### **Growing Food Security Imperative**

In the light of rising food commodity prices, Malaysia is currently striving to become self-sufficient in important food commodities such as rice. In order to mitigate the dependence of food imports from overseas, Malaysia is increasing its agriculture crop production by increasing its land area for food agriculture, which in turn is likely to increase the demand for fertilisers from paddy and other food crop agriculture.

### 2.5.2 Supply Conditions

#### **The Fertiliser Manufacturer's Reliance and Vulnerability to Imports**

Currently mineral fertilisers cover more than 90 percent of the fertilisers used in Malaysia. Most of the fertiliser manufacturers in Malaysia import straight fertilisers as raw materials from foreign sources. Malaysia does not extensively mine or manufacture these straight fertilisers and have to rely on imported supply. In 2017, nitrogenous fertilisers were imported from China (47.7 percent), Indonesia (9.4 percent), Pakistan (7.7%), Taiwan (7.5%) and other countries (27.7%). Phosphatic fertilisers were imported from Australia (29.0 percent), Belarus (15.2 percent), Egypt (12.3 percent), Singapore (9.2 percent), Russia (7.2 percent), United States (6.6 percent), China (6.1 percent) and other countries (14.3 percent). Lastly, Potassic fertilisers were imported from Canada (38.8 percent), Russia (18.7 percent), Lithuania (10.5 percent), Jordan (8.1 percent), Belarus (6.6 percent), Germany (5.2 percent) and other countries (12.1 percent). This is also why local fertiliser prices are vulnerable and dependent on international fertiliser price movements.

In order to mitigate the reliance and vulnerability to imports, the government is actively promoting the recycling and use of agriculture wastes and other biomass into compost as substitutes to mineral fertilisers. Malaysia has ample resources of compost materials such as animal manure from livestock, blood meal which is made of animal blood from slaughter houses, sawdust, POME and EFB from oil palm plantations. The proliferation of organic fertiliser products can reduce local dependency on mineral fertilisers from abroad, while also promoting the recycling and reduction of the country's carbon footprint through waste reduction. These factors encourage the use and production of organic fertilisers, and will continue to reduce our reliance and vulnerability to imported raw materials for fertiliser production.

#### **Increasing Awareness on the Benefits of Organic and Alternative Cropping Practices**

With the increased use of biomass and other agriculture wastes as organic fertiliser material, mineral fertilisers will be facing some challenges in the next five to ten years. POME from palm trees is abundant and does more benefit to the soil on top of increasing the agriculture yield per hectare compared to mineral fertilisers. Prolonged mineral fertiliser use causes the soil to lose its fertility because the high concentration of mineral salts fed to the soil will eventually kill the soil organisms responsible for decomposition and soil formation. Such trends are expected to gradually alter the demand composition of fertilisers between organic and mineral variants.

IMR REPORT (*cont'd*)

There is also a growing support and practice for newer, more efficient agriculture methods. The practice of intercropping, double cropping, integrated farming systems and agroforestry may reduce the need for fertiliser over the long run, thus negatively affecting demand growth in the future.

## **2.6 Prospects and Outlook**

The fertiliser industry in Malaysia was valued at RM7.03 billion in 2017. Of this, 28.3 percent or RM1.99 billion was contributed by Sarawak.

The future prospects for Malaysia's fertiliser industry look bright as the demand for and production of crude palm oil is projected to double within the next few decades. Also, the BNM continues to forecast growth for Malaysia's agriculture sector, boding well for fertiliser demand. The sector's growth is projected to strengthen, fuelled by the increase in production of industrial crops and high global prices of agricultural commodities.

Fertiliser demand is also expected to grow on the back of the country's continuous interest in agriculture activities, especially oil palm and rubber cultivation, the persistent importance of Malaysia's oil palm plantation, as well as the growing need to plant food crop to ensure domestic food security. However, with the increasing environmental awareness and awareness of the benefits of organic fertilisers and new methods of fertilizing, the industry is likely move away from mineral fertilisers towards organic fertilisers.

Moving forward, the fertiliser industry in Malaysia is projected to grow at a CAGR of 7.6 percent during the forecast period 2018 to 2022. The industry is forecast to reach RM10.14 billion in 2022.

## INDEPENDENT FAIRNESS OPINION REPORT



**Strategic Capital Advisory Sdn Bhd** (478153 – U)  
**Investment Advisers – Corporate Finance (CMSL/A0124/2007)**  
**(Licensed by Securities Commission)**  
 Unit T05, Tower Block, Plaza Dwtasik,  
 Jalan Tasik Permaisuri 1, Bandar Sri Permaisuri,  
 56000 Kuala Lumpur  
 Our Tel : 603 9171 9600 Our Fax : 603 9173 7600

Date: **20 JUN 2018**

The Board of Directors  
**SCH GROUP BERHAD**  
 No. 3, Jalan Teras 3,  
 Kawasan Industri Teras Balakong  
 Taman Industri Selesa Jaya  
 43300 Balakong  
 Selangor

**Strictly Private & Confidential**

Dear Sirs,

#### FAIRNESS OPINION ON THE PURCHASE CONSIDERATION OF

- THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TK TENT & AIR-CONDITIONING RENTAL SDN BHD; AND
- THE PROPOSED ACQUISITION OF 83.33% EQUITY INTEREST IN PK FERTILIZERS (SARAWAK) SDN BHD.

#### ("EVALUATION")

##### 1.0 INTRODUCTION

Strategic Capital Advisory Sdn. Bhd. ("SCA") has been appointed by the Board of Directors of SCH Group Berhad ("SCH") on 5 March 2018 as an Independent Financial Adviser to opine on the fairness of:

- the purchase consideration of RM50.0 million to be satisfied entirely by cash ("Purchase Consideration of TK Tent") for the proposed acquisition of the entire equity interest in TK Tent & Air-Conditioning Rental Sdn Bhd ("TK Tent") ("Proposed Acquisition of TK Tent"); and
- the purchase consideration of RM19,054,811 to be satisfied in part by RM11,454,811 in cash and the balance amount of RM7,600,000 via the issuance of 40,000,000 new ordinary shares in SCH ("SCH Shares") at an issue price of RM0.19 per SCH Share ("Consideration Shares") ("Purchase Consideration of PKF Sarawak") for the proposed acquisition of 83.33% equity interest in PK Fertilizers (Sarawak) Sdn Bhd ("PKF Sarawak") ("Proposed Acquisition of PKF Sarawak").

(The Proposed Acquisition of TK Tent and Proposed Acquisition of PKF Sarawak are collectively referred to as the "Proposed Acquisitions").

This letter, which sets out our opinion on the fairness of the purchase consideration for the Proposed Acquisitions ("Letter"), is prepared for the inclusion in the Circular to shareholders for purpose of approving the Proposed Acquisitions and should be read in conjunction with the same. All definitions used in this letter shall have the same meaning as the words and expressions provided in the definition section of the Circular, except where the context otherwise requires or where otherwise defined herein.



INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

## 2.0 TERMS OF REFERENCE

The basis of our opinion is the fair market value which is defined as the arms' length price at which such asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, in an open and unrestricted market and both having reasonable knowledge of relevant facts. The concept of market value means the cash equivalent price of an asset being valued assuming the transaction took place under conditions existing at the date of valuation of the assets. The amount would not be considered market value if it was influenced by special motivations or characteristic of a typical buyer or seller.

## Sources of Information

The sources of information which we have used in our Evaluation are as follows:-

- (i) SCH's announcements dated 2 February 2018 and 7 March 2018;
- (ii) Audited financial statements of TK Tent for the financial year ended ("FYE") 30 June 2015, 2016 and 2017;
- (iii) Management accounts of TK Tent for the 6 months financial period ended ("FPE") 31 December 2017;
- (iv) Audited financial statements of PKF Sarawak for the FYE 31 December 2015, 2016 and 2017;
- (v) Proforma consolidated statement of financial position of SCH as at 31 August 2017 together with the Reporting Accountant's letter prepared by Ecovis AHL PLT;
- (vi) Legal due diligence report on TK Tent and PKF Sarawak prepared by Messrs. Teh & Lee ("Legal DD Report");
- (vii) Independent market research report on the "Overview of the Event Equipment Supply Market and Fertilizer Industry in Malaysia" dated March 2018 prepared by Protégé Associates Sdn Bhd ("IMR Report");
- (viii) Conditional share sale agreement between SCH and the vendors of TK Tent dated 2 February 2018 ("TK Tent SSA");
- (ix) Conditional share sale agreement between SCH and the vendors of PKF Sarawak dated 7 March 2018 ("PKF Sarawak SSA");
- (x) Representation and explanation by the directors and management of SCH, TK Tent and PKF Sarawak; and
- (xi) Other publicly available information in respect of the industry that SCH, TK Tent and PKF Sarawak are principally involved in.

We have made all reasonable enquiries and conducted our own reviews, where possible, with regards to the information provided to us. We have also relied on the directors and management of SCH, TK Tent and PKF Sarawak respectively, to exercise due care to ensure that all information and documents as mentioned above and that all relevant facts, information and representations necessary for our Evaluation have been disclosed to us and that such information is accurate, valid and there is no omission of material facts, which would make any information provided to us incomplete, misleading or inaccurate.

In performing this Evaluation, we have performed, among others, the following procedures:

- Obtaining an understanding on TK Tent's and PKF Sarawak's business activities and reviewing its historical audited financial statements;
- Obtaining a general understanding on the industry outlook of which TK Tent and PKF Sarawak is involved in; and
- Consider, adopt and apply an appropriate valuation methodology for TK Tent and PKF Sarawak.



**INDEPENDENT FAIRNESS OPINION REPORT (cont'd)**

The Board of SCH, TK Tent and PKF Sarawak have, individually and collectively, accepted full responsibility that all material facts, financial and other information in this Letter, including the accuracy of the information in respect of the Proposed Acquisitions (save for those in relation to our Evaluation and opinion pertaining to the same) as prepared herein and confirmed that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts omitted which would make any statement herein incomplete, false and/or misleading.

We have not undertaken an independent investigation into the businesses of TK Tent and PKF Sarawak. We have also assumed that the Proposed Acquisitions will be implemented based on the terms as set out in the TK Tent SSA and the PKF Sarawak SSA without material waiver or modification.

Based on the above and from our review of the relevant documents provided by the directors and management of SCH, TK Tent and PKF Sarawak, we are satisfied that the information and documents provided by the directors and management of SCH, TK Tent and PKF Sarawak to us are sufficient and have no reason to believe that any such information provided to us are untrue, inaccurate or misleading or the disclosure of which might reasonably affect our Evaluation as set out in this Letter.

It should be noted that the valuation in itself is highly dependent on, amongst others, the achievability of the total profit guarantee of RM15.5 million for the FYE 30 June 2018, 2019 and 2020 by TK Tent ("**Profit Guarantee**"), the prevailing economic, market and other conditions that may change significantly over a relatively short period of time. It should also be highlighted that the valuation may be materially or adversely affected should the actual results or event differ from any of the bases and assumptions upon which relevant reports were based. As such, the adoption of such assumptions and projections does not imply that we warrant their validity or achievability.

