

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

- (I) PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TK TENT & AIR-CONDITIONING RENTAL SDN BHD; AND**
(II) PROPOSED DIVERSIFICATION INTO THE EVENT EQUIPMENT SUPPLY BUSINESS SEGMENT

(COLLECTIVELY, THE "PROPOSALS")

1. INTRODUCTION

On behalf of the board of directors of SCH ("Board"), M&A Securities Sdn Bhd ("M&A Securities") wishes to announce that the Company had on 2 February 2018 entered into a conditional share sale agreement ("SSA") with Hextar Holdings Sdn Bhd ("Vendor" or "HHSB") for the proposed acquisition of the entire equity interest in TK Tent & Air-Conditioning Rental Sdn Bhd ("TK Tent") for a cash consideration of RM50,000,000 ("Purchase Consideration") ("Proposed Acquisition").

In conjunction with the Proposed Acquisition, the Board also proposes to seek shareholders' approval for the diversification of the existing business of SCH and its subsidiaries ("SCH Group" or "Group") to include the event equipment supply business segment ("Proposed Diversification").

2. DETAILS OF THE PROPOSALS

2.1 Details of the Proposed Acquisition

The Proposed Acquisition entails the acquisition of 11,800,000 ordinary shares in TK Tent ("Sale Shares"), representing 100.0% equity interest in TK Tent from the Vendor for the Purchase Consideration. The Sale Shares shall be acquired free from all encumbrances and together with all rights and benefits attaching thereto.

The Purchase Consideration shall be payable in the following manner:-

No.	Details	RM'000
(a)	Refundable deposit payable upon the execution of the SSA	100
(b)	Within 60 days from the unconditional date of the SSA	45,900
(c)	Within 30 days from the availability of TK Tent's audited financial statements for the financial year ended ("FYE") 30 June 2018 but subject to the completion of the SSA	4,000
	Total	50,000

As part of the terms of the Proposed Acquisition, the Vendor guarantees that TK Tent shall achieve an aggregate profit after taxation ("PAT") of at least RM15,500,000 for the FYE 30 June 2018 to FYE 30 June 2020 ("Guaranteed Sum").

Upon completion of the Proposed Acquisition, TK Tent will become a wholly-owned subsidiary of SCH.

2.1.1 Information on TK Tent

TK Tent was incorporated in Malaysia on 5 January 2010 as a private limited company under the Companies Act, 1965. The existing issued share capital of TK Tent is RM11,800,000 comprising 11,800,000 ordinary shares in TK Tent. As at the date of this announcement, TK Tent does not have any subsidiary or associated company.

TK Tent is principally involved in the provision of event related equipment rental for and trading of the following equipment:-

- temperature control systems, which includes portable air conditioner, chillers, air handling unit, fabric ducting and ventilation systems;
- energy products/equipment, which includes generator sets, cables, switch board, diesel pump and skid tank; and
- other event equipment such as tents, furniture, stage, platform, portable toilets and decoration.

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. As at the date of this announcement, the directors and shareholders of TK Tent and their respective shareholdings in TK Tent are as follows:-

Names	Interests in TK Tent	←-----Direct-----→		←-----Indirect-----→	
		No. of shares	%	No. of shares	%
Ong Soon Hooi	Director	-	-	-	-
Teh Li King	Director	-	-	-	-
HHSB	Shareholder	11,800,000	100.0	-	-

The summary of the audited financial information of TK Tent for the past three (3) FYE 30 June 2015, FYE 30 June 2016 and FYE 30 June 2017 as well as unaudited six (6)-months financial period ended ("FPE") 31 December 2016 and 31 December 2017 are set out below:-

