

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

(I) PROPOSED ACQUISITION OF 83.33% EQUITY INTEREST IN PK FERTILIZERS (SARAWAK) SDN BHD; AND (II) PROPOSED DIVERSIFICATION INTO THE FERTILISER 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 7 March 2018 entered into a conditional share sale agreement ("SSA") with PK Fertilizers Sdn Bhd ("Vendor" or "PKFSB") for the proposed acquisition of 83.33% equity interest in PK Fertilizers (Sarawak) Sdn Bhd ("PKF Sarawak") for a purchase consideration of RM19,054,811 ("Purchase Consideration"). The Purchase Consideration shall be satisfied via a combination of cash amounting to RM11,454,811 ("Cash Consideration") and the issuance of 40,000,000 new ordinary shares in SCH ("SCH Shares") ("Consideration Shares") at an issue price of RM0.19 per Consideration Share ("Issue Price") ("Proposed Acquisition of PKF Sarawak").

In conjunction with the Proposed Acquisition of PKF Sarawak, 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 fertiliser business segment ("Proposed Diversification").

Further details of the Proposed Acquisition of PKF Sarawak are as set out in the ensuing sections.

2. DETAILS OF THE PROPOSALS

2.1 Details of the Proposed Acquisition of PKF Sarawak

The Proposed Acquisition of PKF Sarawak entails the acquisition of 83.33% of the equity interest in PKF Sarawak comprising 15,000,000 ordinary shares in PKF Sarawak ("Sale Shares") from the Vendor for the Purchase Consideration, which will be satisfied through a combination of the Cash Consideration and Consideration Shares.

The Sale Shares free from all claims, charges, liens, encumbrances, option, right of first refusal, pre-emption rights, contracts, commitments, security interests, any third party interests and equities of any kind whatsoever together with all rights attached thereto. The Purchase Consideration shall be satisfied in the following manner:-

No.	Mode of settlement	Details	RM
(a)	Cash Consideration	(i) Refundable deposit payable upon the execution of the SSA	100,000
		(ii) Within 60 days from the unconditional date of the SSA	11,354,811
(b)	Consideration Shares	Within 60 days from the unconditional date of the SSA	7,600,000
		Total	19,054,811

Upon completion of the Proposed Acquisition of PKF Sarawak, PKF Sarawak will become a subsidiary of SCH.

2.1.1 Information on 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. The existing issued share capital of PKF Sarawak is RM18,000,000 comprising 18,000,000 ordinary shares in PKF Sarawak. PKF Sarawak is principally involved in the following business activities:-

(a) Warehousing and distribution of fertilisers of various types, mixtures and compacted compounds for use in the agriculture industry (palm oil, rubber and timber estates) mainly located in Sarawak. This includes the following:-

- Control-release fertilisers
- Kal-Mag (a type of compacted compound fertiliser)
- Compounds fertilisers
- Micronutrient fertilisers
- Household fertilisers
- Straight fertilisers
- Granular Blend fertilisers
- Imported compound fertilisers
- Organic compound fertilisers

(b) Planting advisory services.

PKF Sarawak currently operates a fertiliser warehouse and processing plant located at Lot 978 & 979, Block 26, Kemena Land District, Bintulu, Sarawak. The details of the processing capabilities are as follows:-

No.	Type of lines	No. of lines	Capacities (MT/annum)
(i)	Compacting	7	65,000
(ii)	Hammer mills	1	8,000
(iii)	Roller mills	2	15,000
(iv)	Mixing	1	60,000

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

Names	←----Direct----→		←----Indirect----→	
	No. of shares	%	No. of shares	%
Directors				
Dato' Gan Kong Hiok	-	-	^(a) 15,000,000	83.3
Leong Hin Kieat	-	-	-	-
Gan Eng Hian	-	-	-	-
Wu Xiaosheng	-	-	-	-
Shareholders				
PKFSB	15,000,000	83.3	-	-
Golden Barley International Pte Ltd ^(b)	3,000,000	16.7	-	-

Notes:-

- (a) Deemed interested by virtue of his interest in Pristine Acres Sdn Bhd. Kindly refer to the notes under Section 2.1.2 of this announcement for background details of Pristine Acres Sdn Bhd.
- (b) The directors of Golden Barley International Pte Ltd are Yang Lifen, Yang Lirong and Wu Xiaosheng whilst its shareholders are as follows:-

Names	<----Direct---->		<----Indirect---->	
	No. of shares held	%	No. of shares held	%
Yang Lifen	2,000,000	33.3	-	-
Yang Lirong	2,000,000	33.3	-	-
Wu Xiaosheng	2,000,000	33.4	-	-

The summary of the audited financial information of PKF Sarawak for the financial year ended ("FYE") 31 December 2015, FYE 31 December 2016 and FYE 31 December 2017 are set out below:-