**Date of Opinion**

The date of our opinion is 6 March 2018 (herein also referred to as the "**Date of Opinion**")

**Scope and Limitation of Review**

SCA was not involved in the formation of the Proposed Acquisitions or any deliberation and negotiation on the terms and conditions of the Proposed Acquisitions. Our role as the Independent Financial Adviser does not extend to expressing an opinion on the commercial merits of the Proposed Acquisitions. The assessment of the commercial merits of the Proposed Acquisitions is solely the responsibility of the Board of SCH, although we may draw upon their views arriving at our opinion. As such, where comments or points of consideration are included on matters, which may be commercially oriented, these are incidental to our overall evaluation and concern matters, which we may deem material for disclosure. Further, our terms of reference do not include us rendering an expert opinion on legal, account and taxation issues relating to the Proposed Acquisitions.

The directors and management of SCH, TK Tent and PKF Sarawak are responsible to make available to us all relevant information pertaining to our Evaluation, including informing us of any material changes in the subject matters which may have an impact on our opinion. Our work includes holding discussion and making enquiries from the directors and management of SCH, TK Tent and PKF Sarawak regarding representations made on TK Tent and PKF Sarawak. We rely on the directors and management's oral and written representations and in no event shall we, our principals, directors, shareholders, agents or employees be liable for any misrepresentations by the directors and management of SCH, TK Tent and PKF Sarawak.

We have not undertaken an independent investigation into the businesses of TK Tent and PKF Sarawak. Our procedures and inquiries did not include any verification work that constitutes an audit on the information that we have relied upon in preparing this Letter.

INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

Further, certain information relied upon are only representations of the directors and management of SCH, TK Tent and PKF Sarawak, as well as reliance on third party experts as explained in the relevant sections of this Letter. Accordingly, we make no representations as to the accuracy or completeness of the information provided.

The preparation of this Letter is based upon market, economic, industry and other conditions prevailing as at the Date of Opinion, as well as publicly available information and information provided to us by the management of SCH, TK Tent and PKF Sarawak. Such conditions may change significantly over a relatively short period of time. No representation or warranty, whether expressed or implied, is given by SCA that the information and documents provided will remain unaltered subsequent to the issuance of the Letter. However, should SCA become aware of any significant change affecting the information contained in this Letter; being informed of any material changes in the subject matters which may have an impact on SCA's opinion or have reasonable grounds to believe that any statement in this Letter is misleading deceptive or that there is material omission in this Letter, we will immediately notify the Board of SCH. If circumstances require, a supplementary Letter will be issued to the Board of SCH.

We have obtained a responsibility statement from the directors and management of SCH, TK Tent and PKF Sarawak that all material facts, financial and other information essential to our Evaluation have been disclosed to us and that they have seen this Letter and they, individually and collectively, accept full responsibility for the accuracy of such information contained in this Letter and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no other facts omitted which would make any statement herein false or misleading.

### 3.0 BACKGROUND INFORMATION

#### 3.1 TK Tent

TK Tent was incorporated in Malaysia on 5 January 2010 as a private limited company under the Companies Act, 1965. TK Tent is principally involved in the provision of event related equipment rental and trading services.

The directors and shareholders and their respective shareholdings in TK Tent are as follows:

Name	Designation	No. of ordinary shares	%
Ong Soon Hooi	Director	-	-
Teh Li King	Director	-	-
Hextar Holdings Sdn Bhd ("HHSB")	Shareholder	11,800,000	100.0
		11,800,000	100.0

(Source: Legal DD Report)

#### *Historical financial information*

A summary of audited financial information of TK Tent based on its audited financial statements for the past three (3) FYE 30 June 2015 to FYE 30 June 2017 as well as the unaudited FPE 31 December 2017 are as follows:

	FYE 30 June			Unaudited FPE 31 December	
	2015	2016	2017	2016	2017
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	15,642	21,825	11,955	6,781	9,786
Gross profit	9,611	13,250	7,205	4,841	7,138
Profit before tax	5,232	8,511	2,128	1,817	4,200
Profit after tax ("PAT")	3,879	6,465	980	1,261	3,066

## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



	FYE 30 June			Unaudited FPE 31 December	
	2015	2016	2017	2016	2017
	RM'000	RM'000	RM'000	RM'000	RM'000
Net profit attributable to shareholders	3,879	6,465	980	1,261	3,066
Net Asset attributable to equity owner ("NA")	18,047	23,155	17,830	19,611	19,546
NA per share (RM)	1.53	1.96	1.51	1.66	1.66
Earnings per share ("EPS") (sen)	0.33	0.55	0.08	0.11	0.26
Current ratio (times)	1.83	3.33	4.31	2.77	3.79
Gearing ratio (times)	0.10	0.04	0.01	0.04	~
Total borrowings	1,752	1,015	224	689	92

**Note:-**

~ Less than 0.01%

There were no exceptional and/or extraordinary items reported in the audited financial statements of TK Tent for the financial years under review. There have been no peculiar accounting policies adopted by TK Tent and there have been no audit qualifications reported in the audited financial statements of TK Tent during the financial years under review.

**Commentary on the financial performance****FYE 30 June 2016 vs FYE 30 June 2015**

TK Tent achieved a revenue of RM21.83 million in the FYE 30 June 2016 as compared to RM15.64 million in the FYE 30 June 2015. This represents an increase of RM6.19 million or 39.6%, which was mainly due to the supply of rental equipment (generators and chillers) to several office buildings in Putrajaya for a period of 12 months from June 2015 to May 2016.

TK Tent recorded a profit before tax of RM8.51 million in the FYE 30 June 2016 as compared to RM5.23 million in the FYE 30 June 2015, which represents an increase of RM3.28 million or 62.7%. This increase is in line with the improved gross profits resulting from an increase in revenue as detailed above.

In FYE 30 June 2016, TK Tent pared down its borrowings from RM1.75 million to RM1.02 million via internally generated funds.

**FYE 30 June 2017 vs FYE 30 June 2016**

TK Tent achieved a revenue of RM11.96 million in the FYE 30 June 2017 as compared to RM21.83 million in the FYE 30 June 2016. This represents a decrease of RM9.87 million or 45.2%, which was mainly due to the completion of the rental contract to office buildings in Putrajaya in the FYE 30 June 2016.

TK Tent recorded a profit before tax of RM2.13 million in the FYE 30 June 2017 as compared to RM8.51 million in the FYE 30 June 2016, which represents a sharp decrease of RM6.38 million or 75.0%. The decrease is in line with the decline in revenue as detailed above.

In the FYE 30 June 2017, TK Tent further pared down its debt to RM0.22 million via internally generated funds, from RM1.02 million in the previous financial year.

**FPE 31 December 2017 vs FPE 31 December 2016 (6 months)**

TK Tent achieved a revenue of RM9.79 million in the 6 months FPE 30 June 2017 as compared to RM6.78 million in the FPE 30 June 2016. This represents an increase of RM3.01 million or 44.4%. The increase was mainly due to the increase in overall business activities whereas TK Tent was able to secure equipment rental contracts for several major sporting events and exhibitions held in Malaysia and Asia during the FPE 31 December 2017.

INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

TK Tent recorded a profit before tax of RM4.2 million in the FPE 31 December 2017 as compared to RM1.82 million in the FPE 31 December 2016, which represents an increase of RM2.38 million or 130.7%. This increase is in line with the improved gross profits resulting from an increase in revenue as detailed above.

In FPE 30 December 2017, TK Tent pared down its borrowings to less than RM0.1 million via internally generated funds.

### 3.2 PKF Sarawak

PKF Sarawak was incorporated in Malaysia on 6 July 2004 as a private limited company under the Companies Act, 1965 under the name of Hexatima Sdn Bhd. It assumed its present name on 16 May 2008. PKF Sarawak is principally involved in warehousing and distribution of fertilisers as well as the provision of planting advisory services.

The directors and shareholders and their respective shareholdings in PKF Sarawak are as follows:

Name	Designation	No. of ordinary shares	%
Dato' Gan Kong Hiok	Director	-	(a)
Leong Hin Kieat	Director	-	-
Gan Hing Hian	Director	-	-
Wu Xiaosheng	Director	-	(b)
PK Fertilisers Sdn Bhd ("PKFSB")	Shareholder	15,000,000	83.3
Golden Barley International Pte Ltd	Shareholder	3,000,000	16.7
		18,000,000	100.0

(Source: Legal DD Report)

Notes:

(a) Deemed interested by virtue of his interest in PKFSB via Pristine Acres Sdn Bhd.

(b) Deemed interested by virtue of his interest in Golden Barley International Pte Ltd.

#### Historical financial information

A summary of audited financial information of PKF Sarawak based on its audited financial statements for the past three (3) FYEs 31 December 2015 to 2017 are as follows:

	FYE 30 June		
	2015	2016	2017
	RM'000	RM'000	RM'000
Revenue	55,510	64,449	43,702
Gross profit	2,447	1,920	1,258
Profit/(loss) before tax	1,361	555	(412)
Profit/(loss) after tax	1,740	(91)	(655)
Net profit attributable to shareholders	1,740	(91)	(655)
NA attributable to equity owner	24,243	23,521	22,867
NA per share (RM)	1.35	1.31	1.27
EPS/(loss per share) (sen)	9.67	(0.51)	(3.64)
Current ratio (times)	1.02	1.01	1.08
Gearing ratio (times)	0.03	0.01	0.01
Total borrowings	790	302	208

**INDEPENDENT FAIRNESS OPINION REPORT (cont'd)**

There were no exceptional and/or extraordinary items reported in the audited financial statements of PKF Sarawak for the financial years under review. There have been no peculiar accounting policies adopted by PKF Sarawak and there have been no audit qualifications reported in the audited financial statements of PKF Sarawak during the financial years under review.

**Commentary on the financial performance****FYE 31 December 2016 vs FYE 31 December 2015**

PKF Sarawak achieved a revenue of RM64.4 million in the FYE 31 December 2016 as compared to RM55.5 million in the FYE 31 December 2015. This represents an increase of RM8.9 million or 16.0%, which was mainly due to the increase in volume of fertilisers sold. The increase in volume is partly attributable to the introduction of new product line, the Kal-Mag series.

PKF Sarawak recorded a profit before tax of RM0.56 million in the FYE 31 December 2016 as compared to RM1.36 million in the FYE 31 December 2015, which represents a decrease of RM0.8 million or 58.8%. The decrease was due to gross profit margin compression as a result from the continuous weakening of the Ringgit against other major currencies (USD, Euro and RMB) that has resulted in higher cost of raw materials.

For FYE 31 December 2016, PKF Sarawak recognised a deferred tax expenses of RM0.65 million, resulting in a loss after tax of RM0.09 million. In contrast, PKF Sarawak had a tax credit of approximately RM0.38 million recognised in FYE 31 December 2015. In FYE 31 December 2016, PKF Sarawak pared down its borrowings from RM0.79 million to RM0.30 million via internally generated funds.

**FYE 31 December 2017 vs FYE 31 December 2016**

PKF Sarawak achieved a revenue of RM43.7 million for the FYE 31 December 2017 as compared to RM64.4 million in the FYE 31 December 2016. This represents a decrease of RM20.75 million or 32.2%. The decline was due to decline in overall sales volume arising from:

- (a) PKF Sarawak's management decision to adopt a conservative approach for the business in view of the weaker Ringgit (which affects the cost of imported raw materials) and the volatility in CPO prices (which affects the selling prices of fertilisers); and
- (b) Unfavourable weather conditions which has disrupted cultivation activities at oil palm plantations, timber and rubber estates.