Details	Audited			Unaudited	
	FYE 30 June 2015	FYE 30 June 2016	FYE 30 June 2017	FPE 31 December 2016	FPE 31 December 2017
	RM	RM	RM	RM	RM
Revenue	15,641,573	21,824,774	11,955,168	6,780,560	9,786,199
Gross Profit ("GP")	9,610,551	13,249,699	7,205,486	4,840,789	7,137,822
Profit before taxation ("PBT")	5,232,110	8,510,569	2,128,095	1,817,389	4,199,544
PAT	3,879,342	6,464,747	980,172	1,260,689	3,065,544
GP margin (%)	61.4	60.7	60.3	71.4	72.9
PBT margin (%)	33.5	39.0	17.8	26.8	42.9
PAT margin (%)	24.8	29.6	8.2	18.6	31.3
Net EPS (sen)	32.9	54.8	8.3	10.7	26.0
Current assets	4,852,997	10,173,679	4,771,734	5,931,051	7,782,192
Non-current assets	19,699,770	19,244,344	17,556,779	18,669,681	17,206,343
Total assets	24,552,767	29,418,023	22,328,513	24,600,731	24,988,535

Details	Audited			Unaudited	
	FYE 30 June 2015	FYE 30 June 2016	FYE 30 June 2017	FPE 31 December 2016	FPE 31 December 2017
	RM	RM	RM	RM	RM
Current liabilities	2,655,843	3,051,897	1,107,341	2,141,342	2,051,821
Non-current liabilities	3,849,865	3,211,320	3,391,000	2,848,700	3,391,000
Total liabilities	6,505,708	6,263,217	4,498,341	4,990,042	5,442,821
Shareholders' funds/NA	18,047,059	23,154,806	17,830,172	19,610,690	19,545,715
Total borrowings	1,751,712	1,014,565	224,467	688,605	92,131
Gearing (times)	0.10	0.04	0.01	0.04	~
Current ratio (times)	1.83	3.33	4.31	2.77	3.79
NA per share	1.53	1.96	1.51	1.66	1.66

Note:-

~ Less than 0.01%

Financial commentaries:-

FYE 30 June 2015 vs FYE 30 June 2016

For the FYE 30 June 2016, the total revenue increased by 39.53% or RM6.18 million from RM15.64 million during FYE 30 June 2015 to RM 21.82 million during FYE 30 June 2016. The significant increase in overall revenue levels generated by TK Tent was primarily due to the additional 2,760 kilo Volt Amperes for generator sets and 1,000 tonnes of refrigeration of chillers supplied for rental to several office buildings in Putrajaya during FYE 30 June 2016. The additional units supplied by TK Tent for rental have enabled TK Tent to generate additional revenue of RM7.48 million. The rental period of these equipment was for 12 months, from the period of June 2015 to May 2016.

In line with the increase in overall revenue levels, TK Tent has recorded higher PAT levels, which has increased from RM3.88 million during FYE 30 June 2015 to RM6.46 million in FYE 30 June 2016, representing an increase of approximately RM2.59 million or 66.7%.

FYE 30 June 2016 vs FYE 30 June 2017

TK Tent has recorded revenue of RM11.96 million during FYE 30 June 2017 against the revenue of RM21.82 million achieved during FYE 30 June 2016, representing a decrease of RM9.87 million or 45.2%. The decrease in the overall revenue levels was mainly due to the completion of the rental contract of generator sets and chillers to several office buildings in Putrajaya in May 2016.

In addition, the company's overall administrative and other operating expenses has increased by RM0.93 million or 47.3% from RM1.96 million during FYE 30 June 2016 to RM2.88 million during FYE 30 June 2017 mainly due to provision of bad debts and reclassification of certain expenses from cost of goods sold.

As a result of the above factors, the PAT level of TK Tent has decreased by RM5.48 million or 84.8% from RM6.46 million in FYE 30 June 2016 to RM0.98 million in FYE 30 June 2017.

FPE 31 December 2016 vs FPE 31 December 2017

TK Tent has recorded revenue of RM9.79 million during FPE 31 December 2017 against the revenue of RM6.78 million achieved during FPE 31 December 2016, representing an increase of RM3.01 million or 44.3%. The increase in the overall revenue levels generated during FPE 31 December 2017 was mainly due to the increase in overall number of rental units of temperature control systems (such as portable air conditioner, chillers, air handling unit), energy equipment (generator sets, chillers, cables, switch boards) and event equipment (tents, portable toilets and others) used in several major sporting events and exhibitions held in Malaysia and Asia during FPE 31 December 2017.