Details	Audited		
	FYE 31 December 2015 RM	FYE 31 December 2016 RM	FYE 31 December 2017 RM
Revenue	55,509,811	64,448,708	43,702,351
Gross Profit ("GP")	2,447,186	1,919,525	1,258,036
Profit/(loss) before taxation ("PBT")/("LBT")	1,361,207	554,785	(411,681)
Profit/(loss) after taxation ("PAT")/("LAT")	1,739,879	(91,399)	(654,788)
GP margin (%)	4.4	3.0	2.9
PBT/(LBT) margin (%)	2.5	0.9	(0.9)
PAT/(LAT) margin (%)	3.1	(0.1)	(1.5)
Net earnings per share (sen)	9.67	(0.51)	(3.64)
Current assets (RM)	30,049,655	28,842,557	17,090,520
Non-current assets (RM)	26,909,025	26,766,149	24,722,095
Total assets (RM)	56,958,680	55,608,706	41,812,615
Current liabilities (RM)	29,526,608	28,635,240	15,770,814
Non-current liabilities (RM)	3,189,197	3,451,990	3,175,113
Total liabilities (RM)	32,715,805	32,087,230	18,945,927
Shareholders' funds/NA (RM)	24,242,875	23,521,476	22,866,688
Total borrowings (RM)	789,991	302,176	207,894
Net cash flows used in operating activities (RM)	1,980,322	2,588,665	124,747
Net cash flows used in investing activities (RM)	186,668	(1,855,369)	(152,952)
Net cash flows used in financing activities (RM)	1,182,062	(1,117,815)	(94,282)
Cash and cash equivalents at end of year	645,418	260,899	138,412
Gearing (times)	0.03	0.01	0.01
Current ratio (times)	1.02	1.01	1.08
Net asset ("NA") per share	1.35	1.31	1.27

During the financial years under review, the operations of PKF Sarawak were conducted based on the following business model:-

- (a) PKF Sarawak provides manufacturing and warehousing services to PKFSB for the manufacturing of fertilisers of various types, mixtures and compact compounds. In return, PKFSB pays rental fees to PKF Sarawak for the use of the processing plant and warehouse facility owned by PKF Sarawak located at Bintulu, Sarawak.
- (b) Upon the receipt of purchase orders from third party customers mainly based in Sarawak by PKF Sarawak (comprising palm oil plantations, rubber estates and timber concession areas), PKF Sarawak shall then purchase the finished fertiliser products (manufactured at PKF Sarawak processing plant in Bintulu, Sarawak) from PKFSB. The selling price of the fertilisers sold to third party customers shall be based on a certain mark-up of the cost of purchase from PKFSB.
- (c) Under the above arrangement, PKF Sarawak does not own any raw materials, work-in-progress and/or finished goods inventories. All inventories are owned by PKFSB and kept at the warehouse facility until it is sold to third party customers.

The revenue generated by PKF Sarawak are analysed as follows-

	FYE 31 December 2015	FYE 31 December 2016	FYE 31 December 2017
Units sold (metric tonnes) ("MT")	55,786	62,725	46,206
Average selling price of fertilisers (RM/MT)	995.05	1,028.68	945.82

Financial commentaries:-

FYE 31 December 2015 vs FYE 31 December 2016

For FYE 31 December 2016, PKF Sarawak achieved revenue levels of RM64.45 million, which was 16.10% or RM8.94 million higher than the revenue of RM55.51 million recorded during FYE 31 December 2015. PKF Sarawak recorded increase in volumes of fertilisers sold, increasing from 55,786 MT in FYE 31 December 2015 to 62,725 MT in FYE 31 December 2016. The higher revenue levels recorded for FYE 31 December 2016 was mainly due to the following developments:-

- (a) introduction of Kal-Mag series of fertilisers during FYE 31 December 2015, a type of compacted compound fertiliser formularised by PKFSB containing nitrogen, phosphorous, potassium and magnesium to provide nutrients for the cultivation of oil palm trees. The introduction of Kal-Mag series of fertilisers has received good feedback and demand from oil palm plantations mainly located in Sarawak, as it improves the cultivation period of oil palm trees and reduces frequency of fertilisation (as compared to use of other forms of fertilisers). As a result, PKF Sarawak has successfully sold approximately 12,311 MT and 10,695 MT of Kal-Mag series of fertilisers during FYE 31 December 2015 and FYE 31 December 2016, respectively; and
- (b) increase in volume sales of its range of compact compounds, straight/mixtures fertilisers and other types of fertilisers, which were also in high demand by oil palm and timber plantations in Sarawak. Major oil palm plantations had increased the cultivation of oil palm trees activities in line with the increasing export demand for palm oil and global Crude Palm Oil

("CPO") prices. PKF Sarawak has sold the following volumes of compact compounds, straight/mixtures fertilisers and other types of fertilisers (in terms of MT):-

Type of fertilisers	FYE 31 December 2015	FYE 31 December 2016
	MT	MT
Compact compounds	25,495	33,388
Straight/Mixtures	13,912	14,546
Others (i.e. compounds, release controls and organic)	4,068	4,096

Despite the increase in the overall revenue levels generated in FYE 31 December 2016, GP margin has decreased from 4.4% in FYE 31 December 2015 to 3.0% in FYE 31 December 2016 due to higher cost of purchases from PKFSB caused by the weakening of the RM against major currencies (namely USD, EUR and RMB), which has resulted in higher costs of purchase of the raw materials (such as magnesium, potassium, urea and others) from overseas suppliers for the mixture of various fertilisers. These raw materials are purchased in bulk from Russia, Eastern Europe, Japan, China and United States of America for the mixture and formularisation of various types of fertilisers.