As a result of the above, PKF Sarawak recorded a loss before tax of RM0.41 million in the FYE 31 December 2017 as compared to a profit before tax of RM0.55 million in the FYE 31 December 2016.

There was a recognition of income tax expense for FYE 31 December 2017 of approximately RM0.24 million which has resulted in further loss after tax in the said financial year.

**4.0 OUTLOOK OF THE INDUSTRY****Overview of the Malaysian economy**

For the fourth quarter of 2017, the Malaysian economy registered a growth of 5.9% (3Q 2017: 6.2%) as private sector spending continued to be the primary driver of growth (7.4%; 3Q 2017: 7.3%). The external sector performance improved further (5.4%; 3Q 2017: 1.7%), as real import growth moderated faster than real export growth. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.9% (3Q 2017: 1.8%). For the year as a whole, the economy registered a robust growth of 5.9%.

(Source: Quarterly Bulletin, 4<sup>th</sup> Quarter of 2017, Bank Negara Malaysia)



INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

The Malaysian economy will remain resilient in 2018, with real GDP expanding between 5% and 5.5%, led by domestic demand. Private sector expenditure continues to be the primary driver of growth with private investment and consumption growing 8.9% and 6.8%, respectively. Meanwhile, public sector expenditure is forecast to decline, in line with lower capital outlays by public corporations.

On the supply side, growth is expected to be broad-based, with all sectors registering positive growth. Malaysia's external position is forecast to remain favourable supported by global growth and trade. Against this backdrop, the nominal GNI per capita is expected to increase 5.1%. With investment growing at a faster pace, the savings-investment gap will narrow to 2.3% of GNI. The economy will continue to operate under conditions of full employment with an unemployment rate of below 4%, while inflation remains benign.

In line with fiscal consolidation efforts, the fiscal deficit will further decline to 2.8% of GDP in 2018 (2017: 3%). Accordingly, the Federal Government debt remains sustainable within the prudent limit of 55% of GDP. These developments will further strengthen the nation's economic fundamentals and resilience to further propel the country towards the milestones of an advanced and high-income nation by 2020, doubling the size of the economy to RM2 trillion in 2025 and joining the ranks of top 20 countries by 2050.

(Source: *Economic Report 2017/2018, Ministry of Finance Malaysia*)

#### **Overview of the event equipment industry in Malaysia**

Protégé Associates estimates that the event equipment supply market in Malaysia was worth approximately RM473.7 million in 2017.

The event equipment supply market in Malaysia is projected to continue on a steady growth path during the 2018 to 2022 forecast period. The outlook for the market is encouraging in light of favourable growth in the event industry.

The positive outlook in the demand for event equipment in Malaysia stems mainly from the positive consumer and business confidence in the economy, the increasing per capita disposable income, government's support to grow the business tourism sector as well as the availability of event facilities to host more events.

On the supply side, the advancement in technology is expected to boost the development and product range in the event equipment supply market.

Moving forward, the market for event equipment in Malaysia is projected to expand from RM473.7 million in 2017 to RM535.9 million in 2022. The forecast CAGR for the event equipment supply market is 2.5% for the 2018 to 2022 forecast period.

(Source: *Protégé Associates*)

#### **Overview of the fertilizers industry in Malaysia**

Protégé Associates estimates that the fertilizer industry in Malaysia was worth approximately RM7.43 billion in 2017. Of this, 28.3% or RM1.99 billion was contributed by Sarawak. The revenue growth for this industry reflects the stable demand for fertilizers in Malaysia.

The future prospects for Malaysia's fertilizer industry look bright as the demand for and production of crude palm oil is projected to double within the next few decades. Also, the BNM continues to forecast growth for Malaysia's agriculture sector, boding well for fertilizer demand. The sector's growth is projected to strengthen, fuelled by the increase in production of industrial crops and high global prices of agricultural commodities.

## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



Fertilizer demand is also expected to grow on the back of the country's continuous interest in agriculture activities, especially oil palm and rubber cultivation, the persistent importance of Malaysia's oil palm plantation, as well as the growing need to plant food crop to ensure domestic food security.

Moving forward, the fertilizer industry in Malaysia is projected to grow at a CAGR of 7.6% during the forecast period from 2018 to 2022. The industry is forecast to reach RM10.14 billion in 2022.

(Source: Protégé Associates)

## 5.0 ISSUE PRICE OF THE CONSIDERATIONS SHARES

SCH will be implementing a Proposed Private Placement and Proposed Diversifications together with the Proposed Acquisitions, details of which are as set out in its Circular to its shareholders in relation to the Proposals.

In assessing the fairness and reasonableness of the issue price of RM0.19 per SCH Share to be issued pursuant to the Proposed Acquisition of PKF Sarawak, we have compared the issue price against:

- i) Closing market price of SCH Share on 6 March 2018 ("LTD") of RM0.20, being the last full trading day immediately preceding the date of the PKF Sarawak SSA;
- ii) the 5-day volume weighted average market price ("VWAP") of SCH Shares up to and including LTD, being the last market day before the date of the PKF Sarawak SSA of RM0.2043; and
- iii) The respective VWAP as set out in the table below:-

Basis of comparison base on	VWAP/ Closing Price	Premium/(discount) over VWAP/Closing Price	
	RM	RM	%
Closing market price on LTD, being the last full trading day immediately preceding the date of the PKF Sarawak SSA	0.2000	(0.0100)	(5.00)
5D-VWAP up to LTD	0.2043	(0.0143)	(7.00)
VWAP for the one (1)-month up to LTD	0.2125	(0.0225)	(10.59)
VWAP for the three (3)-month up to LTD	0.2090	(0.0190)	(9.09)
VWAP for the six (6)-month up to LTD	0.2131	(0.0231)	(10.84)
VWAP for the ten (10)-month up to LTD	0.2187	(0.0287)	(13.12)

(Source: Bloomberg)

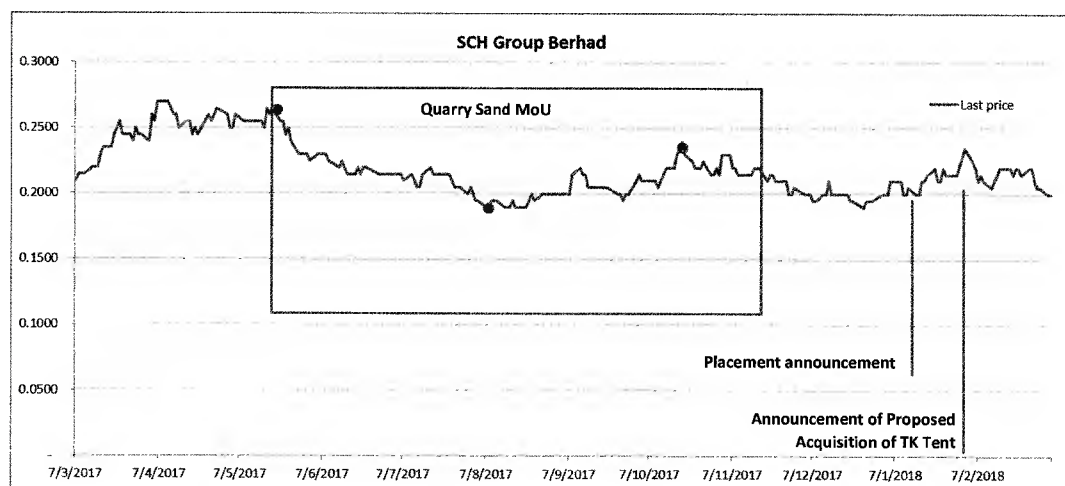
Based on the table above, we noted that the issue price of RM0.19 per SCH Share to be issued pursuant to the Proposed Acquisition of PKF Sarawak, represents a discount of 5.0% over the closing market price on LTD, being the last full trading day immediately preceding the date of the PKF Sarawak SSA, a discount of 7.00% over the 5D-VWAP up to LTD and is at a range of discount of 9.09% to 13.12% over the VWAP for one (1)-month, three (3)-month, six (6)-month and ten (10)-month up to LTD.

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## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



The movement of the daily closing market prices of SCH Shares on Bursa Malaysia Securities Berhad ("Bursa Securities") for the past one (1) year up to LTD, being the last full trading day immediately preceding the date of the PKF Sarawak SSA is shown below:-



We note that the past prices of SCH Shares may have been influenced by corporate proposals announced in the past. Based on the above and the historical announcements made by SCH in the past 10 months up to LTD, we noted the following:-

- (i) The share price of SCH may have been influenced by the announcements of memorandum of understandings in relation to the collaboration on the excavation, removal, distribution and sale of quarry sand and other related deposits from flood migration ponds located in Kuala Lumpur, which had been signed on 17 May 2017, and ultimately terminated on 9 November 2017. Based on the price chart, we note that share price of SCH have declined from RM0.27 in May 2017 to RM0.18 in August 2017, and improved to RM0.24 in October 2017, with some volatility in share prices which we believe could possibly be due to market expectation as to the outcome of the negotiations for the definitive terms of the collaboration. We have reviewed all public announcements made by SCH during this period, we found out other than this corporate exercise and financial performance of SCH, there are no other known factor that affected the movement of share price of SCH;
- (ii) There was an announcement of a proposed private placement of up to 103.0 million shares in SCH on 8 January 2018; and
- (iii) On 2 February 2018, the Proposed Acquisition of TK Tent was announced.

We also note that the lowest price traded for SCH Shares is RM0.18 per SCH Share in mid-August 2017 whilst the highest price traded for SCH Shares is RM0.275 per SCH Share in mid-April 2017.

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## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



## Commentary

In assessing the reasonableness of the issue price of the Consideration Shares, we have considered and benchmark the issue price, and its implied price-to-earnings ("PE") and price-to-book ("PB") multiples, as summarised below:

Benchmarks	Parameter	Our comments
<b>Historical share price</b>		
5D-VWAP up to LTD	RM0.2043	The issue price represents a discount of RM0.0143 or 7.0% over the 5D-VWAP up to and including 6 March 2018.
Price range for the past 12 months	A low of RM0.18 (mid-August) and a high of RM0.275 (mid-April 2017)	The issue price is within the historical share price range of SCH Shares. However, we are of the view that the historical share price range may not be a meaningful comparison as the prices may have been affected by the past announcements of corporate proposals by SCH.
<b>Implied trading multiple</b>		
PE multiple of SCH	43.2 times  Based on the audited EPS of SCH of RM0.0044 for FYE 31 August 2017	We note that the implied PE multiple for the Consideration Shares is 43.2 times, which is higher than:  (a) the average PE multiple of Bursa Securities' trading/services sector of 20.3 times and the PE multiple of the comparable company of SCH, namely UMS Holdings Berhad of 19.4 times (Source: Bloomberg, 6 March 2018) times as at the Date of Opinion, representing premiums of approximately 112.8% and 122.7% respectively; and  (b) the implied PE multiple for the Proposed Acquisition of 9.7 times based on the average Profit Guarantee amount. As such, the Proposed Acquisition will be EPS accretive to existing shareholders of SCH.
PB multiple of SCH	1.19 times  Based on the unaudited NA per share of RM0.1603 of SCH as at 30 November 2017, being the latest available quarterly results of SCH as at the Date of Opinion	SCH is issuing the Consideration Shares at a premium of 18% over its NA per share. As a result, the issuance of Consideration Shares will not result in any dilution to NA per share of SCH.  Furthermore, compared to the pricing of the Proposed Acquisition of PKF Sarawak, which is priced based on the NA of PKF Sarawak (i.e. a PB multiple of 1 time), the issuance of the Consideration Shares at a premium to NA per share will result in incremental NA per share in SCH.