In addition, GP margin has improved from 71.4% during FPE 31 December 2016 to 72.9% during FPE 31 December 2017 as a result of improved cost management initiatives.

As a result of the above factors, TK Tent has recorded PAT position of RM3.07 million during FPE 31 December 2017 as compared to a PAT position of RM1.26 million during FPE 31 December 2016.

2.1.2 Information on the Vendor

HHSB was incorporated in Malaysia on 3 February 2006 as a private limited company under the Companies Act, 1965. As at the date of this announcement, the issued share capital of HHSB is RM44,743,580 comprising 223,717,900 ordinary shares in HHSB. HHSB is an investment holding company, whilst its subsidiaries and/or associate companies (save for TK Tent which is disclosed in Section 2.1.1 above) are principally involved in the following business activities:-

- production, trading, marketing and distribution of pesticide, fertilizer and other industrial chemical products;
- provision of property facilities, property investment holding and resources management services;
- information technology consulting, research and development activities and the provision of laboratory services;
- trading and servicing of forklifts;
- trading of building materials and civil engineering contractor; and
- agro-biotechnology and other related new bio-technology products.

As at the date of this announcement, the directors and shareholders of HHSB and their respective shareholdings in HHSB are as follows:-

Name	Interests in HHSB	<----Direct---->		<----Indirect---->	
		No. of shares	%	No. of shares	%
Dato' Ong Soon Ho	Director/Shareholder	53,444,328	23.9	^(a) 170,273,572	76.1
Dato' Ong Choo Meng	Director/Shareholder	144,816,972	64.7	-	-
Datin Teoh Siew Chin @ Teoh Siew Yok	Shareholder	25,456,600	11.4	^(a) 198,261,300	88.6

Note:-

- Deemed interested by virtue of his/her spouse and his/her son's shareholdings in HHSB pursuant to Section 8 of the Companies Act, 2016.

2.1.3 Basis and justification for the Purchase Consideration

The Purchase Consideration was arrived at based on a willing-buyer willing-seller and on arm's length transaction taking into account the following:-

- (a) The financial position of TK Tent with an audited NA position of RM17.83 million as at 30 June 2017;
- (b) Historical financial performance of TK Tent;
- (c) The future earnings prospects of TK Tent; and
- (d) The Guaranteed Sum.

The Purchase Consideration represents a price to earnings multiple of approximately 9.7 times, based on the average annual PAT of RM5.17 million derived from the Guaranteed Sum over the 3 years of FYE 30 June 2018 to FYE 30 June 2020.

The Board has appointed Strategic Capital Advisory Sdn Bhd to provide an opinion on the fairness of the Purchase Consideration and such opinion will be disclosed in the circular to shareholders of SCH in relation to the Proposed Acquisition.

2.1.4 Sources and breakdown of funding

The Purchase Consideration shall be funded in the following manner:-

Mode of settlement	RM	%
Bank borrowings ^(a)	35,000,000	70.0
Proposed Private Placement (as defined hereunder) and/or internal funds ^(b)	15,000,000	30.0
	50,000,000	100.0

Notes:-

- (a) Pursuant to the terms of the SSA, the completion of the Proposed Acquisition is conditional upon SCH having obtained bank borrowings of at least 70% of the Purchase Consideration. In the event SCH manages to obtain bank borrowings in excess of 70% of the Purchase Consideration, then the balance amount to be funded through the Proposed Private Placement and/or internal funds shall be reduced accordingly.

On 8 January 2018, M&A Securities on behalf of the Company announced that it proposes to undertake an issuance of up to 103,000,000 new ordinary shares in SCH ("SCH Shares") to independent third party investors ("Proposed Private Placement"). The Proposed Private Placement is expected to raise gross proceeds of up to approximately RM19.06 million, of which approximately RM12.0 million shall be utilised for its future acquisitions of new businesses. The Board has resolved to utilise the said allocation to partly fund the Proposed Acquisition. As such, the breakdown of the balance Purchase Consideration of RM15.0 million are as follows:-

No.	Details	RM'000
(i)	Proceeds from Proposed Private Placement	10,500
(ii)	Internal funds	4,500
	Total	15,000

For avoidance of doubt, the Proposed Private Placement and Proposed Acquisition are not inter-conditional with each other. The Proposed Private Placement and Proposed Acquisition are intended to be implemented independently. In the event, the Proposed Private Placement is not implemented prior to the completion of the Proposed Acquisition, the Company shall seek for other sources of funding to fund the balance Purchase Consideration amount of RM10.5 million. This may include sourcing for additional internal funds or additional bank borrowings.