Despite the increase in the overall revenue levels, PKF Sarawak has recorded LAT position of RM0.09 million during FYE 31 December 2016, from PAT position of RM1.74 million recorded during FYE 31 December 2015. The decrease in PBT levels recorded by PKF Sarawak of RM0.55 million during FYE 31 December 2016 was insufficient to cover the deferred tax expenses incurred of RM0.65 million during FYE 31 December 2016, as compared to the tax credit recorded of RM0.38 million recognised during FYE 31 December 2015.

FYE 31 December 2016 vs FYE 31 December 2017

PKF Sarawak has recorded revenue of RM43.70 million during FYE 31 December 2017 against the revenue of RM64.45 million achieved during FYE 31 December 2016, representing a decrease of approximately RM20.75 million or 32.19%. The decrease in the overall revenue levels was due to the following factors:-

- (a) decrease in the overall volume sales of fertilisers sold from 62,725 MT in FYE 31 December 2016 to 46,206 MT in FYE 31 December 2017 as PKF Sarawak adopted a conservative approach in view of the weaker RM and volatile fluctuation of CPO prices, which has affected selling prices of fertilisers, thus PKF Sarawak has been selective in securing its forward sales of fertilisers; and
- (b) unfavourable weather conditions which has disrupted cultivation activities at oil palm plantations, timber and rubber estates. As such, the demand of the fertilisers had decreased accordingly.

GP margin has also decreased slightly from 3.0% in FYE 31 December 2016 to 2.9% in FYE 31 December 2017 due to higher purchase cost of finished goods (i.e. fertilisers) caused by the continuous weakening of the RM against the major currencies (namely USD, EUR and RMB), which has resulted in higher purchase price of the raw materials.

As a result of the above factors, PKF Sarawak has recorded LBT position of RM0.41 million in FYE 31 December 2017 as compared to PBT position of RM0.55 million in FYE 31 December 2016. In addition, PKF Sarawak recorded LAT position of RM0.65 million in FYE 31 December 2017 against LAT position of RM0.09 million in FYE 31 December 2016.

2.1.2 Information on the Vendor

PKFSB was incorporated in Malaysia on 6 June 1996 as a private limited company under the Companies Act, 1965. As at the date of this announcement, the issued share capital of PKFSB is RM60,000,000 comprising 60,000,000 ordinary shares in PKFSB. PKFSB is principally involved in the businesses related to agrochemicals and fertilisers-related products. As at the date of this announcement, the directors and shareholders of PKFSB and their respective shareholdings in PKFSB are as follows:-

Names	<----Direct---->		<----Indirect---->	
	No. of shares	%	No. of shares	%
Directors				
Dato' Gan Kong Hiok	-	-	^(a) 57,000,000	95.0
Tengku Shamsul Bahrin	-	-	-	-
Gan Eng Hian	-	-	^(a) 57,000,000	95.0
Leong Hin Kieat	-	-	-	-
Nishitani Takahiko	-	-	-	-
Shareholders				
Pristine Acres Sdn Bhd ^(b)	57,000,000	95.0	-	-
Mitsubishi Corporation	3,000,000	5.0	-	-

Notes:-

- (a) Deemed interested by virtue of their interests in Pristine Acres Sdn Bhd ("PASB").
- (b) The directors of PASB are Dato' Gan Kong Hiok, Gan Eng Hann and Gan Eng Hian. The shareholders of PASB are as follows:-

Names	<----Direct---->		<----Indirect---->	
	No. of shares held	%	No. of shares held	%
Dato' Gan Kong Hiok	41,999,998	99.9	⁽ⁱ⁾ 2	~
Gan Eng Hann	1	~	⁽ⁱⁱ⁾ 41,999,999	99.9
Gan Eng Hian	1	~	⁽ⁱⁱⁱ⁾ 41,999,999	99.9

Notes:-

- ~ Negligible
- (i) Deemed interest by virtue of his relationship with his sons, namely Gan Eng Hann and Gan Eng Hian
- (ii) Deemed interest by virtue of his relationship with Dato' Gan Kong Hiok, his father and Gan Eng Hian, his brother
- (iii) Deemed interest by virtue of his relationship with Dato' Gan Kong Hiok, his father and Gan Eng Hann, his brother

2.1.3 Basis and justification for the Purchase Consideration

The Purchase Consideration was arrived at on willing-buyer willing-seller and on arm's length basis, based on 83.33% equity interest share of PKF Sarawak's audited NA position of RM22.87 million as at 31 December 2017. In arriving at the Purchase Consideration, SCH has also taken into account the following:-

- (a) The outlook and prospects of the fertilisers market in Malaysia; and
- (b) The future earnings prospects of PKF Sarawak.