Based on the above analysis, we are of the opinion that the issue price of the Consideration Shares is FAIR.

INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

## 6.0 VALUATION METHOD

## Basis and Method Used to Form an Opinion on Valuation

In establishing our opinion on the valuation of the equity interest in TK Tent and PKF Sarawak, which are the subject of the Proposed Acquisitions, SCA has considered various methodologies, which are commonly used for valuation, to arrive at its opinion on the fairness of the purchase considerations for the Proposed Acquisitions, taking into consideration future earnings generating capabilities, sustainability as well as various business considerations and risk factors of TK Tent and PKF Sarawak.

## 6.1 Purchase Consideration of TK Tent

In making our selection of valuation methodology to assess the fairness of the Purchase Consideration of TK Tent, we have taken into consideration the following:

- (a) TK Tent is a going concern;
- (b) TK Tent's business is not secured by long term contracts and is mainly project based;
- (c) Under the terms of the TK Tent SSA, the vendor HHSB, has agreed to provide the Profit Guarantee. We also noted that the guaranteed sum is arrived at based on the targeted PAT as follows:
  - (i) PAT of RM4,000,000 for the FYE 30 June 2018;
  - (ii) PAT of RM5,000,000 for the FYE 30 June 2019; and
  - (iii) PAT of RM6,500,000 for the FYE 30 June 2020.
- (d) the unaudited PAT of TK Tent for the 6-month FPE 31 December 2017 of approximately RM3.07 million;
- (e) The audited PAT of TK Tent for FYE 30 June 2017 of approximately RM0.98 million; and
- (f) The unaudited net assets of TK Tent as at 31 December 2017 is approximately RM19.6 million.

The primary valuation methodology considered and selected by SCA to assess the fairness of the Purchase Consideration of TK Tent is comparing the PE multiple based on the Profit Guarantee against the multiples of relevant major indices of Bursa Securities. We were not able to identify any companies listed on Bursa Securities with similar business activities as TK Tent. Therefore, we have expanded our scope to search for comparable companies listed in overseas markets but are of the view that they are not comparable to TK Tent due to the size (market capitalisation) and different markets / countries that they serve. Please refer to the table below for further information:

Comparable Companies	Country / Stock exchange	Principal activities	Market cap (billion)	PE multiple (times)
United Rentals Inc	United States of American / New York Stock Exchange ("NYSE")	United Rentals, Inc., through its subsidiary, is an equipment rental company operating a network of locations in the United States and Canada. The company serves the construction industry, industrial and commercial concerns, homeowners, and other individuals.	USD 15.5	19.7
Totech Corporation	Japan / Tokyo Stock Exchange	Totech Corporation is a trading company handling primarily air conditioning systems and related equipment. The company's products include energy-saving machinery, control equipment and components, and instrumented equipment. Totech Corporation also operates building maintenance and engineering works.	JPY 33.2	11.3



## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



Comparable Companies	Country / Stock exchange	Principal activities	Market cap (billion)	PE multiple (times)
Watsco Inc	United State of America/ NYSE	Watsco, Inc. distributes air conditioning, heating, and refrigeration equipment, as well as related parts and supplies. The company operates various locations in the United States, with primary markets in the Sunbelt.	USD5.5	31.1

While we note that the PE multiples of the companies listed above ranged from 11.3 times to 31.1 times, with an average of 20.7 times, it is not meaningful to compare them with the PE multiple of the Proposed Acquisition of TK Tent due to the differential in size and markets.

SCA has considered the other valuation methodologies and found that the following methodologies are not suitable in the assessment of the fairness of the Purchase Consideration of TK Tent based on the following factors:

Valuation Methodologies	Discussion
Discounted Free Cash Flow to Equity ("FCFE")	<p>Discounted FCFE methodology is an investment appraisal technique which considers both the time value of money and the projected net cash flow generated discounted at a specified discount rate to derive at the valuation of the subject matter. In view that TK Tent is not be able to accurately project its future cash flows which can be materially affected by economic and other circumstances and the actual results may vary considerably.</p> <p>Whilst the Profit Guarantee provided by the vendor may provide some element of predictability in the earnings or cashflow to SCH, the Profit Guarantee only covers a 3-year period. Hence, SCA has concluded that this methodology is not suitable in the determination of the fairness of the Purchase Consideration.</p>
Revalued Net Asset Valuation ("RNAV")	<p>RNAV methodology seeks to adjust the NA value of a company to take into consideration the valuation of assets of a company to determine the adjusted value of the firm's financial value. It should be noted that TK Tent is involved in the leasing and trading of event equipment business and have relatively limited asset base, the RNAV method may not accurately reflect the value of TK Tent. RNAV method seeks to adjust the NA value of a company to take into consideration the valuation of assets of a company to determine the adjusted value do the firm's financial value.</p> <p>Hence, SCA concluded that this methodology is not suitable in determination of the fairness of the Purchase Consideration of TK Tent.</p>
Relative Valuation Analysis ("RVA")	<p>RVA methodology seeks to compare a company's implied trading multiple to that of comparable companies to determine the firm's financial worth. In view that lack of comparable companies of similar industry, size and financial condition, SCA concluded that this methodology is not suitable in determination of the fairness of the Purchase Consideration of TK Tent.</p>

## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



We have also considered the PB multiple and has concluded that this valuation multiple is not suitable in the determination of the fairness of the Purchase Consideration of TK Tent as the price to book ratio values a company based on the value of its assets, net of all liabilities at a specific point in time and does not take into consideration the future income stream of a company, which is more suitable for valuation of property development, property investment and heavy asset based companies.

**PE multiple approach**

SCA considers the PE multiple as a suitable valuation statistic to assess the fairness of the Purchase Consideration of TK Tent as it illustrates the ratio of the market value of a company's shares relative to its historical and forecast earnings per share. Instead of benchmarking the implied PE multiple to those of comparable companies (due to lack of comparable companies with business, market capitalisation and markets similar to those of TK Tent's) in a typical RVA assessment, we compared the PE multiple of the Proposed Acquisition of TK Tent, to the relevant market indices of Bursa Securities.

The implied PE multiple based on the average Profit Guarantee is as follows:

Parameters	
Purchase Consideration	RM 50.00 million
Average Profit Guarantee	RM 5.17 million <sup>(1)</sup>
Implied PE multiple	9.7 times

Note:

<sup>(1)</sup> Based on the profit guarantee totalling RM15.5 million over 3 financial years up to FYE 30 June 2020, averaging approximately RM5.17 million per financial year (RM15.5 million / 3 years).

We have benchmarked the implied PE Multiple of TK Tent against major / common indices of Bursa Securities as follows:

Index name	Description	PE multiple <sup>(1)</sup> (times)
FTSE Bursa Malaysia Small Cap ("FBM Small Cap Index")	The FBM Small Cap Index comprises the companies within the top 98% of Bursa Securities by full market capitalisation, excluding the constituents of the FBM KLCI and FTSE Bursa Malaysia Mid 70 Index.  The index is a free float adjusted market-capitalisation weighted index representing the performance of the small-capitalised companies trading on the Main Market of Bursa Securities, which pass the size, free float and liquidity screens.	11.3
Bursa Malaysia Trading/Services Index ("Trading/Services Index")	The Trading/Services Index is a capitalisation weighted index of all stocks involved in the services sector, developed with a base value of 100 as at 16 October 1991	20.3
Range		11.3 - 20.3

(Source: Bloomberg)

Note:

<sup>(1)</sup> Based on 12-month trailing adjusted PE multiple as at 6 March 2018.

INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

Generally, given the higher risk of any subject company being evaluated as opposed to a diversified portfolio as represented by the indices, the PE multiple of the subject company should be lower. The PE multiple of a subject company should only be higher in the instance where its growth potential exceeds the average growth potential of the diversified portfolio.

In the case of TK Tent, we note that the earnings potential is backed by the Profit Guarantee and we do not consider TK Tent's industry as one of those that could generate extraordinary growth rate. Therefore, the fair PE multiple should be below those of the common benchmark indices.

We note that the PE Multiple based on the average Profit Guarantee of 9.7 times is below the range of PE multiples of the selected indices listed above.

## 6.2 Purchase Consideration of PKF Sarawak

In making our selection of valuation methodology to assess the fairness of the Purchase Consideration of PKF Sarawak, we have taken into consideration the following:

- (a) The Purchase Consideration of PKF Sarawak is based on the audited NA of PKF Sarawak as at 31 December 2017 and the percentage equity proposed to be acquired by SCH;
- (b) That notwithstanding the completion of the PKF Sarawak SSA, under the terms of the PKF Sarawak SSA, SCH shall be entitled to conduct an audit on the management account of PKF Sarawak. Such audit shall be commenced within 60 days from the completion date of the Proposed Acquisition of PKF Sarawak.

In the event the audit shows a shortfall of more than 2% variance on the minimum NA of RM22,866,801, then PKFSB shall make good of the shortfall within 30 days from SCH's written demand for the said shortfall; and

- (c) PKF Sarawak has registered losses after tax in the past 2 financial years ending FYE 31 December 2016 and FYE 31 December 2017.

The primary valuation methodology considered and selected by SCA to assess the fairness of the Purchase Consideration of PKF Sarawak is based on RNAV after taking into consideration the factors above, in particular, that the basis of the Purchase Consideration of PKF Sarawak is based on the audited NA of PKF Sarawak, and under the terms of the PKF Sarawak SSA, a minimum NA is guaranteed by the PKFSB, and that PKF Sarawak is currently in a loss making position.

Further, SCA has also taken into consideration the RVA as the secondary methodology to assess the fairness of the Purchase Consideration of PKF Sarawak as it is much more likely to reflect the current sentiment of the market.

We have also considered the Discounted FCFE method to assess the fairness of the Purchase Consideration of PKF Sarawak. However, due to the lack of long-term contracts and profit guarantee to provide us the certainty of cash flows, we are of the view that this valuation methodology is not suitable in assessing the fairness of the Purchase Consideration of PKF Sarawak.

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## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



## RNAV

For the purpose of evaluating the fairness of the Purchase Consideration of PKF Sarawak, we have adopted the RNAV methodology.

The RNAV methodology is based on the book value of the subject company but takes into consideration any surplus and/or deficit (net of tax) arising from the revaluation of the material assets of the subject company to reflect their market values based on the presumption that the assets are realisable on a willing-buyer willing-seller basis in the open market.