In view that HHSB will be providing the Profit Guarantee (as defined hereunder), the Board intends to offer up to 60,000,000 new SCH Shares to be issued under the Proposed Private Placement for subscription by HHSB or its related parties. The Board is of the view that the participation of HHSB as a strategic investor will align the interest of HHSB to be mutually beneficial to the SCH Group.

2.1.5 Original date and cost of investments

The original date and cost of investments in TK Tent by the Vendor are 18 August 2016 and RM40.0 million respectively.

2.1.6 Liabilities to be assumed by SCH from the Proposed Acquisition

Save for the borrowings to be obtained to partially fund the Purchase Consideration, SCH will not be assuming any additional liabilities (including contingent liabilities and guarantees (if any)) pursuant to the Proposed Acquisition. The existing liabilities of the TK Tent will be settled in the ordinary course of business.

2.1.7 Additional financial commitments required

As TK Tent is already operating, there are no additional financial commitments required by SCH in putting the business of TK Tent on-stream subsequent to the Proposed Acquisition.

2.2 Details of the Proposed Diversification

Presently, the SCH Group is principally engaged in the business of distribution and supplying of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry in Malaysia and South East Asia ("Quarry Equipment Business").

The SCH Group proposes to diversify into the event equipment supply business segment pursuant to the Proposed Acquisition in order to diversify its earnings base and enhance its revenue and profitability. By diversifying into new business segment, the SCH Group is able to mitigate its dependence on its existing business portfolio and activities.

The Board expects that the Proposed Acquisition may contribute more than 25.0% of the net profits and/or NA of the SCH Group. In accordance with Rule 10.13(1) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("ACE Market LR"), SCH must obtain the approval of its shareholders in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either:-

- (a) the diversion of 25.0% or more of the NA of the Group to an operation which differ widely from the operations currently carried on by the Group; or
- (b) the contribution from such an operation of 25.0% or more of the net profits of the Group.

In this regard, the Board proposes to seek the approval of its shareholders for the Proposed Diversification pursuant to Rule 10.13(1) of the ACE Market LR. If the Proposed Diversification is approved by the shareholders, SCH Group will be subjected to new challenges and risks arising from the Proposed Diversification, which is set out in Section 5 of this announcement.

3. SALIENT TERMS OF THE SSA

The salient terms of the SSA include the following:-

(a) Conditions precedent

The SSA is conditional upon the following being procured, fulfilled and/or waived within 90 days from the date of the SSA with an automatic extension of an additional 30 days and such further period as the parties may mutually agree:-

- (i) satisfactory legal, financial and/or business due diligence findings on the TK Tent by SCH;
- (ii) SCH having obtained bank borrowings of at least 70% of the Purchase Consideration for the purpose of completing the Proposed Acquisition ("Loan") and the security documents (including the facilities agreement) shall have been executed, dated and stamped;
- (iii) SCH having obtained its shareholders' approval at a general meeting for the Proposed Acquisition and Proposed Diversification;
- (iv) Vendor having obtained the approval of the shareholders and directors for the disposal of the Sale Shares; and
- (v) TK Tent having obtained the necessary approvals and/or consents for the transfer of the Sale Shares.

Upon fulfillment of the foregoing, the SSA shall be deemed unconditional and the SCH's solicitors shall release the sum of RM100,000.00 ("Deposit") to the Vendor. In the event any of the conditions precedent is not fulfilled or waived, then SCH's solicitors shall refund the Deposit absolutely to SCH.

(collectively, the "Conditions Precedent")

(b) Profit Guarantee

The Vendor guarantees that TK Tent shall attain the Guaranteed Sum for FYE 30 June 2018, FYE 30 June 2019 and FYE June 2020 in aggregate ("Profit Guarantee"). The Guaranteed Sum was arrived 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.