The Board will appoint an independent adviser 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 of PKF Sarawak.

2.1.4 Basis and justification of the Issue Price

The issue price of RM0.19 per Consideration Share was determined on a willing-buyer willing-seller basis after taking into account the following:-

- (a) The historical share price of SCH; and
- (b) The 5-day volume weighted average market price ("5D-VWAMP") of SCH Shares up to and including 6 March 2018, being the market day before the date of the SSA of RM0.2043.

The issue price of RM0.19 per Consideration Share represents a discount of approximately RM0.0143 or 7.00% after taking into consideration the 5D-VWAMP of SCH Shares up to and including 6 March 2018 of RM0.2043, being the market day preceding the date of the SSA.

2.1.5 Ranking of the Consideration Shares

The Consideration Shares will, upon issuance and allotment, rank equally in all respects with the existing SCH Shares except that they will not be entitled to any dividends, rights, allotments or other distributions, which may be declared, made or paid, the entitlement date of which is before the date of issuance and allotment of the Consideration Shares.

2.1.6 Listing of and quotation for the Consideration Shares

An application will be made to Bursa Securities for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities.

2.1.7 Sources and breakdown of funding

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

Mode of settlement	RM
Bank borrowings ^(a)	7,620,000
Proposed Private Placement (as defined hereunder) ^(b)	3,500,000
Internally generated funds	334,811
	<u>11,454,811</u>

Notes:-

- (a) Pursuant to the terms of the SSA, the completion of the Proposed Acquisition of PKF Sarawak is conditional upon SCH having obtained bank borrowings of at least 40% of the Purchase Consideration. In the event SCH manages to obtain bank borrowings in excess of 40% of the Purchase Consideration, then the balance amount to be funded through the Proposed Private Placement and/or internal funds shall be reduced accordingly.
- (b) On 8 January 2018, M&A Securities on behalf of the Company announced that it proposed to undertake an issuance of up to 103,000,000 new ordinary shares in SCH ("Placement 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.

As announced on 2 February 2018, an amount of RM10.5 million has been allocated for the acquisition of the entire equity interest in TK Tent & Air-Conditioning Rental Sdn Bhd. SCH intends to utilise the balance allocated amount of RM1.5 million and vary an amount of RM2.0 million originally allocated to repay bank borrowings for the Proposed Acquisition of PKF Sarawak.

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

2.1.8 Original date and cost of investments

The original date and cost of investments in PKF Sarawak by the Vendor are 15 August 2008 and RM13,547,162, respectively.

2.1.9 Liabilities to be assumed by SCH from the Proposed Acquisition of PKF Sarawak

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 of PKF Sarawak. The existing liabilities of the PKF Sarawak will be settled in the ordinary course of business.

2.1.10 Additional financial commitments required

Currently, PKF Sarawak relies heavily on PKFSB in terms of funding its operations as described in Section 2.1.1 above. Upon completion of the Proposed Acquisition of PKF Sarawak, PKF Sarawak will no longer operate using the existing business model and will be required to reduce its reliance on PKFSB. As such, PKF Sarawak will be required to independently finance the purchase of raw materials for the mixing and production of various fertilisers. PKF Sarawak intends to obtain credit terms from new raw material suppliers for this purpose.

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 fertiliser business segment pursuant to the Proposed Acquisition of PKF Sarawak 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 of PKF Sarawak 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 has identified Tang Chung Hung as the General Manager to spearhead the fertiliser business segment. His profile is as follows:-

- (a) Tang Chung Hung, a Malaysian male, aged 39, is presently the General Manager of PKF Sarawak. He is responsible for all marketing related activities for fertilisers and agrochemicals sales/distribution activities in Sarawak. He obtained his Bachelor of Arts in Business and Management from Oxford Brookes University, United Kingdom in 2002. He started his career in 2002 as a Sales Executive in AV Media Sdn Bhd, where he was responsible for the sales and marketing of audio visual products. In 2006, he joined PKF Sarawak as its Sales Executive whereby he was involved in sales and marketing of fertilisers and agrochemical products. Subsequently, he was promoted as its Assistant Sales Manager in 2008 and Regional Sales Manager for Sarawak region in 2011. In 2017, he was promoted as a General Manager.

The Board believes that the vast experiences and expertise of Tang Chung Hung will provide the enlarged SCH Group with the necessary experience, expertise and knowledge in the fertiliser business segment.

Going forward, the Group intends to employ additional experienced team of personnel with expertise in the fertiliser industry to facilitate the expansion plans of PKF Sarawak.