We have analysed the balance sheet of PKF Sarawak as at 31 December 2017 as follows:

	FYE 31 December 2017 Audited RM	Notes
<b>Non-current assets</b>		
Property, plant and equipment	24,722,095	Note 1
<b>Current assets</b>		
Trade receivables	16,342,552	Note 2
Other receivables	380,987	
Tax recoverable	228,569	
Cash and bank balances	138,412	
	<u>17,090,520</u>	
<b>Current liabilities</b>		
Other payables	617,816	
Amount due to immediate holding company	15,058,716	Note 3
Borrowings	94,282	
	<u>15,770,814</u>	
<b>Net current assets</b>	<u>1,319,706</u>	
	<u>26,041,801</u>	
<b>Equity attributable to equity holder of the Company</b>		
Share capital	19,500,000	
Share premium	-	
Revaluation reserves	4,045,958	
Accumulated losses	(679,270)	
	<u>22,866,688</u>	
<b>Non-current liabilities</b>		
Borrowings	113,612	
Deferred tax liabilities	3,061,501	
	<u>3,175,501</u>	
	<u>26,041,801</u>	

## Notes:

- (1) Comprises the following:

	RM	
Long term leasehold land	8,048,952	*
Buildings	9,337,204	*
Plant, machinery and equipment	7,094,340	**
Others	241,599	
	<u>24,722,095</u>	

\* On 15 October 2015, the Company revalued all its leasehold land and buildings based on the valuation conducted by Messrs. CH Williams Talhar & Wong Sdn Bhd. Valuations were made on the basis of open market values on existing use bases

\*\* Representing the cost of the plant, machinery and equipment of RM12.1 million less accumulated depreciation of RM RM5.0 million

## INDEPENDENT FAIRNESS OPINION REPORT (cont'd)



- (2) Being trade receivables from third parties after providing for allowance for doubtful debts. We treat that this amount is realisable in full; and
- (3) Based on the disclosure in the audited accounts of PKF Sarawak for FYE 31 December 2017, the amount is trade in nature.

From our analysis of the balance sheet of PKF Sarawak and the terms of the PKF Sarawak SSA, we noted the following:

- (a) RM24.7 million or 59.1% of the total assets of PKF Sarawak is represented by 'property, plant and equipment', of which long-term leasehold land and buildings (RM17.4 million) makes up 70.3% of it. The leasehold land and buildings have been revalued by Messrs. CH Williams Talhar & Wong Sdn Bhd back in 15 October 2015 ("Previous Valuation").

We note that Messrs. CH Williams Talhar & Wong Sdn Bhd had on 30 April 2018 issued a valuation report, ascribing a value of RM19.2 million for the leasehold land and buildings of PKF Sarawak ("Current Valuation"), giving shareholders of SCH an upside adjustment of RM1.4 million (net of deferred taxation provision at 24%);

- (b) RM16.3 million or 39.1% of the total assets of PKF Sarawak is represented by 'trade receivables'.

For purposes of our analysis, we assume that the trade receivables can be fully recovered.

Post completion of the Proposed Acquisition of PKF Sarawak, SCH being the holding company of PKF Sarawak, shall have the rights to review the trade receivable balance and determine the level of bad debt allowance to be charged in the financial statements of PKF Sarawak. In the event any of the trade receivables must be written off because of it being long overdue, the NA of PKF Sarawak will be reduced accordingly.

Any shortfall of more than 2% from the minimum NA will be compensated by PKFSB.

- (c) For purposes of our analysis, we assume that there are no off-balance or contingent liabilities not accounted for in the financial statements of PKF Sarawak.

Based on the above analysis, we are of the opinion that the NA of PKF Sarawak is realisable and our RNAV assessment of PKF Sarawak is set out below:

	RM	Comments
NA as at 31 December 2017	22,866,688	
Add: Adjustment for revaluation of land and property	1,368,000	Based on Current Valuation less Previous Valuation for the leasehold land and buildings of PKF Sarawak and net of deferred tax provision of 24%
<b>RNAV</b>	<b>24,234,688</b>	(A)
Equity stake proposed to be acquired by SCH pursuant to the Proposed Acquisition of PKF Sarawak	83.33%	(B)
<b>Share of RNAV</b>	<b>20,194,766</b>	(A) x (B)
Purchase Consideration of PKF Sarawak	19,054,811	The purchase consideration represents a discount of approximately 5.64% from the RNAV



INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

## RVA

RVA seeks to compare a company's implied trading multiple to that of comparable companies to determine the firm's financial worth. Under the RVA, reference was made to the valuation statistics of companies listed on Bursa Securities with principal activities we consider broadly comparable to PKF Sarawak ("Comparable Companies") to get an indication of the current market expectation with regards to the implied value of the equity interest in PKF Sarawak and compared to the implied trading multiples of the Comparable Companies to determine the firms' financial worth.

It is important to note that the Comparable Companies tabulated herein are by no means exhaustive and may differ from PKF Sarawak in terms of, inter alia, composition of business activities, scale of operations, geographical location of operations, profit track record, financial profile, risk profile, future prospects, capital structure, marketability of their securities and other criteria. One should also note that any comparisons made with respect to the Comparable Companies are merely to provide a comparison between the implied valuation of PKF Sarawak and the selection of Comparable Companies.

For the selection of the Comparable Companies, we have considered profitable publicly listed companies in Malaysia with market capitalisation of less than RM200 million and are generally manufacturers of agricultural chemicals and products.

The details of the Comparable Companies that were selected based on the above parameters that were selected are set out as follows:

Company	Principal Activities	PB multiple <sup>(1)</sup> (times)
Halex Holdings Bhd ("Halex")	Halex manufactures agricultural chemicals. The Company produces herbicides, insecticides, fungicides, fertilizers and related products.	1.47
Greenyield Berhad ("Greenyield")	Greenyield, through its subsidiaries, manufactures, markets and distributed agricultural related systems and products.	1.04
Imaspro Corporation Bhd ("Imaspro")	Imaspro manufactures agricultural chemicals. The Company produces pesticides and plant micronutrients and distributes other agrochemicals.	1.09
Average Range		1.2 1.04 - 1.47
Proposed Acquisition of PKF Sarawak		
- Based on Audited NA as at 31 December 2017		1.00
- Based on RNAV (Please refer to our assessment of RNAV above)		0.94

Note:

(1) As at LTD. Source: Bloomberg

We note that the PB multiple of the Proposed Acquisition of PKF Sarawak is 1 time (based on audited NA of PKF Sarawak) and 0.94 time (based on RNAV), are below the average and the range of PB multiples of Comparable Companies.

INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

## 7.0 LIMITATIONS

**Proposed Acquisition of TK Tent**

It should be noted that the valuation is highly dependent on, amongst others, the achievability of the Profit Guarantee for the Proposed Acquisition of TK Tent.

**Proposed Acquisition of PKF Sarawak**

It should be noted that the valuation is, to a certain extent, depend on the ability of SCH to claim for the shortfall from the minimum NA for the Proposed Acquisition of PKF Sarawak.

One should note that the post completion audit can only be carried out after the completion of the Proposed Acquisition of PKF Sarawak. Upon completion of the Proposed Acquisition of PKF Sarawak, the vendor, PKFSB will emerge as a substantial shareholder of SCH.

One should also recognise that there is no publicly listed company which may be identical to PKF Sarawak in terms of, inter-alia, composition of business activities, scale of business operations, risk profile, accounting and tax policies, tract record, future prospects, competitive environment, financial positions and that such business may have fundamentally different profitability objectives. One should also note that any comparisons made with respect to the Comparable Companies are merely to provide a comparison to the implied valuation of PKF Sarawak. The selection of Comparable Companies is highly subjective, judgmental and may not be entirely comparable due to various factors.

## 8.0 CONCLUSION

It should be recognised that the valuation of any entity is always subject to a great deal of uncertainty and involves a high degree of subjectivity and element of judgement. Because of the susceptibility of valuations to inputs of the model applied, valuations can change quite quickly in response to market changes or changes in the surrounding circumstances, including the market outlook (whether in general or relating to the industry itself).

In establishing our opinion on the Evaluation of the equity interest in TK Tent and PKF Sarawak which is the subject of the Proposed Acquisitions, SCA has considered various valuation methodologies, which are commonly used for valuation, to arrive at its opinion on the fairness of the Purchase Consideration of TK Tent and Purchase Consideration of PKF Sarawak, taking into consideration the future earnings generating capabilities, sustainability as well as various business considerations and risk factors of TK Tent and PKF Sarawak.

For the assessment of the fairness of the Purchase Consideration of TK Tent, SCA had compared the PE multiple based on the average Profit Guarantee against the PE multiples of relevant major indices of Bursa Securities. The PE multiple based on the average Profit Guarantee of 9.7 times is lower than the PE multiples of key indices of Bursa Securities (i.e. FBM Small Cap Index and Trading/Services Index) that ranged between 11.3 times and 20.3 times.

Premised on the above, SCA is of the opinion that the Purchase Consideration of TK Tent is FAIR.

INDEPENDENT FAIRNESS OPINION REPORT (*cont'd*)

As for the assessment of the fairness of the Purchase Consideration of PKF Sarawak, SCA had used the RNAV and the RVA methodologies, and have taken into consideration the following:

- (i) Under the RNAV methodology, we have considered:
  - (a) the Purchase Consideration of PKF Sarawak was derived based on the audited NA of PKF Sarawak as at 31 December 2017;
  - (b) 59.1% of its total assets as at 31 December 2017 is represented by 'property, plant and equipment', the bulk of which has been re-valued by Messrs. CH Williams Talhar & Wong Sdn Bhd in October 2015;
  - (c) 39% of the total assets as at 31 December 2017 is represented by trade receivables;
  - (d) assumption that there are no off-balance or contingent liabilities not accounted for in the financial statements of PKF Sarawak; and
  - (e) under the terms of the PKF Sarawak SSA, SCH has the right to conduct a post completion audit and PKFSB shall compensate SCH of any shortfall from the Minimum NA if the shortfall is more than 2%.
- (ii) Under the RVA methodology, we noted that the implied PB multiple for the Proposed Acquisition of PKF Sarawak is lower than the average and the range of PB multiples of Comparable Companies.

Premised on the above, SCA is of the opinion that the Purchase Consideration for PKF Sarawak is FAIR.

## 9.0 RESTRICTIONS


Save for the purpose stated herein, this Letter cannot be relied upon by any party other than SCH. Accordingly, we are not responsible or liable for any form of losses however occasioned to any their party as a result of the circulation, publication, reproduction or use of, or reliance on this Letter, in whole or in part. We are not required to give testimony or to be in attendance in court with reference to the opinion herein provided.

Neither SCA nor any of its members or employees undertakes responsibilities in any way whatsoever to any person in respect of this Letter, including any error or omission therein, however caused, as a result of the unauthorised circulation, publication or use of this Letter, or any part hereof.

Should SCA become aware of any significant change affecting the information contained in this Letter or have reasonable grounds to believe that any statement in this Letter is misleading or deceptive or have reasonable grounds to believe that there is material omission in this Letter, we will immediately notify the Board of SCH. If circumstances require, a supplementary Letter will be issued to the Board of SCH.

