



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

### SCH Group Berhad

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**SCH GROUP BERHAD**

This Prospectus is dated 21 January 2014

### SCH GROUP BERHAD

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

INITIAL PUBLIC OFFERING IN CONJUNCTION WITH THE LISTING OF SCH ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD COMPRISING:-

(I) PUBLIC ISSUE OF 90,692,000 NEW ORDINARY SHARES OF RM0.10 EACH IN SCH ("SHARES") ALLOCATED IN THE FOLLOWING MANNER:-

- 13,000,000 NEW SHARES AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC;
- 13,000,000 NEW SHARES AVAILABLE FOR APPLICATION BY OUR ELIGIBLE DIRECTORS, EMPLOYEES AND BUSINESS ASSOCIATES/PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF THE COMPANY AND ITS SUBSIDIARIES;
- 19,662,000 NEW SHARES BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS;
- 45,030,000 NEW SHARES BY WAY OF PRIVATE PLACEMENT TO IDENTIFIED BUMIPUTERA INVESTORS APPROVED BY THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY;

AND

(II) OFFER FOR SALE OF 32,980,000 SHARES MADE AVAILABLE FOR APPLICATION BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS,

AT AN ISSUE/OFFER PRICE OF RM0.23 PER SHARE, PAYABLE IN FULL UPON APPLICATION.

*Adviser, Sponsor, Underwriter and Placement Agent*



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

(A Wholly-Owned Subsidiary of Insas Berhad)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

INVESTORS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

THERE ARE CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER. PLEASE REFER TO "RISK FACTORS" AS SET OUT IN SECTION 4 HEREIN.

YOU ARE ADVISED TO NOTE THAT COMPANIES LISTED ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD MAY BE OF HIGH INVESTMENT RISK.

THIS PROSPECTUS IS NOT TO BE DISTRIBUTED OUTSIDE MALAYSIA.

PROSPECTUS

SCH GROUP BERHAD

## PROSPECTUS



Our Directors, Promoters and Offerors (as defined herein) have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities Sdn Bhd, being our Adviser, Sponsor, Underwriter and Placement Agent to our IPO (as defined herein), acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

A copy of this Prospectus has been registered with the Securities Commission Malaysia ("SC"). The registration of this Prospectus should not be taken to indicate that the SC recommends our IPO or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Prospectus. The SC has not, in any way, considered the merits of the securities being offered for investment.

The SC is not liable for any non-disclosure in this Prospectus on our part and takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss that you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus. A copy of this Prospectus, together with the Application Form (as defined herein), has also been lodged with the Registrar of Companies who takes no responsibility for its contents.

Companies listed on the ACE Market may have a limited operating history or may not have any profit track record prior to listing. Such companies may be of high investment risk. As with all investments, you should be aware of all potential risks in investing in such companies and should make the decision to invest after giving due and careful consideration by referring to, among others, this Prospectus, latest financial statements and corporate announcements. You are strongly recommended to seek advice from securities professional/adviser.

**YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF OUR IPO AND YOUR INVESTMENT IN OUR SHARES. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

Our IPO is an exempt transaction under Section 213 of the Capital Markets and Services Act 2007 ("CMSA") and is therefore not subject to the approval of the SC.

You are advised to note that recourse for false or misleading statements or acts made in connection with this Prospectus is directly available through Sections 248, 249 and 357 of the CMSA.

Approval has been obtained from Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for our IPO Shares (as defined herein) on 9 September 2013. Our admission to the Official List of the ACE Market of Bursa Securities is not to be taken as an indication of the merits of our IPO, our Company or our Shares. Bursa Securities shall not be liable for any non-disclosure on our part and takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning our IPO for which any of the persons set out in Section 236 of the CMSA, e.g. Directors and Advisers, are responsible.

This Prospectus has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia, and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or by any regulatory authority or other relevant body of any jurisdiction other than Malaysia.

We will not, prior to acting on any acceptance in respect of our IPO, make or be bound to make any enquiry as to whether you have a registered address in Malaysia and will not accept or be deemed to accept any liability in relation thereto whether or not any enquiry or investigation is made in connection therewith.

It shall be your sole responsibility if you are or may be subject to the laws of countries or jurisdictions other than Malaysia, to consult your legal and/or other professional advisers as to whether our IPO would result in the contravention of any law of such countries or jurisdictions.