In the event of any actual PAT shortfall or excess in each of the abovesaid FYE, such shortfall or excess shall be rolled over to the succeeding FYE up to FYE 30 June 2020. HHSB shall be liable to pay any shortfall to the Guaranteed Sum within 14 days after the audited financial statements of TK Tent for the FYE 30 June 2020 is made available.

(c) Completion

If:-

- (i) no event of default has occurred;
- (ii) the conditions precedent have been procured, obtained, fulfilled and/or waived;
- (iii) there has been no material adverse change in the financial condition or operation of TK Tent since the date of the SSA;
- (iv) TK Tent having entered into a management service agreement with an existing key management of TK Tent;
- (v) each of the representations and warranties of the Vendor remains accurate at the completion date;
- (vi) the Vendor has not breached any undertakings, representations, warranties and covenants under the SSA; and
- (vii) no governmental entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order which would have the effect of making the transactions contemplated by the SSA illegal or restraining or prohibiting consummation of such transactions

then, SCH shall pay the balance sum of RM45,900,000.00 to the Vendor within 60 days from the SSA is rendered unconditional ("Completion Period") and the date of payment shall be referred to as the "Completion Date". The Vendor irrevocably agrees that, in the event the said sum cannot be paid due to failure to drawdown or disburse the Loan, the Vendor shall extend the Completion Period for a further 30 days free of interest.

(d) Termination

On the occurrence of any of the following defaulting events, the non-defaulting party may give notice in writing to the defaulting party specifying the default and requiring the defaulting party to remedy the said default or breach within fourteen (14) business days or such extended period as may be allowed by the non-defaulting party:-

- (i) breach of any material or fundamental terms or conditions of the SSA or a failure to perform any undertaking and/or warranties; or
- (ii) a receiver, receiver and manager, trustee or similar official is appointed over any of the assets or undertaking of the defaulting party; or
- (iii) the defaulting party enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of the defaulting party's creditors or any class of them; or
- (iv) an application, petition or order is made for the winding-up or dissolution of the defaulting party; or
- (v) the defaulting party ceases or threatens to cease carrying on a substantial portion of the defaulting party's business; or
- (vi) any representation, warranty or statement which is made by the parties in the SSA or information furnished in the due diligence review or provided under or in connection herewith or therewith proves to be incorrect; or
- (vii) any agency of any state seizes, compulsorily acquires, expropriates or nationalises all or a material part of the assets or shares of the defaulting party; or
- (viii) any governmental authority or any person or entity acting or purporting to act under any governmental authority shall have taken any action in order to condemn, seize, appropriate or assume custody or control of the defaulting party.

If the defaulting Party fails to remedy the relevant default or breach within the said 14 business days or such extended period, the non-defaulting Party may elect to terminate the SSA upon which the Vendor shall refund to SCH all sums paid by SCH towards the Purchase Consideration.

(d) Representation, Warranties and Undertakings

The Vendor undertakes that, amongst others, to perform the following upon the execution of the SSA to the Completion Date:-

- (i) carry on TK Tent's business in its ordinary course;
- (ii) ensure there shall be no material adverse change in the financial conditions, operations, businesses or prospects of TK Tent;
- (iii) comply in all material respect with all statutes, laws, ordinances, rules and regulations applicable to TK Tent; and
- (iv) not to declare any dividend or make any distribution of its capital to the TK Tent's members.

Subject always to the completion of the SSA, the remaining RM4,000,000 of the Purchase Consideration ("Retention Sum") shall be paid to the Vendor within thirty (30) days from the availability of the audited financial statements of TK Tent for FYE 30 June 2018. In the event the Vendor breaches any of its obligations, covenants, warranties and/or representations under the SSA, SCH shall be entitled to remedy any of the said breaches and all costs related thereto shall be deducted from the Retention Sum. The Vendor warrants to SCH that all remedies of SCH in respect of breach of any of the representations and warranties shall continue to subsist notwithstanding completion of the SSA.