Yours faithfully,  
For and on behalf of  
**STRATEGIC CAPITAL ADVISORY SDN. BHD.**

  
**GOH CHIN CHAI**  
Associate Director  
Investment Representative  
CMSRL/B0131/2009

  
**TAN HOCK SOON**  
Director  
Investment Representative  
CMSRL/A3126/2007

## VALUATION CERTIFICATE

**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)**Jurukur Berkanun  
Chartered SurveyorsPerunding Harta Antarabangsa  
International Property ConsultantsSublot 54 (Lot 4229), 1st Floor,  
Parkcity Commerce Square Ph. 6  
Jalan Tun Ahmad Zaidi  
P. O. Box 363, 97008  
Bintulu, Sarawak.  
Tel : 086-335531  
Fax : 086-335964  
URL : [www.wtwy.com](http://www.wtwy.com)  
E-mail : [bintulu@wtwy.com](mailto:bintulu@wtwy.com)**CONFIDENTIAL**

Our Ref.: V/BTU/13008/2018/TKS/WPA/wpa

Date : 30th April 2018

**SCH Group Berhad**  
Suite 10.03, Level 10  
The Gardens South Tower  
Mid Valley City  
Lingkar Syed Putra  
59200 Kuala Lumpur

Dear Sir

**VALUATION CERTIFICATE  
SINGLE-STOREY DETACHED INDUSTRIAL WAREHOUSE  
HELD UNDER LOT 4061 BLOCK 26 KEMENA LAND DISTRICT  
BINTULU, SARAWAK**

We were instructed by SCH Group Berhad of Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkar Syed Putra, 59200 Kuala Lumpur to determine the Market Value of the parcel of land described as Lot 4061 Block 26 Kemena Land District, for the purpose of submission to Bursa Malaysia Securities Berhad in conjunction with the proposed acquisition of 15,000,000 Ordinary Shares in PK Fertilizers (Sarawak) Sdn Bhd, representing 83.33% equity interest in PK Fertilizers (Sarawak) Sdn Bhd.

We have prepared and provided this Valuation Certificate which outlines key factors that have been considered in arriving at our opinion of Market Value and reflects all information known by us and based on present market conditions for the inclusion in the circular to shareholders and abridged prospectus in conjunction with the proposed acquisition.

The material date of valuation is taken as at 13th April 2018.

This valuation has been prepared in accordance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The basis of the valuation is Market Value which is defined by the International Valuation Standards (IVS) and the Malaysian Valuation Standards (MVS) to be "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion".



VALUATION CERTIFICATE (*cont'd*)**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)****INTEREST TO BE VALUED**

Lot 4061 Block 26 Kemena Land District (hereinafter referred to as the subject land) is held under a Lease of State Land, with the leasehold term expiring on 7th July 2058.

The subject land has a single-storey detached industrial warehouse and other site works standing thereon. The subject land and the building/improvement thereon are hereinafter referred to as the subject property.

The interest to be valued by us in this Report and Valuation is the leasehold interest of whole share in the Subject Property, with an unexpired term of about 40 and 2/12 years.

Details of title and physical features of the Subject Property are described herein below in this Report and Valuation.

**PROPERTY IDENTIFICATION**

The Property	: Single-storey detached industrial warehouse
Title No	: Lot 4061 Block 26 Kemena Land District
Property Address	: Lot 4061, Kidurong Light Industrial Estate (KLIE), Jalan Kidurong, 97000 Bintulu, Sarawak
Land Area	: 1.63020 hectares, more or less
Tenure	: To expire on 07.07.2058
Registered Proprietor as at 24.04.2018	: Pk Fertilizers (Sarawak) Sdn. Bhd.
Registered Encumbrances as at 24.04.2018	: i) Charged to Bank Perusahaan Kecil & Sederhana Malaysia Berhad for RM2,940,000/- with 1 other title vide L.3137/2007 of 4.7.2007 (includes caveat). ii) Charged to Bank Perusahaan Kecil & Sederhana Malaysia Berhad for RM4,500,000/- with 1 other title vide L.5790/2008 of 17.11.2008 (includes caveat) (subject to Charge L.3137/2007).

**GENERAL DESCRIPTION**

The subject property is situated within the Kidurong Light Industrial Estate, Bintulu. It is about 10.90 kilometres in straight line from the Bintulu Town Centre.

Lands within the Kidurong Light Industrial Estate are generally flat in nature and are raised through earth-filling works.

Properties within the Kidurong Light Industrial Estate are predominantly light industrial in nature. The Industrial Estate was developed by Bintulu Development Authority for alienation to the public (complete with infrastructure works).



VALUATION CERTIFICATE (*cont'd*)**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)****GENERAL DESCRIPTION (*cont'd*)**

Directly to the North and North-West of the subject Industrial Estate is the Kidurong Industrial Area (Phase I) while Kidurong Industrial Area (Phase II) is located North-East, across Jalan Kidurong of the subject Industrial Estate.

Immediately to the South of the Industrial Estate is the Sekolah Menengah Teknik Bintulu. The residential quarters for Malaysian Liquefied Natural Gas, Bintulu Port Authority, Bintulu Development Authority, Asean Bintulu Fertilizer and Shell and Columbia Asia Hospital are located along Jalan Kidurong – to the South-West of the subject Industrial Estate.

Prominent landmark located within Tanjong Kidurong are Bintulu Port Authority, Sarawak Shell Berhad's Crude Oil Terminal, Asean Bintulu Fertilizer, Malaysian Liquefied Natural Gas, Shell MDS and SESCO's combined cycle power plant.

The shape of the subject land is rectangular in shape, flat in terrain, serviced by reinforced concrete drains and tar-sealed roads. It has direct road frontage onto the internal access road within Kidurong Light Industrial Estate along its western boundary. There is a single-storey detached industrial warehouse and other site works standing thereon.

The buildings are all sited on Lot 4061 Block 26 Kemena Land District as briefly described below:-

Table 1 List of Buildings

No.	Description	Age	Main Floor Area
1	Single-storey detached industrial warehouse (existing)	25 years	7,033.02 Square metres
2	Approved warehouse extension	9 years	5,097.58 Square metres
3	MSB room	25 years	13.32 Square metres
4	Office & store block	9 years	340.00 Square metres
5	Guard house 1	9 years	5.10 Square metres
3	Warehouse extension 1*	-	-
4	Warehouse extension 2*	-	-
8	Store*	-	-
9	Control room*	-	-
10	Guard house 2*	-	-
11	Pump house*	-	-
12	Canteen and water closets*	-	-
13	Temporary double-storey worker quarters*	-	-
<b>Remark:</b> * = Unapproved Extension (Excluded in our valuation exercise)			

The building plans for the subject property had been approved by Bintulu Development Authority with Occupation Permit issued on 8th September 2009.

**PLANNING AND RELATED MATTERS**

The subject property is located within the jurisdiction of Bintulu Development Authority and municipal services are provided by the Bintulu Development Authority.

The Subject Property are designated for industrial use as per the Special Conditions in the document of title.

## VALUATION CERTIFICATE (cont'd)

**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)****MARKET VALUE****Approach to Valuation**

In arriving at the Market Value of the Subject Property, we have adopted the Cost Approach as the primary method.

The Cost Approach entails separate valuations of the land and buildings to arrive at the Market Value. The land is valued by reference to transactions of similar lands in the surrounding with adjustments made for differences in location, terrain, size and shape of land, tenure, title restrictions, if any and other relevant characteristics.

The buildings are valued by reference to their depreciated replacement costs, i.e. the replacement cost new less an appropriate adjustment for depreciation or obsolescence to reflect the existing condition of the buildings at the date of valuation.

The land and building values are then summated to arrive at the Market Value.

We have also counter-checked with Comparison Approach, whereby we have gathered the comparable sales evidences and make adjustment for differences such as time factor, location/visibility, size, tenure, public amenities and other relevant characteristics to arrive of the out the Market Value.

**Value Consideration****Cost Approach****(I) Unimproved Land Value**

In the determination of the Market Value of the land, comparable sales quoted are summarised and analysed below:-

Comparable 1	Comparable 2	Comparable 3	
Lot No	Lot 9713 Block 32 Kemena Land District	Lot 983 Block 26 Kemena Land District	Lot 2656 Block 20 Kemena Land District
Address / Location	Lot 9713 Paling Industrial Estate, Bintulu sarawak	Lot 983 Kidurong Light Industrial Estate, Bintulu Sarawak	Lot 2656 Kidurong Industrial Area, Bintulu Sarawak
Type	Vacant Industrial land	Vacant Industrial land	Vacant Industrial land
Land Area (Hectare)	1,302 square metres	4,789 square metres	7,220 square metres
Share	1	1	1
Date	6-Jan-15	2-Mar-15	29-Aug-14
Tenure (leasehold expiring)	60 years upon issuance of new title	13/3/2052	31/10/2071
Vendor	Paling Construction Sdn Bhd	Aikinmas Sdn Bhd	Sarawak Edible Oils Sdn Bhd
Purchaser	Chiong Chung Hock & Wong Hee Yuk	Kong Sieng Fung +3	BW Yee Seng (Sarawak) Sdn Bhd
Consideration	RM965,100	RM3,150,000	RM4,272,796
Analysis (per square metre)	RM 741	RM 658	RM 592
Adjustment	Time, No individual title, Location, Tenure, Land Size	Time, Land Size	Time, Land Size
Adjusted Land Value (per square metres)	RM 640	RM 640	RM 520
Source :- Jabatan Penilaian & Perkhidmatan Harta (JPPH) and Sale and Purchase Agreement			

The adjusted values range from RM520 per square metre to RM640 per square metre. Having regards to the foregoing, we have adopted Comparable 2 as the best comparable considering its

## VALUATION CERTIFICATE (cont'd)

**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)**

date of sale and location. We have adopted the unit rate of **RM640.00 per square metre** for the land value of the subject property.

**(II) Building Cost & Site Improvements**

Based on JUBM and Langdon Seah Construction Cost Handbook – 2017, the building cost for industrial properties in Kuching is as follows:-

<b>Industrial Building</b>	<b>Rate (RM/m<sup>2</sup>)</b>
Light duty flatted factories	1,400 – 1,635
Heavy duty flatted factories and warehouses	1,535 – 1,765
Single-storey conventional factory of structural steelwork	1,225 – 1,455
Owner operated factories, low rise	1,570 – 1,795
<i>Source : JUBM and Langdon Seah Construction Cost Handbook - 2017</i>	

The quoted construction cost ranges between RM1,225 to RM1,795 per square metre. However, based on several contract cost provided to us on factories in the area by our clients in other exercises, the actual cost is in the range of RM1,000 to RM1,500 depending on the specifications.

The construction cost adopted in our current valuation is as follows:-

<b>Description</b>	<b>Rate (RM/m<sup>2</sup>)</b>
Office	1,100
Warehouse	1,250
Other Ancillary Building (Main Switch Board Room & Guard house)	1,100

The above cost is deemed fair and reflective of market norms after taking into consideration of the building specifications.

**(III) Depreciation**

We have adopted the building depreciation rates range from 23% to 71% based on the building's age, repair and maintenance. The building economic life is 40 years for except for the single storey existing warehouse house at 35 years based on the nature of business conducted within the subject property.

We have made necessary rectifications on the building costs which include the cost of dismantling unapproved extension areas, removal costs of debris and cost to reinstate to its original form. We have adopted an estimated figure of RM200,000.00 as the rectification cost. We are of the opinion that the adopted cost is fair and reasonable and reflects the current industrial building costs

Hence, the market value using Cost Approach is **RM19,200,000.00**.