3. SALIENT TERMS OF THE SSA

The salient terms of the SSA include the following:-

(a) Conditions precedent

The SSA shall be conditional upon the following being obtained, procured and/or fulfilled within the period of 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 PKF Sarawak by SCH;
- (ii) SCH having obtained bank borrowings of at least 40% of the Purchase Consideration for the purpose of completing the Proposed Acquisition of PKF Sarawak ("Loan") and the security documents (including the facilities agreement) shall have been executed, dated and stamped;
- (iii) SCH having obtained the approval of the shareholders at a general meeting for the Proposals;
- (iv) the Vendor having obtained the approval of the shareholders and directors for the disposal of the Sale Shares;
- (v) the Vendor having caused PKF Sarawak to obtain all the necessary approvals and/or consents for the transfer of the Sale Shares to SCH;
- (vi) such other waivers, consents or approvals as may be required (or deemed necessary) by the parties to the SSA from any third party or governmental, regulatory body or competent authority having jurisdiction over any part of the transactions contemplated under the SSA to the effect that if such waivers, consents, approvals are not obtained, the sale and purchase of the Sale Shares herein will be rendered null and void by law.

(b) Completion

If:-

- (i) no event of default has occurred or would occur as a result of the completion of the SSA;
- (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 PKF Sarawak since the date of the SSA, including but not limited to the maintenance of management continuity by the Vendor in PKF Sarawak;
- (iv) PKF Sarawak having entered into a management service agreement with an existing key management of PKF Sarawak to ensure proper management of PKF Sarawak during the transitional period;
- (v) the then latest management accounts of PKF Sarawak being made available;
- (vi) each of the representations and warranties of the Vendor remains accurate at the completion date as if given on that date by reference to the facts and circumstances then existing;
- (vii) the Vendor has not breached any undertakings, representations, warranties and covenants under the SSA; and
- (viii) no Governmental entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other order, whether temporary, preliminary or permanent, which is in effect and which has or would have the effect of making the transactions contemplated by the SSA illegal or restraining or prohibiting consummation of such transactions.

Notwithstanding the completion of the SSA, SCH shall be entitled to conduct an audit on the management account post completion. Such audit shall be commenced within 60 days from the completion date. In the event the audit shows a shortfall of more than 2% variance on the minimum NA of RM22,866,801, the Vendor shall be liable to make good the shortfall within 30 days from SCH's written demand for the said shortfall.

SCH shall be the absolute owner of and fully entitled to the Sale Shares and to all rights and advantages attaching thereto or accruing thereon from the completion date.

(c) Termination

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

- (i) breach of any material or fundamental terms or conditions of the SSA or a failure to perform or observe any material or fundamental undertaking, obligation or agreement expressed or implied in the SSA including the breach of any material 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) the defaulting party commits any act or omits to do an act which results in the breach or non-fulfilment of any term or condition of any banking, finance or credit facility; or
- (vii) any representation, warranty or statement which is 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 in any material respect; or
- (viii) 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
- (ix) 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 as may be allowed by the non-defaulting party after being given notice by the non-defaulting party, the non-defaulting party may elect to terminate the SSA upon which, the Vendor shall refund to SCH all sums paid by SCH, if any, towards the Purchase Consideration free of interest.

(d) Representation, warranties and undertakings

The Vendor undertakes that, amongst others, the Vendor shall do or cause and procure the following upon the execution of the SSA to the completion date:-

- (i) carry on PKF Sarawak's business in its ordinary course;
- (ii) maintain all PKF Sarawak's material structures, equipment and other tangible properties in good repair, order and condition, except for ordinary and reasonable wear and tear;
- (iii) perform in all material respect all of PKF Sarawak's obligations under agreements, contracts and instruments relating to or affecting PKF Sarawak's properties, assets and business;
- (iv) maintain PKF Sarawak's books of account and records in the usual, regular and ordinary manner;
- (v) there shall be no material adverse change in the financial conditions, operations, businesses or prospects of PKF Sarawak
- (vi) comply in all material respect with all statutes, laws, ordinances, rules and regulations applicable to PKF Sarawak and to the conduct of PKF Sarawak's business; and
- (vii) promptly advise the SCH in writing of any materially adverse change in the financial condition, operations, business or prospects of PKF Sarawak

(e) Non-Competition

Save and except for business dealing with PKF Sarawak (if any) and/or prior consent of SCH has been obtained, the Vendor hereby undertakes and covenants that, from the Completion Date, it shall cease and desist all its business operations, arrangement or transaction in the state of Sarawak which compete directly or indirectly with PKF Sarawak's business ("Competing Business") and shall not be involved in the said Competing Business.

(f) Post Completion Audit

The parties to the SSA agree that the Purchase Consideration was arrived based on the NA of at least RM22,866,801 ("Minimum NA") as stated in the audited financial statement of PKF Sarawak of FYE 31 December 2017. Notwithstanding the completion of the SSA, SCH shall be entitled to conduct an audit on the management account of PKF Sarawak post completion.