4. RATIONALE FOR THE PROPOSALS

The Group is constantly exploring opportunities that can deliver positive and sustainable growth to its shareholders. In line with this commitment, the Board views the Proposed Acquisition as an opportunity for the Group to bolster its earnings stream in the event equipment supply market through the acquisition of TK Tent. The Profit Guarantee provided by the Vendor will give assurance that the Proposed Acquisition will contribute positively to the earnings of the enlarged SCH Group for at least the next 3 years.

The Proposed Acquisition will expand the products and services currently offered by the SCH Group to include the provision of event related equipment rental which include rental of air-conditioning and cooling systems, tents and other event related equipment. The Proposals are expected to diversify the Group's income stream which is currently mainly derived from the Quarry Equipment Business and is dependent on the cyclical nature of the construction industry.

The Proposed Acquisition will also expand the Group's scale of operations to achieve certain economies of scale in terms of pooling of resources to increase overall operating efficiencies and productivity levels. This includes utilising excess facilities of the Group for the new business and sharing of technical and administrative personnel.

5. RISK FACTORS

The non-exhaustive risk factors in relation to the Proposals are set out below. There can be no assurance that any changes in relation to the risk factors as described below will not have a material adverse effect on the business, operations and financial performance of SCH Group.

5.1 Operational/business risks

The Proposals will subject the enlarged SCH Group to risks inherent to the event equipment supply industry. These may include competitive rental rates of TK Tents products/equipment, decrease in the number of exhibitions/fairs/events held in Malaysia and overseas, difficulty in obtaining new customers and retaining existing customers as well as introduction of new products/equipment.

Although the Group will seek to limit these risks through, inter-alia, leveraging on TK Tent's internal expertise in the event equipment supply business segment, there is no assurance that any material adverse change to the event equipment supply business segment will not result in a material adverse impact to the enlarged SCH Group.

5.2 The SCH Group depends on the recruitment and retention of qualified personnel and any failure to attract and retain such personnel could affect its business.

As in any other business, SCH Group's success in the event equipment supply business segment depends largely on the abilities, skills, experience, competency and continued efforts of the key management team for its event equipment supply business segment. The loss of any key management personnel without suitable and timely replacement, or the inability of SCH Group to attract and retain other qualified personnel, could adversely affect SCH Group's ability to operate its business and operations which in turn, could affect its financial performance and prospects. There can be no assurance that there will be continuity in the SCH Group's present management team post-Proposed Acquisition. The SCH Group's success depends on the ability and experience of its senior management and other key employees.

In order to mitigate this risk, it is a condition as stated in the SSA that the management service agreement shall be entered into between TK Tent and the existing key management personnel of TK Tent to ensure continuing management of TK Tent post-Acquisition. Further, the SCH Group will develop human resource strategies and plans that include competitive compensation packages, career advancement and training and development programmes to ensure that the SCH Group has the ability to retain its senior management team and other key employees. This will in turn help to ensure continuity and competency of the management team.

5.3 The SCH Group may not achieve the anticipated benefits of the Proposed Acquisition

The Proposed Acquisition is expected to contribute positively to the SCH Group. However, there is no assurance that the anticipated benefits of the Proposed Acquisition will be realised or that the SCH Group will be able to generate sufficient revenue and earnings in TK Tent to offset the associated acquisition costs incurred. There is also no assurance that the SCH Group will be able to maintain or improve the quality of services currently offered.

In mitigating this risk, the management team of SCH together with the management team of TK Tent will oversee the daily operations and be involved in the decision making of strategic matters of the enlarged SCH Group.

5.4 Completion risk

The Proposed Acquisition is conditional upon fulfilment of the Conditions Precedent. There is no assurance that the Proposed Acquisition can be completed within the time period permitted under the SSA. In the event that the Conditions Precedent are not fulfilled within the stipulated time period or in the event any approvals shall contain terms which are not acceptable to the parties to the SSA, the said parties may either mutually extend the stipulated period or terminate the SSA. In this regard, the Vendor and SCH shall endeavour to ensure that there is no delay in fulfilling all the Conditions Precedent and should there be any delay beyond the agreed time period, the Board shall negotiate to mutually extend the said period prior to its expiry.