Further, it shall also be your sole responsibility to ensure that your application for our IPO would be in compliance with the terms of our IPO as stated in our Prospectus and the Application Form and would not be in contravention of any laws of countries or jurisdictions other than Malaysia to which you may be subjected. We will further assume that you had accepted our IPO in Malaysia and will be subjected only to the laws of Malaysia in connection therewith.

However, we reserve the right, in our absolute discretion to treat any acceptance as invalid if we believe that such acceptance may violate any law or applicable legal or regulatory requirements.

No action has been or will be taken to ensure that this Prospectus complies with the laws of any country or jurisdiction other than the laws of Malaysia. It shall be your sole responsibility to consult your legal and/or other professional adviser on the laws to which our IPO or you are or might be subjected to. Neither us nor our Adviser nor any other advisers in relation to our IPO shall accept any responsibility or liability in the event that any application made by you shall become illegal, unenforceable, avoidable or void in any country or jurisdiction.

### **ELECTRONIC PROSPECTUS**

This Prospectus can be viewed or downloaded from Bursa Securities' website at [www.bursamalaysia.com](http://www.bursamalaysia.com). The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same.

You may also obtain a copy of the Electronic Prospectus from the website of Malayan Banking Berhad at [www.maybank2u.com.my](http://www.maybank2u.com.my), the website of RHB Bank Berhad at <http://www.rhbbank.com.my>, the website of CIMB Investment Bank Berhad at <http://www.eipocimb.com>, the website of CIMB Bank Berhad at <http://www.cimbclicks.com.my> and the website of Affin Bank Berhad at <http://www.affinonline.com>.

You are advised that the internet is not a fully secured medium, and that your Internet Share Application (as defined herein) may be subject to the risks of problems occurring during the data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond the control of the Internet Participating Financial Institutions (as defined herein). These risks cannot be borne by the Internet Participating Financial Institutions.

If you are in doubt of the validity or integrity of an Electronic Prospectus, you should immediately request from us, the Adviser or issuing house, a paper printed copy of this Prospectus.

In the event of any discrepancy arising between the contents of the electronic and the contents of the paper printed copy of this Prospectus for any reason whatsoever, the contents of the paper printed copy of this Prospectus which are identical to the copy of the Prospectus registered with the SC shall prevail.

In relation to any reference in this Prospectus to third party internet sites (referred to as "Third Party Internet Sites"), whether by way of hyperlinks or by way of description of the third party internet sites, you acknowledge and agree that:

- (a) We and our Adviser do not endorse and is not affiliated in any way with the Third Party Internet Sites and is not responsible for the availability of, or the contents or any data, information, files or other material provided on the third party internet sites. You shall bear all risks associated with the access to or use of the Third Party Internet Sites;
- (b) We and our Adviser are not responsible for the quality of products or services in the Third Party Internet Sites, for fulfilling any of the terms of your agreements with the Third Party Internet Sites. We and our Adviser are also not responsible for any loss or damage or costs that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance of any data, information, files or other material provided by such parties; and
- (c) Any data, information, files or other material downloaded from Third Party Internet Sites is done at your own discretion and risk. We and our Adviser are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other material.

Where an Electronic Prospectus is hosted on the website of the Internet Participating Financial Institutions, you are advised that:

- (a) The Internet Participating Financial Institutions are only liable in respect of the integrity of the contents of an Electronic Prospectus, to the extent of the contents of the Electronic Prospectus situated on the web server of the Internet Participating Financial Institutions and shall not be responsible in any way for the integrity of the contents of an Electronic Prospectus which has been downloaded or otherwise obtained from the web server of the Internet Participating Financial Institutions and thereafter communicated or disseminated in any manner to you or other parties; and
- (b) While all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in an Electronic Prospectus, the accuracy and reliability of an Electronic Prospectus cannot be guaranteed as the internet is not a fully secured medium.

The Internet Participating Financial Institutions shall not be liable (whether in tort or contract or otherwise) for any loss, damage or costs, you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in an Electronic Prospectus which may arise in connection with or as a result of any fault or faults with web browsers or other relevant software, any fault or faults on your or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the internet participating financial institutions, and/or problems occurring during data transmission, which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.