Such audit shall be commenced within sixty (60) days from the completion date of the SSA. In the event the audit shows a shortfall of more than two percent (2%) variance on the Minimum NA, the Vendor shall be liable to make good the shortfall within thirty (30) days from SCH's written demand for the said shortfall.

(g) Novation of existing agreements

Within twelve (12) months from the date of the SSA, the Vendor shall novate, assign, and/or transfer to PKF Sarawak all contracts (including supply agreement, letter of award, bidding documents, etc) entered into or made by the Vendor wherein:-

- (i) the performance of the said contracts by the Vendor will contravene its undertaking under Section 3(e) above; and/or
- (ii) the subject matter of the said contracts involves products and/or services provided by PKF Sarawak in its ordinary course of business; and

- (iii) the products and/or services to be delivered or completed under the said contracts are within the state of Sarawak.

The Vendor further undertakes that, in the event the aforementioned contracts are non-transferrable or non-assignable, unless otherwise agreed by the Purchaser, the Vendor shall terminate the said contract pursuant to Section 3(e) above and to cause the contracting party to enter into similar contract with PKF Sarawak.

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 of PKF Sarawak as an added opportunity for the Group to bolster its earnings stream in the fertiliser market through the acquisition of PKF Sarawak. Further, the Proposed Diversification will enable SCH to diversify into a new viable business which provides another stream of income, which may in turn improve SCH's shareholder value.

The Board of SCH has decided to venture into the fertiliser business segment in Sarawak based on the positive outlook and prospects of the fertiliser industry. Sarawak has a strong agricultural economy with an abundant land area of agricultural landbanks for future expansion. The use of fertilisers is key for any successful plantation operations and this will drive the demand for this product.

In venturing into the fertiliser business segment, SCH has the option of setting-up a fertiliser processing plant or acquiring an existing operating plant in Sarawak. The option to set-up a new processing plant would entail a lengthy gestation period in terms of time required to design, construct, commission and obtaining the relevant regulatory approvals for a new fertiliser plant.

The Proposed Acquisition of PKF Sarawak is akin to acquiring an already operating processing plant with the necessary operating licenses. This would allow the SCH Group to consolidate the earnings of PKF Sarawak immediately after the completion of the Proposals, without the need to have a gestation period. In addition, PKF Sarawak also has ready network of clientele to generate immediate revenue stream.

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/financial risks

The Proposals will expose the enlarged SCH Group to risks inherent to the fertilisers industry. These may include competitive selling prices of PKF Sarawak' products, difficulty in obtaining new customers and retaining existing customers as well as introduction of new products. In addition, PKF Sarawak will be required to reduce its reliance on PKFSB in terms of funding its business operations, which will require alternative funding sources.

Although the Group will seek to limit these risks through, inter-alia, leveraging on PKF Sarawak' internal expertise in the fertilisers business segment, there is no assurance that any material adverse change to the fertilisers 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 fertilisers business segment depends largely on the abilities, skills, experience, competency and continued efforts of the management team for its fertilisers business segment. The loss of any 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-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 PKF Sarawak and the existing key management personnel of PKF Sarawak to ensure continuing management of PKF Sarawak 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 anticipated benefits of the Proposed Acquisition of PKF Sarawak are not fully realised by the SCH Group

The Proposed Acquisition of PKF Sarawak is expected to contribute positively to the SCH Group. However, there is no assurance that the anticipated benefits of the Proposed Acquisition of PKF Sarawak will be realised fully or that the SCH Group will be able to generate sufficient revenue and earnings in PKF Sarawak 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 products currently offered.

In mitigating this risk, the management team of SCH together with the management team of PKF Sarawak 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 of PKF Sarawak is conditional upon fulfilment of the Conditions Precedent. There is no assurance that the Proposed Acquisition of PKF Sarawak 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 fertilisers market in Malaysia

A fertiliser is a compound that enhances or boosts to the growth of plants by providing essential nutrients to it. There are 2 main types of fertilisers which are the organic fertilisers and mineral fertilisers. Organic fertilisers are fertilisers composed of plant or animal wastes and minerals occurring in nature. Mineral fertilisers on the other hand are fertilisers composed of synthetic minerals or chemicals. Mineral fertilisers are preferred due to faster results in boosting higher yields and to more accurately prescribe and fix the nutrients deficiency in the plants. There are 2 main utilisations of fertilisers, which are the agriculture sector and landscaping applications. The agriculture sector is the foremost user of fertiliser in the country, while landscaping applications represent a small, but growing use of fertilizers.

The fertilisers industry in Malaysia (manufacture and import of fertilisers) was valued at RM8.06 billion in 2017. The outlook for the Malaysian's fertiliser industry is positive during the forecast period from 2018 to 2022. Fertiliser demand is 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. The Malaysia fertiliser industry is projected to grow at a compound annual growth rate of 7.6% for the forecast period of 2018 to 2022 to reach RM11.62 billion in 2022.