*[this section has been intentionally left blank]*

## VALUATION CERTIFICATE (cont'd)

**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)****MARKET VALUE (cont'd)**Comparison Approach

In the determination of the Market Value of the Subject Property, comparable sales quoted are summarised and analysed below:-

Comparable	Comparable A	Comparable B	Comparable C	Letter offer dated 2nd March 2018 (Accepted)
Lot	Lot 3154 Block 26 Kemena Land District	Lot 1751 Block 26 Kemena Land District	Lot 1913 Block 20 Kemena Land District	Lot 2655 Block 20 Kemena Land District
Locality	Kidurong Light Industrial Estate	Kidurong Light Industrial Estate	Kidurong Industrial Area	Kidurong Industrial Area
Tenure (leasehold expiring)	13 October, 2053	5 June, 2055	11 October, 2066	60 years upon issuance of title
Type	Single storey detached factory	Detached warehouse with office	Detached warehouse with office	Detached warehouse
Land Area (m2)	10,050.00	14,139.00	8,098.00	5,678.00
Gross Floor Area (m2)	903.92	1,800.00	2,326.47	2,100.00
Estimated OP date	9-Sep-13	18-Jul-14	7-Jun-06	16-Aug-16
Building Age	5	4	12	2
Share transacted	1	1	1	2
Date of Transaction	10 March 2017	14 December 2015	8 August 2014	2 March 2018
Consideration	RM7,420,000	RM8,000,000	RM4,300,000	RM7,000,000
Vendor	Synerlitz Malaysia Sdn Bhd	Delite Home Development Sdn Bhd	Pengangkutan Lean Soon Hung	Sarawak Edible Oil Sdn Bhd
Purchaser	Serba Mahir Engineering Sdn Bhd	Rich Green Capital Sdn Bhd	Khoo Kok Wah, Tan Saan Saan, Tan Yew Saan & Khoo Lee Kian	Casmore Sdn Bhd
Adjustment	Time	Time	Time, Tenure	Time, Tenure
Value After Adjustment	RM7,642,600	RM8,480,000	RM4,452,650	RM 6,650,000
Add on of Land Value	50%	15%	110%	95%
Add on of Building Value	95%	80%	135%	90%
Value after reconciliation	RM18,724,370	RM16,536,000	RM15,361,643	RM18,952,500
Say	RM18,700,000	RM16,500,000	RM15,300,000	RM18,900,000
Comparable A	RM18,700,000			
Less Rectification Work	RM200,000			

Add on of the land and building value is analysed based on the difference in land and building size. The adjustment is derived from the shortfall of amount due to the smaller land size and smaller building size of the comparables.

Hence, the market value using Comparison Approach is **RM18,500,000.00**.

**Reconciliation of Values**

The Market Values derived from Cost Approach and Comparison Approach are as follows:-

Legal Description	Approach	Amount (RM)	Reconciliation (RM)
Lot 4061 Block 26 Kemena Land District	Cost	19,200,000	19,200,000
	Comparison	18,500,000	

The subject property is a detached warehouse with individual design and construction, has a specialised use and having an over-size warehouse space (built-up area of 12,489 square metres). There is no similar comparable sale within Bintulu in view of the nature and large warehouse space size of the subject property. Therefore, we had adopted Cost Approach as the primary method.

VALUATION CERTIFICATE (*cont'd*)**C H Williams Talhar Wong & Yeo****C H Williams Talhar Wong & Yeo Sdn Bhd (24706-T) (VE(1)0082/3)****MARKET VALUE (*cont'd*)****Reconciliation of Values**

We had relied on Cost Approach as the preferred Approach of Valuation to arrive at our value of the legal interest of the Subject Property. The subject property has unique characteristics and design. Therefore, the Cost Approach is deemed appropriate to derive the land value from surrounding transactions and the building value is derived specifically based on the subject property's characteristic. The land and building values are then summated to arrive at the market value of the subject property. We had relied upon the value derived from Comparison as a rough guide only.

**Valuation**

Having inspected the subject property and having considered the location, accessibility, size and shape of land, nature of property, the general character of its neighbourhood, term and conditions of title, improvements thereon, age and condition of building, physical features thereon, prevailing market values, current market conditions and market trend, we are of the opinion that the Market Value of the Subject Property, with about 40 and 2/12 years unexpired terms and on the **BASIS** that:-

- (I) IT IS FREE FROM ALL ENCUMBRANCES; AND
- (II) EXCLUDING ALL EXTENSION AREAS STATED HEREIN,

would be in the region of :-

**RINGGIT MALAYSIA : NINETEEN MILLION AND TWO HUNDRED THOUSAND ONLY (RM19,200,000.00)**

Yours faithfully  
for and on behalf of  
**C H Williams Talhar Wong & Yeo Sdn Bhd**

**Sr TING KANG SUNG**  
B. Bus (Valuation and Land Economy)  
MRISM, MPEPS, MIPPM, MRICS  
Registered Valuer (V-0566)



**FURTHER INFORMATION****1. DIRECTORS' RESPONSIBILITY STATEMENT**

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

The information relating to TK Tent and PKF Sarawak was obtained from SCH and the responsibility of the Board is limited to ensuring that the information is accurately reproduced in this Circular.

**2. CONSENTS AND DECLARATION OF CONFLICT OF INTERESTS*****Consents***

- (a) M&A Securities has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references in the form and context in which they appear in this Circular.
- (b) Protégé Associates has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and the IMR Report and all references in the form and context in which they appear in this Circular.
- (c) Ecovis has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and the pro forma consolidated statement of financial position of SCH as at 31 August 2017 together with the Reporting Accountant's letter therein and all references in the form and context in which they appear in this Circular.
- (d) SCA has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and the Independent Fairness Opinion Report and all references in the form and context in which they appear in this Circular.
- (e) C H Williams Talhar Wong & Yeo Sdn Bhd has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, valuation certificate and all references thereto in the form and context in which it appears in this Circular.

***Declaration of conflict of interests***

M&A Securities, Protégé Associates, Ecovis, SCA and C H Williams Talhar Wong & Yeo Sdn Bhd are not aware of any conflict of interest which exists or is likely to exist in relation to their respective roles in the Circular.

**3. MATERIAL CONTRACTS**

Save as disclosed below, the SCH Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two (2) years immediately preceding the date of this Circular:-

**FURTHER INFORMATION (cont'd)**

- (a) sale and purchase agreement dated 5 June 2018 between Sin Chee Heng Sdn Bhd, a wholly-owned subsidiary of SCH and Top Good Properties Holdings Sdn Bhd for the disposal of one (1) unit of 1½ storey semi-detached factory erected on a piece of freehold land located at No. 3, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan for a total cash consideration of RM4,600,000.00;
- (b) TK Tent SSA, TK Tent Supplemental SSA and PKF Sarawak SSA; and
- (c) memorandum of Understanding ("MOU") dated 17 May 2017 with Sewara Engineering Sdn Bhd, Stigma Impiana Sdn Bhd and Dataran 888 Sdn Bhd in respect of the exclusive collaboration on the excavation and removal and subsequent distribution and sale of the deposits from the Bohol Retention Pond, Wahyu Retention Ponds and Permaisuri Retention Pond, respectively. The MOU with Sewara Engineering Sdn Bhd and Stigma Impiana Sdn Bhd were terminated on 16 November 2017 whereas the MOU with Dataran 888 Sdn Bhd was terminated on 9 November 2017.

**4. MATERIAL LITIGATION, CLAIMS OR ARBITRATION**

As at the LPD, the SCH Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board is not aware and does not have any knowledge of any proceedings pending or threatened against the SCH Group, or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the SCH Group.

**5. MATERIAL COMMITMENTS**

As at the LPD, the Board is not aware of any material commitments incurred or known to be incurred by the SCH Group, which may have a material impact on the financial results/position of the SCH Group.

**6. CONTINGENT LIABILITIES**

Save as disclosed below, as at the LPD, the Board is not aware of any contingent liabilities incurred or known to be incurred by the SCH Group, which upon becoming enforceable, may have a material impact in the ability of the Company to meet the obligations as and when they fall due:-

<u>Details</u>	<u>Amount (RM'million)</u>
Foreign exchange forward contract	1.21
Corporate guarantees for banking facilities secured	55.13

**FURTHER INFORMATION (*cont'd*)**

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (a) memorandum and articles of association of SCH;
- (b) memorandum and articles of associations of TK Tent and PKF Sarawak, respectively;
- (c) audited consolidated financial statements of SCH for the past two (2) FYE 31 August 2016 and FYE 31 August 2017 and the latest six (6) months unaudited consolidated financial statements of SCH for the FPE 28 February 2018;
- (d) audited financial statements of TK Tent for the past two (2) FYE 30 June 2016 and FYE 30 June 2017 and the latest 6 months unaudited financial statements of TK Tent for the FPE 31 December 2017;
- (e) audited financial statements of PKF Sarawak for the past 2 FYE 31 December 2016 and FYE 31 December 2017;
- (f) the letters of consent and declaration of conflict of interests referred to in Section 2 above;
- (g) the material contracts referred to in Section 3 above;
- (h) the pro forma consolidated statement of financial position of SCH as at 31 August 2017 together with the Reporting Accountant's letter thereon as prepared by Ecovis;
- (i) the Directors' Report on TK Tent as referred to in **Appendix VI** of this Circular;
- (j) the Valuation Certificate as referred to in **Appendix IX** of this Circular and the Valuation Report dated 30 April 2018;
- (k) the IMR Report; and
- (l) the Independent Fairness Opinion Report.

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**SCH GROUP BERHAD**

(Company No. 972700-P)

(Incorporated in Malaysia)

## **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 convened and held at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, Cheras, 43200 Selangor Darul Ehsan on Friday, 6 July 2018 at 11.00 a.m. for the purpose of considering and, if thought fit, to pass the following resolutions:-

### **ORDINARY RESOLUTION 1**

#### **PROPOSED PRIVATE PLACEMENT OF UP TO 103,000,000 NEW ORDINARY SHARES IN SCH ("PLACEMENT SHARES") ("PROPOSED PRIVATE PLACEMENT")**

**"THAT** approval be and is hereby given for the Company to issue by way of placement of up to 103,000,000 Placement Shares;

**THAT** the Board be and is hereby authorised to fix the initial placement price of the Placement Shares at RM0.185 per Placement Share and issue up to 60,000,000 Placement Shares to Hextar Holdings SDn Bhd or its related parties;

**THAT** the Board be and is hereby authorised to fix the issue price of the other tranches of Placement Shares at a later date after obtaining the relevant approvals for the Proposed Private Placement;

**THAT** the proceeds of the Proposed Private Placement be utilised for the purposes as set out in the Circular to shareholders of the Company dated 20 June 2018, and the Board be and is hereby authorised with full powers to vary the manner and/or purpose of utilisation of such proceeds in such manner as the Board may deem fit, necessary and/or expedient, subject (where required) to the approval of the relevant authorities;

**THAT** the Board be and is hereby authorised to give effect to the Proposed Private Placement with full power to assent to or make any conditions, modifications, variations and/or amendments in any manner as may be imposed by the relevant authorities or as the Board may deem necessary or expedient in the best interest of the Company and to take all steps as it may deem necessary or expedient in order to implement, finalise and give full effect to the Proposed Private Placement;

**THAT** such Placement Shares to be issued herein shall rank *pari passu* in all respects with the existing ordinary shares in issue, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the said shares;

**AND THAT** Board be and is hereby authorised to do all such acts and things that are necessary to give full effect to the Proposed Private Placement with full powers to assent to any conditions, modifications, variations and/or amendments deemed necessary or expedient in the interest of the Company and/or as may be required by the relevant authorities and to take all steps and actions it considers necessary or as may be required to give full effect to and complete the Proposed Private Placement."