**INDICATIVE TIMETABLE**

*All terms used are defined under "Definitions" commencing from page vii.*

The indicative timing of events leading to the listing of and quotation for our entire enlarged issued and paid-up share capital on the ACE Market of Bursa Securities is set out below:-

<b>Events</b>	<b>Tentative Dates</b>
Issuance of this Prospectus/Opening of Application for our IPO	21 January 2014
Closing of application for our IPO	27 January 2014
Balloting of the application for our IPO Shares (as defined herein)	29 January 2014
Allotment of our IPO Shares to successful applicants	7 February 2014
Date of Listing	13 February 2014

This timetable is indicative and is subject to changes which may be necessary to facilitate the implementation procedures. The application period for our IPO will close at the date stated above or such later date as our Directors, our Promoters, our Offerors and our Underwriter in their absolute discretion may mutually decide.

In the event the closing date of the application is extended, we will advertise the notice of the extension in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia prior to the original closing date of the application. Following this, the dates for the balloting of the application for our IPO Shares, allotment of our IPO Shares and Listing would be extended accordingly.

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

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All references to "SCH" and the "Company" in this Prospectus are to SCH Group Berhad (972700-P), references to "Group" are to our Company and our subsidiaries taken as a whole; and references to "we", "us", "our" and "ourselves" are to our Company, and, save where the context otherwise requires, our subsidiaries. Unless the context otherwise requires, references to "Management" are to our Directors, key management and key technical personnel as at the date of this Prospectus, and statements as to our beliefs, expectations, estimates and opinions are those of our Management.

The word "approximately" used in this Prospectus is to indicate that a number is not an exact one, but that number is usually rounded off to the nearest hundredth or two (2) decimal places. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

Certain abbreviations, acronyms and technical terms used are defined in "Definitions" appearing after this section. Words denoting the singular only shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

All reference to dates and times are references to dates and times in Malaysia.

Any reference in this Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted.

This Prospectus includes statistical data provided by our management and various third parties and cites third party projections regarding growth and performance of the industry in which our Group operates. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is stated in this Prospectus, provided that where no source is acknowledged, it can be assumed that the information originates from us. In particular, certain information in this Prospectus is extracted or derived from report(s) prepared by the Independent Market Researcher. We believe that the statistical data and projections cited in this Prospectus are useful in helping you to understand the major trends in the industry in which we operate. However, neither we nor our advisers have independently verified these data. Neither we nor our advisers make any representation as to the correctness, accuracy or completeness of such data and accordingly, you should not place undue reliance on the statistical data cited in this Prospectus. Similarly, third party projections, including the projections from the Independent Market Researcher, cited in this Prospectus are subject to significant uncertainties that could cause actual data to differ materially from the projected figures. Hence, you should not place undue reliance on the third-party projections cited in this Prospectus.

The information on our website, or any website directly or indirectly linked to such websites does not form part of this Prospectus and you should not rely on it.

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## **FORWARD-LOOKING STATEMENTS**

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This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and objectives for future operations, are forward-looking statements. Such forward looking statements involve known and unknown risks, uncertainties, contingencies and other factors which may cause our actual results, our performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such forward-looking statements reflect our Management's current view with respect to future events and are not a guarantee of future performance.

Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast", "project" or similar expressions and include all statements that are not historical facts.

Such forward-looking statements include, without limitations, statements relating to:

- (a) Demand for our products and services;
- (b) Our business strategies;
- (c) Our plans and objectives for future operations;
- (d) Our financial position;
- (e) Our future earnings, cash flows and liquidity; and
- (f) Our ability to pay future dividends.

Our actual results may differ materially from information contained in such forward-looking statements as a result of a number of factors beyond our control, including, without limitation:

- (a) The economic, political and investment environment in Malaysia and globally; and
- (b) Government policy, legislation or regulation.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed in Section 4-"Risk Factors" and Section 12-"Management Discussion and Analysis of Financial Condition and Results of Operations" of this Prospectus. We cannot give any assurance that the forward-looking statements made in this Prospectus will be realised. Such forward-looking statements are made only as at the date of this Prospectus.

You will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forward-looking statements that are contained herein.