(Source: Protégé Associates Sdn Bhd)

6.3 Future plans and prospects of PKF Sarawak

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

Moving forward, PKF Sarawak plans to undertake the following efforts to further grow its business operations and prospects in the fertilisers market, as follows:-

- (a) Establish a fertiliser compacting line in Kuching, Sarawak to reduce the logistic and transportation costs of the fertilisers in view of the rapid development of oil palm plantations in Sarawak and the improvement in the average age of oil palms. This is expected to be implemented within the next two (2) years after identifying suitable location for setting up an additional fertiliser plant in Kuching, Sarawak;
- (b) Conduct joint research and development with the local agriculture research houses in order to develop new fertilisers for usage in cultivation of various agriculture products; and
- (c) Maintain close working relationship with traditional international principals in order to secure and maintain long term fertilisers' supplies at competitive rates.

Barring any unforeseen circumstances, the Board believes that the Proposed Acquisition of PKF Sarawak 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 PKF Sarawak)

7. FINANCIAL EFFECTS OF THE PROPOSALS

7.1 Issued share capital

The pro forma effects of the Proposed Acquisition of PKF Sarawak on the issued share capital of SCH are as follows:-

	No. of SCH Shares	RM
Issued share capital as at the date of this announcement	412,235,520	52,129,101
To be issued pursuant to the Proposed Private Placement	103,000,000	^(a) 19,055,000
After the Proposed Private Placement	515,235,520	71,184,101
To be issued pursuant to the Proposed Acquisition of PKF Sarawak	40,000,000	^(b) 7,600,000
After the Proposed Acquisition of PKF Sarawak	555,235,520	78,784,101
Assuming the full exercise of warrants 2016/2021 ("Warrants")	206,115,510	^(c) 20,611,551
Enlarged issued share capital	761,351,030	99,395,652

Notes:-

- (a) Based on the initial issue price of RM0.185 per Placement Share.
- (b) Based on the Issue Price of the Consideration Shares.
- (c) Based on the exercise price of RM0.10 per Warrant.

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 of PKF Sarawak on the consolidated NA and gearing of SCH Group are as follows:-

	Audited as at 31 August 2017	After Proposed Private Placement	^(a)After Proposed Acquisition of TK Tent	After Proposed Acquisition of PKF Sarawak	Assuming full exercise of Warrants
	RM	RM	RM	RM	RM
Share capital	^(b) 52,129,101	71,184,101	71,184,101	^(j) 79,356,101	⁽ⁱ⁾ 99,967,652
Merger deficit	(24,514,828)	(24,514,828)	(24,514,828)	(24,514,828)	(24,514,828)
Foreign currency translation reserve	276,150	276,150	276,150	276,150	276,150
Retained earnings	36,582,923	^(c) 36,232,923	^(d) 35,832,923	^(e) 35,582,923	35,582,923
NA/Shareholders' funds	64,473,346	83,178,346	82,778,346	90,700,346	111,311,897
No. of shares	412,235,520	515,235,520	515,235,520	555,235,520	761,351,030
NA per share (RM)	0.16	0.16	0.16	0.16	0.15
Interest bearing borrowings (RM)	16,620,018	^(f) 14,620,018	^(g) 49,844,485	^(h) 57,672,379	57,672,379
Gearing ratio (times)	0.26	0.18	0.60	0.64	0.52

Notes:-

(a) On 2 February 2018, M&A Securities, on behalf of the Company, had announced that the Company intends to undertake the following proposals:-

- (i) Proposed acquisition of the entire equity interest in TK Tent & Air-Conditioning Rental Sdn Bhd ("TK Tent") from Hextar Holdings Sdn Bhd for a cash consideration of RM50,000,000 ("Proposed Acquisition of TK Tent"); and
- (ii) Proposed diversification of the existing business of SCH Group to include the event equipment supply business segment.

(collectively, the "TK Tent Corporate Proposals")

- (b) 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.
- (c) After deducting the estimated expenses for the Proposed Private Placement amounting to approximately RM0.35 million.
- (d) After deducting estimated expenses for TK Tent Corporate Proposals amounting to approximately RM0.40 million.
- (e) After deducting estimated expenses for the Proposals amounting to approximately RM0.25 million.
- (f) After utilising the amount of RM2.00 million raised from the Proposed Private Placement to repay the Group's bank borrowings.
- (g) 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 RM35.00 million to finance TK Tent Corporate Proposals.
- (h) After incorporating the interest bearing borrowings of PKF Sarawak of RM207,894 as at the FYE 31 December 2017, being the latest audited financial statement of PKF Sarawak and interest bearing borrowings of SCH of RM7.62 million to finance the Proposed Acquisition of PKF Sarawak.
- (i) Assuming full exercise of the outstanding 206,115,510 Warrants at an exercise price of RM0.10 per Warrant.
- (j) After crediting the issuance of 40,000,000 SCH Shares at 5D-VWAMP of RM0.2043, being the fair value of the Consideration Shares.