6. INDUSTRY OVERVIEW AND PROSPECTS

6.1 Outlook and prospects of the Malaysian economy

The Malaysian economy registered a 4.2% growth in its real gross domestic product ("GDP") in 2016 as compared to a 5.0% growth registered in 2015. The slower pace in the growth of the Malaysian economy can be attributed to an overall moderation in private sector consumption and investment growth in an environment of prolonged uncertainties particularly in the international economic, financial and political landscapes.

The Malaysian real GDP is estimated to grow by 5.2% to 5.7% in 2017, and is forecast to expand by 5.0% to 5.5% in 2018. The services sector is expected to remain as the largest contributor to the economy by accounting for more than half of Malaysia's real GDP in 2017 and 2018.

(Source: Protégé Associates Sdn Bhd)

6.2 Outlook and prospects of the event equipment supply market in Malaysia

Malaysia has a well-developed infrastructure of event destinations, venues and services suppliers which provides opportunities for the event equipment supply market in Malaysia. The event equipment supply market covers the supply of seven major product namely, furniture and floor covering, tableware and catering, air conditioning and cooling system, display and exhibition, audio, visual and lighting system, temporary structures (i.e. canopy, tent and portable toilets) and electric generator. Event equipment can be used in private events such as parties and weddings as well as business events such as conferences, trade shows, convention and exhibition.

The outlook for the event equipment supply market is positive during the forecast period from 2018 to 2021 which is expected to be fuelled by the growth in the business events industry in Malaysia. The business events industry is a growth area under the tourism sector to promote Malaysia as a destination to host business events. The Malaysia Convention and Exhibition Bureau is the government agency responsible to bid for business events. In 2016, the business events industry generated RM1.03 billion in revenue and is projected to contribute RM3.9 billion by 2020. The forecast compound annual growth rate for the business events industry from 2016 to 2020 is 39.5%. In addition, other events such sports, music, festival and cultural events are also expected to provide opportunities to the event equipment supply market in Malaysia.

(Source: Protégé Associates Sdn Bhd)

6.3 Future plans and prospects of TK Tent

The Proposed Acquisition is expected to contribute positively to the overall financial performance and future profitability of the enlarged SCH Group. The outlook of TK Tent is underpinned by the growth in event equipment supply industry, the availability of working capital and the strength of the experienced management team of TK Tent.

Moving forward, TK Tent plans to further undertake the following efforts to further grow its business operations and prospects in the event equipment supply market, as follows:-

- (a) expand its range of product offerings in its temperature control systems and energy products/equipment to include heavy duty equipment such as silent generator sets and air compressors;
- (b) TK Tent aims to expand its existing customer base and sales network as well as to increase its market share locally and internationally through various marketing efforts to be undertaken such as development of sales channels via strategic partnerships with different clients across various industries. TK Tent shall also continue developing and maintaining its relationships with the local and international event management companies as well as participating in various trade exhibitions, seminars and events; and
- (c) TK Tent also intends to establish a new marketing team to focus on expansion and business development in the new international market, particularly in Indonesia, Singapore and Thailand.

Barring any unforeseen circumstances, the Board believes that the Proposed Acquisition will contribute positively to the enlarged SCH Group moving forward and is expected to enhance the value to the Company's shareholders in the longer term.

(Source: Management of TK Tent)

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7. FINANCIAL EFFECTS OF THE PROPOSALS

7.1 Issued share capital and substantial shareholders' shareholdings

The Proposals will not have any effect on the share capital and substantial shareholders' shareholdings in SCH as the Proposed Acquisition will be fully satisfied by cash and will not involve the issuance of securities by the Company.

7.2 NA and gearing

The Proposed Diversification will not have any effects on the NA and gearing of the SCH Group.