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## DEFINITIONS

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The following terms in this Prospectus bear the same meanings as set out below unless otherwise defined or the context requires otherwise:-

### **COMPANIES WITHIN OUR GROUP:-**

"SCH" or "Company"	: SCH Group Berhad (972700-P)
"SCH Group" or "Group"	: SCH and its wholly-owned subsidiary companies, collectively
"Italiaworld"	: Italiaworld Pte Ltd (Singapore) (20000372S-H)
"SCHWM"	: SCH Wire-Mesh Manufacturing Sdn Bhd (478312-X)
"SCHME"	: SCH Machinery & Equipment Sdn Bhd (744S68-H)
"SCH Corporation"	: SCH Corporation Sdn Bhd (2S6212-K)
"SCH Corporation Group"	: SCH Corporation and its wholly-owned subsidiaries, collectively
"SCHSB"	: Sin Chee Heng Sdn Bhd (106431-A)
"SCH (Sabah)"	: Sin Chee Heng (Sabah) Sdn Bhd (2289SS-T)
"SCH (Sarawak)"	: Sin Chee Heng (Sarawak) Sdn Bhd (430948-P)
"SCH (Butterworth)"	: Sin Chee Heng (Butterworth) Sdn Bhd (104S93-U)
"SCH (Johore)"	: Sin Chee Heng (Johore) Sdn Bhd (2S282S-U)
"SCH (Kuantan)"	: Sin Chee Heng (Kuantan) Sdn Bhd (28229S-D)

### **GENERAL:-**

"ACE Market"	: ACE Market of Bursa Securities
"Acquisitions"	: Collectively, the acquisitions of the entire issued and fully paid-up share capital of SCH Corporation, SCHWM, SCHME and Italiaworld by our Company, for a total purchase consideration of RM32,1S4,200 which was wholly-satisfied by the issuance of 321,S42,000 Shares, as further described in Section S.3 of this Prospectus.
"Act"	: Companies Act, 196S, as amended from time to time, and any re-enactments thereof
"ADA"	: Authorised Depository Agent
"Application"	: The application for our IPO Shares by way of Application Form, Electronic Share Application or Internet Share Application
"Application Form(s)"	: The printed application form for the application of our IPO Shares accompanying this Prospectus
"ATM(s)"	: Automated Teller Machine(s)

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**DEFINITIONS (Cont'd)**

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"Board"	:	Board of Directors of SCH
"Bursa Depository" or "Depository"	:	Bursa Malaysia Depository Sdn Bhd (16SS70-W)
"Bursa Securities"	:	Bursa Malaysia Securities Berhad (63S998-W)
"CAGR"	:	Compounded annual growth rate
"CCM"	:	Companies Commission of Malaysia
"CDS"	:	Central Depository System
"CDS Account"	:	An account established by Bursa Depository for a depositor for the recording of securities and for dealing in such securities by the depositor
"Closing Date"	:	Means the date adopted in the Prospectus as the last date for acceptance and receipt of application for the subscription to our IPO Shares or such other later date as our Board, our Offerors, our Promoters and our Underwriter may agree upon
"CMSA"	:	Capital Markets & Services Act 2007, as amended from time to time, and any re-enactments thereof
"Depository Rules"	:	The Rules of Bursa Depository and any appendices thereto as they may be amended from time to time
"Director(s)"	:	Either an executive director or a non-executive director of our Company within the meaning of Section 4 of the Act
"EBIT"	:	Earnings before interest and taxation
"EBITDA"	:	Earnings before interest, taxation, depreciation and amortisation
"ECU"	:	Equity Compliance Unit of the SC
"Electronic Prospectus"	:	Copy of this Prospectus that is issued, circulated or disseminated via the internet and/or an electronic storage medium, including but not limited to CD-ROMs or floppy diskettes
"Electronic Share Application"	:	Application for our IPO Shares through a Participating Financial Institution's ATM
"EPS"	:	Earnings per share
"FYE"	:	Financial year(s) ended/ending 31 August, as the case may be
"IMR" or "Protégé Associates"	:	Protégé Associates Sdn Bhd (675767-H)
"IMR Report"	:	Independent Market Research Report titled "Strategic Analysis of the Quarrying Industry focusing on the Quarry Machinery and Equipment Market in Malaysia"