## **ORDINARY RESOLUTION 2**

### **PROPOSED ACQUISITION OF 100% EQUITY INTEREST IN TK TENT & AIR-CONDITIONING RENTAL SDN BHD ("TK TENT"), COMPRISING 11,800,000 ORDINARY SHARES IN TK TENT FROM HEXSTAR HOLDINGS SDN BHD ("HHSB"), FOR A CASH CONSIDERATION OF RM50.0 MILLION ("PROPOSED ACQUISITION OF TK TENT")**

**"THAT** subject to the passing of Ordinary Resolution 3 and the approvals of all relevant authorities being obtained where necessary, approval be and is hereby given for SCH to acquire 11,800,000 ordinary shares in TK Tent, representing the entire equity interest in TK Tent from HHSB, for a cash consideration of RM50,000,000 subject to and upon such terms and conditions as set out in the conditional share sale agreement dated 2 February 2018 entered into between the Company and HHSB for the Proposed Acquisition of TK Tent;

**AND THAT** the Directors of the Company be and are authorised to do all acts, deeds and things and execute all documents as they may deem fit or expedient in order to carry out, finalise and give effect to the Proposed Acquisition of TK Tent with full powers to assent to any conditions, modifications, variations and/or amendments as may be required or permitted by any relevant authorities and to take all steps as they may consider necessary or expedient in the best interest of the Company in order to implement, finalise and give full effect to the Proposed Acquisition of TK Tent."

## **ORDINARY RESOLUTION 3**

### **PROPOSED DIVERSIFICATION INTO THE EVENT EQUIPMENT SUPPLY BUSINESS SEGMENT ("PROPOSED DIVERSIFICATION – EVENT EQUIPMENT")**

**"THAT** subject to the passing of Ordinary Resolution 2 and subject further to the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the approvals of all relevant authorities, (whether in its original form or with or subject to any condition, modification, variation and/or amendment imposed by such relevant authorities), approval be and is hereby given for the Company to diversify its existing business to include the event equipment supply business segment, which might reasonably be expected to result in:-

- (a) the diversion of 25.0% or more of the net assets of the Company to an operation which differs widely from those operations previously carried on by the Company; or
- (b) the contribution from such an operation of 25.0% or more of the net profits of the Company,

pursuant to Rule 10.13(1) of the ACE Market Listing Requirements of Bursa Securities;

**THAT** the Board be and is hereby authorised and empowered to carry out, do all such acts, deeds and things and take all such steps it may consider necessary, and to execute, sign, deliver and cause to be delivered on behalf of the Company all such documents and/or agreements (including, without limitation, the affixing of the Company's common seal, where necessary) as the Board may consider necessary or required to give effect to the Proposed Diversification – Event Equipment;

**AND THAT** the Directors of the Company be and are authorised to do all acts, deeds and things and execute all documents as they may deem fit or expedient in order to carry out, finalise and give effect to the Proposed Diversification – Event Equipment with full powers to assent to any conditions, modifications, variations and/or amendments as may be required or permitted by any relevant authorities and to take all steps as they may consider necessary or expedient in the best interest of the Company in order to implement, finalise and give full effect to the Proposed Diversification – Event Equipment."



#### **ORDINARY RESOLUTION 4**

**PROPOSED ACQUISITION OF 83.33% EQUITY INTEREST IN PK FERTILIZERS (SARAWAK) SDN BHD ("PKF SARAWAK"), COMPRISING 15,000,000 ORDINARY SHARES IN PKF SARAWAK FROM PK FERTILIZERS SDN BHD ("PKFSB") FOR A PURCHASE CONSIDERATION OF RM19,054,811 TO BE SATISFIED VIA A COMBINATION OF CASH AND ORDINARY SHARES IN SCH ("CONSIDERATION SHARES") AT AN ISSUE PRICE OF RM0.19 PER CONSIDERATION SHARE ("PROPOSED ACQUISITION OF PKF SARAWAK")**

"**THAT** subject to the passing of Ordinary Resolution 5 and the approvals of all relevant authorities being obtained where necessary, approval be and is hereby given for SCH to acquire 15,000,000 ordinary shares in PKF Sarawak, representing 83.33% equity interest in PKF Sarawak from PKFSB, for a purchase consideration of RM19,054,811 ("Purchase Consideration of PKF Sarawak"), subject to and upon such terms and conditions as set out in the conditional share sale agreement dated 7 March 2018 entered into between the Company and PKFSB for the Proposed Acquisition of PKF Sarawak;

**THAT** the Purchase Consideration of PKF Sarawak be satisfied by the following:-

- (a) cash payment of RM11,454,811; and
- (b) the issuance of RM7,600,000 in value of Consideration Shares to PKFSB comprising 40,000,000 Consideration Shares at an issue price of RM0.19 per Consideration Share;

**THAT** such Consideration Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the existing SCH Shares, except that the Consideration Shares shall not be entitled to any dividends, rights, allotment and/or any other forms of distributions, which may be declared, made or paid, for which the entitlement date is prior to the date of allotment and issuance of the Consideration Shares;

**AND THAT** the Directors of the Company be and are authorised to do all acts, deeds and things and execute all documents as they may deem fit or expedient in order to carry out, finalise and give effect to the Proposed Acquisition of PKF Sarawak with full powers to assent to any conditions, modifications, variations and/or amendments as may be required or permitted by any relevant authorities and to take all steps as they may consider necessary or expedient in the best interest of the Company in order to implement, finalise and give full effect to the Proposed Acquisition of PKF Sarawak."

#### **ORDINARY RESOLUTION 5**

**PROPOSED DIVERSIFICATION INTO THE FERTILISER BUSINESS SEGMENT ("PROPOSED DIVERSIFICATION – FERTILISERS")**

"**THAT**, subject to the passing of Ordinary Resolution 4 and subject further to the ACE Market Listing Requirements of Bursa Securities and the approvals of all relevant authorities, (whether in its original form or with or subject to any condition, modification, variation and/or amendment imposed by such relevant authorities), approval be and is hereby given for the Company to diversify its existing business to include the fertiliser business segment, which might reasonably be expected to result in:-

- (a) the diversion of 25.0% or more of the net assets of the Company to an operation which differs widely from those operations previously carried on by the Company; or
  - (b) the contribution from such an operation of 25.0% or more of the net profits of the Company,
- pursuant to Rule 10.13(1) of the ACE Market Listing Requirements of Bursa Securities;

**THAT**, the Board be and is hereby authorised and empowered to carry out, do all such acts, deeds and things and take all such steps it may consider necessary, and to execute, sign, deliver and cause to be delivered on behalf of the Company all such documents and/or agreements (including, without limitation, the affixing of the Company's common seal, where necessary) as the Board may consider necessary or required to give effect to the Proposed Diversification – Fertilisers;

**AND THAT** the Directors of the Company be and are authorised to do all acts, deeds and things and execute all documents as they may deem fit or expedient in order to carry out, finalise and give effect to the Proposed Diversification – Fertilisers with full powers to assent to any conditions, modifications, variations and/or amendments as may be required or permitted by any relevant authorities and to take all steps as they may consider necessary or expedient in the best interest of the Company in order to implement, finalise and give full effect to the Proposed Diversification – Fertilisers."

**BY ORDER OF THE BOARD**

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

Kuala Lumpur  
20 June 2018

**Notes:-**

- (1) For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a Record of Depositors ("ROD") as at 29 June 2018 and only a Depositor whose name appears on such ROD shall be entitled to attend, speak and vote at this meeting or appoint proxy to attend and/or speak and/or vote in his/her behalf.
- (2) A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.
- (3) A member may appoint up to 2 proxies to attend at the same meeting. Where a member appoints 2 proxies, the proxies shall not be valid unless the member specifies the proportions of his shareholdings to be represented by each proxy.
- (4) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Central Depositories Act"), it may appoint at least one proxy in respect of each securities account it holds with ordinary shares to the credit of the said securities account.
- (5) Where a member of the Company is an exempt authorised nominee as defined under the Central Depositories Act which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there shall be 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 a proxy in the case of an individual shall be signed by the appointer or his attorney and in the case of a corporation, the instrument appointing a proxy or proxies must be under seal or under the hand of an officer or attorney duly authorised.
- (7) The instrument appointing a proxy must be deposited at the Share Registrar's Office of the Company at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof as Rule 8.31A(1) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad requires the resolutions set out in the Notice of General Meeting to be put to vote by poll.

**SCH GROUP BERHAD**

(Company No. 972700-P)

(Incorporated in Malaysia)

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 of the Company to be held at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, Cheras, 43200 Selangor Darul Ehsan on Friday, 6 July 2018 at 11.00 a.m. or at any adjournment thereof.

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

	FOR	AGAINST
<b>Ordinary Resolutions</b>		
Proposed Private Placement		
Proposed Acquisition of TK Tent		
Proposed Diversification – Event Equipment		
Proposed Acquisition of PKF Sarawak		
Proposed Diversification – Fertilisers		

**(Please indicate with an "X" in the space provided above on how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his discretion.)**

The proportion of my holdings to be represented by my \*proxy/proxies are as follows:-

First name Proxy %

Second name Proxy %

---

100%

In case of a vote taken by a show of hands, the First Proxy shall vote on \*my/our behalf.

As witness my hand \_\_\_\_\_ day of \_\_\_\_\_ 2018.

\*Strike out whichever is not desired.

Signature: \_\_\_\_\_



**Notes:-**

- (1) For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a Record of Depositors ("ROD") as at 29 June 2018 and only a Depositor whose name appears on such ROD shall be entitled to attend, speak and vote at this meeting or appoint proxy to attend and/or speak and/or vote in his/her behalf.
- (2) A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.
- (3) A member may appoint up to 2 proxies to attend at the same meeting. Where a member appoints 2 proxies, the proxies shall not be valid unless the member specifies the proportions of his shareholdings to be represented by each proxy.
- (4) Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("Central Depositories Act"), it may appoint at least one proxy in respect of each securities account it holds with ordinary shares to the credit of the said securities account.
- (5) Where a member of the Company is an exempt authorised nominee as defined under the Central Depositories Act which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there shall be 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 a proxy in the case of an individual shall be signed by the appointer or his attorney and in the case of a corporation, the instrument appointing a proxy or proxies must be under seal or under the hand of an officer or attorney duly authorised.
- (7) The instrument appointing a proxy must be deposited at the Share Registrar's Office of the Company at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof as Rule 8.31A(1) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad requires the resolutions set out in the Notice of General Meeting to be put to vote by poll.

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AFFIX  
STAMP

The SHARE REGISTRAR OF  
**SCH Group Berhad** (972700-P)  
Unit 32-01, Level 32  
Tower A, Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

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