Based on the audited consolidated financial statements of SCH as at 31 August 2017, the pro forma effects of the Proposed Acquisition on the consolidated NA and gearing of SCH Group are as follows:-

	Audited as at 31 August 2017	After Proposed Private Placement	After Proposed Acquisition	Assuming full exercise of Warrants
	RM	RM	RM	RM
Share capital	^(a) 52,129,101	71,184,101	71,184,101	^(e) 91,795,652
Merger deficit	(24,514,828)	(24,514,828)	(24,514,828)	(24,514,828)
Foreign currency translation reserve	276,150	276,150	276,150	276,150
Retained earnings	36,582,923	^(b) 36,232,923	^(c) 35,832,923	35,832,923
NA/Shareholders' funds	64,473,346	83,178,346	82,778,346	103,389,897
No. of shares	412,235,520	515,235,520	515,235,520	721,351,030
NA per share (RM)	0.16	0.16	0.16	0.14
Interest bearing borrowings (RM)	16,620,018	^(f) 14,620,018	^(d) 49,844,485	49,844,485
Gearing ratio (times)	0.26	0.18	0.60	0.48

Notes:-

- (a) The amount in the share premium account had become part of the Company's share capital pursuant to Section 618(2) of the Companies Act, 2016 in relation to the transitional provisions relating to the abolition of par value which took effect on 31 January 2017.
- (b) After deducting the estimated expenses for the Proposed Private Placement of approximately RM0.35 million.
- (c) After deducting estimated expenses for the Proposals amounting to approximately RM0.40 million.
- (d) After incorporating the interest bearing borrowings of TK Tent of RM224,467 as at the FYE 30 June 2017, being the latest audited financial statement of TK Tent and interest bearing borrowings of SCH of RM35.0 million pursuant to the Proposed Acquisition.
- (e) Assuming full exercise of the outstanding 206,115,510 Warrants at an exercise price of RM0.10 per Warrant.
- (f) After utilising the amount of RM2.00 million raised from the Proposed Private Placement to repay the Group's bank borrowings.

7.3 Earnings and earnings per share ("EPS")

The SCH Group is expected to consolidate the entire earnings of TK Tent upon completion of the Proposed Acquisition (which is expected to be during the 2nd quarter of 2018). This is expected to have a positive effect to the consolidated earnings and EPS of SCH for the FYE 31 August 2018 and the future financial years after taking into consideration the Guaranteed Sum and prospects of the Proposed Acquisition.

7.4 Dividends

The Proposals are not expected to affect the dividend policy as future dividends payable by the Company would be dependent on *inter-alia*, the future profitability and cash flow position of the enlarged SCH Group.

7.5 Convertible securities

As at the date of this announcement, SCH has 206,115,510 outstanding warrants. The Proposals would not result in any necessary adjustments to the warrants. Save as disclosed above, the Company does not have any other convertible securities in issuance.

8. APPROVALS REQUIRED

The Proposals are subject to and conditional upon approvals from, amongst others, the following:-

- (a) the shareholders of SCH at a general meeting to be held for the Proposals; and
- (b) any other relevant regulatory authorities, if required.

The Proposed Acquisition and Proposed Diversification are inter-conditional upon each other, but not inter-conditional with the Proposed Private Placement. The Proposals are not conditional upon any other corporate proposals undertaken/to be undertaken by SCH.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the directors or major shareholders of SCH and any persons connected with them have any interest, direct or indirect, in the Proposals.

10. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposals is of the opinion that the Proposals are fair, reasonable and on normal commercial terms which is in the best interest of the Company and is not detrimental to the interests of the non-interested shareholders of SCH.

The views of the Board were arrived at after having considered, *inter-alia*, the rationale for the Proposals, the terms of the SSA and the Guaranteed Sum, the prospects of the event equipment supply industry and the financial effects of the Proposed Acquisition on the SCH Group, the Board is of the opinion that the Proposals are in the best interest of SCH Group and its shareholders.

11. PERCENTAGE RATIO APPLICABLE TO THE PROPOSED ACQUISITION PURSUANT TO RULE 10.02(G) OF THE ACE MARKET LR

The highest percentage ratio applicable to the Proposed Acquisition pursuant to Rule 10.02(g) of the ACE Market LR is approximately 77.6%, being the Purchase Consideration compared to the NA of the SCH Group.

12. PRINCIPAL ADVISER

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

13. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the circular to shareholders in relation to the Proposals is expected to be submitted to Bursa Securities within 2 months from the date of this announcement. The Proposals are expected to be completed/effected by the 2nd quarter of 2018.

14. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SSA can be inspected at SCH's registered office at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur during normal office hours from Monday to Friday (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 2 February 2018.

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