## DEFINITIONS (Cont'd)

"Internet Share Application"	:	Application for our IPO Shares through an online share application service provided by the Internet Participating Financial Institutions
"Internet Participating Financial Institutions"	:	The participating financial institutions for Internet Share Application as listed in Section 16 of this Prospectus
"Initial Public Offering" or "IPO"	:	Our initial public offering comprising our Public Issue and Offer for Sale
"IPO Price"	:	Our issue/offer price of RM0.23 per Share pursuant to our Public Issue and Offer for Sale
"IPO Share(s)"	:	The Issue Share(s) and Offer Share(s), collectively
"Issue Share(s)"	:	The new Share(s) to be issued pursuant to our Public Issue and subject to the terms and conditions of this Prospectus
"Issuing House" or "EQUINITI"	:	Equiniti Services Sdn Bhd (11324-H)
"Junjin CSM"	:	Junjin CSM Co., Ltd. (Korea)
"kg"	:	kilogramme
"Latest Practicable Date" or "LPD"	:	18 December 2013, being the latest practicable date for ascertaining certain information contained in this Prospectus
"Listing"	:	Listing of and quotation for our entire enlarged issued and paid-up share capital of RM41,223,402 comprising 412,234,020 Shares on the ACE Market of Bursa Securities
"Listing Requirements"	:	ACE Market Listing Requirements of Bursa Securities
"Listing Scheme"	:	Comprising our Public Issue, Offer for Sale and Listing, collectively
"Memorandum and Articles"	:	Memorandum and Articles of Association of our Company
"M&A Securities"	:	M&A Securities Sdn Bhd (1S017-H)
"Malaysian Public"	:	Malaysian citizens and companies, co-operatives, societies and institutions incorporated or organised under the laws of Malaysia
"Market Day"	:	Any day between Monday to Friday (both days inclusive) which is not a public holiday and on which Bursa Securities is open for the trading of securities
"Mitsubishi"	:	Mitsubishi Material Corporation (Japan)
"NA"	:	Net assets
"Nakayama"	:	Nakayama Iron Works Ltd. (Japan)
"NBV"	:	Net book value

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**DEFINITIONS (Cont'd)**

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"NTA"	:	Net tangible assets
"Offerors"	:	Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin, being the offerors pursuant to our Offer for Sale
"Offer for Sale"	:	The offer for sale of 32,980,000 Offer Shares to be offered by our Offerors by way of private placement to selected investors at our IPO Price
"Offer Share(s)"	:	The Share(s) to be offered pursuant to our Offer for Sale
"Official List"	:	The list specifying all securities which have been admitted for listing of Bursa Securities and not removed
"Participating Financial Institution(s)"	:	Participating financial institution(s) for Electronic Share Application, as listed in Section 16 of this Prospectus
"PAT"	:	Profit after taxation
"PBT"	:	Profit before taxation
"PE Multiple"	:	Price-to-earnings multiple
"Pink Form Allocations"	:	The allocation of 13,000,000 new Shares to our eligible Directors, employees and business associates/persons who have contributed to the success of our Group pursuant to our IPO
"Placement Agent"	:	M&A Securities
"Principal Adviser" or "Sponsor"	:	M&A Securities
"Private Placement"	:	Issuance of 64,692,000 new Shares at our IPO Price by way of private placement to selected investors and identified Bumiputera investors approved by the Ministry of International Trade and Industry
"Promoters"	:	Comprising collectively, Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin
"Prospectus"	:	This prospectus dated 21 January 2014 in relation to our IPO
"Public Issue"	:	Public issue of 90,692,000 Issue Shares at our IPO Price payable in full upon application by way of balloting by the Malaysian Public, Pink Form Allocations and Private Placement
"R&D"	:	Research and development
"ROC"	:	Registrar of Companies
"SC"	:	Securities Commission Malaysia
"Share(s)" or "SCH Share(s)"	:	Ordinary shares of RM0.10 each in SCH

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**DEFINITIONS (Cont'd)**

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"SICDA" or "Depository Act"	:	Securities Industry (Central Depositories) Act, 1991, as amended from time to time, and any re-enactments thereof
"sq ft"	:	Square feet
"sq m"	:	Square meters
"Underwriter"	:	M&A Securities
"Underwriting Agreement"	:	The underwriting agreement dated 9 December 2013 entered into between our Company and M&A Securities pursuant to our IPO
"UK"	:	United Kingdom
"USA"	:	United States of America
"Vendors"	:	Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin, Lim Lee Pooi, Au Yong Sau Kuen and Wong Sang @ Wong Hock Lim, collectively