7.3 Substantial shareholders' shareholdings

The effects of the Proposed Acquisition of PKF Sarawak on the shareholdings of the substantial shareholders of SCH are as follows:-

Substantial shareholders	As at 1 March 2018				After Proposed Private Placement			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of SCH Shares	%	No. of SCH Shares	%	No. of SCH Shares	%	No. of SCH Shares	%
Thianjing Holdings Sdn Bhd	68,163,500	16.5	-	-	68,163,500	13.2	-	-
Lau Mong Ling	23,873,224	5.8	-	-	23,873,224	4.6	-	-
Khoo Chee Siang	27,217,900	6.6	-	-	27,217,900	5.3	-	-
Tan Sri Dato' Sri Koh Kin Lip	-	-	^(a) 68,163,500	16.5	-	-	^(a) 68,163,500	13.2
Koh Chen Foong	-	-	^(a) 68,163,500	16.5	-	-	^(a) 68,163,500	13.2
Liew Fook Meng	-	-	^(a) 68,163,500	16.5	-	-	^(a) 68,163,500	13.2
Chow Dai Ying	716,500	0.2	^(a) 68,163,500	16.5	716,500	0.1	^(a) 68,163,500	13.2
Placees (collectively)	-	-	-	-	103,000,000	20.0	-	-
PKFSB	-	-	-	-	-	-	-	-

Substantial shareholders	After Proposed Acquisition of PKF Sarawak				No. of Warrants held	Assuming full exercise of Warrants			
	<-----Direct----->		<-----Indirect----->			<-----Direct----->		<-----Indirect----->	
	No. of SCH Shares	%	No. of SCH Shares	%		No. of SCH Shares	%	No. of SCH Shares	%
Thianjing Holdings Sdn Bhd	68,163,500	12.3	-	-	21,581,900	89,745,400	11.8	-	-
Lau Mong Ling	23,873,224	4.3	-	-	-	23,873,224	3.1	-	-
Khoo Chee Siang	27,217,900	4.9	-	-	-	27,217,900	3.6	-	-
Tan Sri Dato' Sri Koh Kin Lip	-	-	(a)68,163,500	12.3	-	-	-	(a)89,745,400	11.8
Koh Chen Foong	-	-	(a)68,163,500	12.3	-	-	-	(a)89,745,400	11.8
Liew Fook Meng	-	-	(a)68,163,500	12.3	-	-	-	(a)89,745,400	11.8
Chow Dai Ying	716,500	0.1	(a)68,163,500	12.3	14,535,150	15,251,650	2.0	(a)89,745,400	11.8
Placees (collectively)	103,000,000	18.6	-	-	-	103,000,000	13.5	-	-
PKFSB	40,000,000	7.2	-	-	-	40,000,000	5.3	-	-

Note:-

(a) Deemed interested in the shares held by Thianjing Holdings Sdn Bhd pursuant to Section 8 of the Companies Act, 2016.

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7.4 Earnings and earnings per share (“EPS”)

The SCH Group is expected to consolidate 83.33% of the earnings of PKF Sarawak upon completion of the Proposed Acquisition of PKF Sarawak (which is expected to be completed during the 2nd half of 2018). This is expected to have a positive effect to the consolidated earnings of SCH for the FYE 31 August 2018 and the future financial years after taking into consideration the rationale and prospects of the Proposed Acquisition of PKF Sarawak. The EPS of the SCH Group may however be proportionately diluted as a result of the increase in the number of SCH Shares after the Proposed Acquisition of of PKF Sarawak.

7.5 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.

7.6 Convertible securities

As at the date of this announcement, SCH has 206,115,510 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) Bursa Securities, for the listing of and quotation for the Consideration Shares on the ACE Market of Bursa Securities;
- (b) the shareholders of SCH at a general meeting to be held for the Proposals; and
- (c) any other relevant regulatory authorities, if required.

The Proposed Acquisition of PKF Sarawak and Proposed Diversification are inter-conditional upon each other. The Proposals are not conditional upon any other corporate proposals undertaken/to be undertaken by SCH (including the Proposed Private Placement and TK Tent Corporate Proposals).

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, the prospects of the fertilisers industry and the financial effects of

the Proposed Acquisition of PKF Sarawak 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 OF PKF SARAWAK PURSUANT TO RULE 10.02(G) OF THE ACE MARKET LR

The highest percentage ratio applicable to the Proposed Acquisition of PKF Sarawak pursuant to Rule 10.02(g) of the ACE Market LR is approximately 41.25%, being the total assets of PKF Sarawak compared to the total assets of the SCH Group.

12. PRINCIPAL ADVISER

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

13. OUTSTANDING PROPOSALS ANNOUNCED BUT PENDING IMPLEMENTATION

Save for the Proposed Private Placement and TK Tent Corporate Proposals, as at the date of this announcement, there is no other corporate exercise which has been announced but not yet implemented.

14. 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 half of 2018.

15. 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 7 March 2018.