**Currencies**

"RM" or "sen"	:	Ringgit Malaysia and sen respectively
"SGD"	:	Singapore Dollar
"USD"	:	United States Dollars

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**1. CORPORATE DIRECTORY****BOARD OF DIRECTORS**

<b>Name</b>	<b>Designation</b>	<b>Address</b>	<b>Nationality/ Profession</b>
Chan Wan Choon	Independent Non-Executive Chairman	No. 20, Jalan Bayu 6 Bukit Gita Bayu Serdang 43300 Seri Kembangan Selangor Darul Ehsan	Malaysian/ Director
Lau Mong Ling	Managing Director and Deputy Chairman	No. 270, Jalan S2H8 Park Avenue Seremban 2 70300 Seremban Negeri Sembilan Darul Khusus	Malaysian/ Director
Wong Sin Chin	Executive Director	No. 3B, Jalan 4/100A Taman Gemilang, Cheras 56000 Kuala Lumpur	Malaysian/ Director
Yeen Yoon Hin	Executive Director	No. 12, Jalan PUJ 9/9A Taman Puncak Jalil, Bandar Putra Permai 43000 Seri Kembangan Selangor Darul Ehsan	Malaysian/ Director
Gan Khong Aik	Independent Non-Executive Director	No. 8, Jalan Shahbandar 16/6 Bandar Mahkota Cheras 43200 Batu 9 Cheras Selangor Darul Ehsan	Malaysian/ Director
Sim Yee Fuan	Independent Non-Executive Director	No. 3, Lorong Gemilang Jaya 2 Taman Gemilang Jaya 14000 Bukit Mertajam Pulau Pinang	Malaysian/ Director
Rahimi bin Ramli	Independent Non-Executive Director	No. 52, Jalan Pinggiran USJ 2/4 Taman Pinggiran USJ 47610 Subang Jaya Selangor Darul Ehsan	Malaysian/ Director

**AUDIT COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Sim Yee Fuan	Chairman	Independent Non-Executive Director
Chan Wan Choon	Member	Independent Non-Executive Chairman
Gan Khong Aik	Member	Independent Non-Executive Director
Rahimi bin Ramli	Member	Independent Non-Executive Director

**1. CORPORATE DIRECTORY (Cont'd)****REMUNERATION COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Lau Mong Ling	Chairman	Managing Director and Deputy Chairman
Chan Wan Choon	Member	Independent Non-Executive Chairman
Sim Yee Fuan	Member	Independent Non-Executive Director

**NOMINATION COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Gan Khong Aik	Chairman	Independent Non-Executive Director
Chan Wan Choon	Member	Independent Non-Executive Chairman
Sim Yee Fuan	Member	Independent Non-Executive Director

<b>REGISTERED OFFICE</b>	: Suite 10.03, Level 10 The Gardens South Tower Mid Valley City Lingkaran Syed Putra S9200 Kuala Lumpur  Telephone number: +603-2279 3080
<b>HEAD OFFICE</b>	: No. 3, Jalan Teras 3 Kawasan Perindustrian Teras Balakong Taman Industri Selesa Jaya 43300 Balakong Selangor Darul Ehsan  Telephone number: +603-8961 8003
<b>EMAIL ADDRESS AND WEBSITE</b>	: Email address: <a href="mailto:schsbinfo@gmail.com">schsbinfo@gmail.com</a> Website: <a href="http://www.schsb.com.my">http://www.schsb.com.my</a>
<b>COMPANY SECRETARIES</b>	: Tan Tong Lang (MAICSA 704S482) Chong Voon Wah (MAICSA 7055003)  Suite 10.03, Level 10 The Gardens South Tower Mid Valley City Lingkaran Syed Putra S9200 Kuala Lumpur  Telephone number: +603-2279 3080
<b>AUDITORS AND REPORTING ACCOUNTANTS FOR OUR IPO</b>	: UHY (AF1411) Suite 11.05, Level 11 The Gardens South Tower Mid Valley City Lingkaran Syed Putra S9200 Kuala Lumpur  Telephone number: +603-2279 3088

**1. CORPORATE DIRECTORY (Cont'd)**

<b>SOLICITORS FOR OUR IPO</b>	: Teh & Lee A-3-3 & A-3-4, Northpoint Offices Mid Valley City No. 1, Medan Syed Putra Utara S9200 Kuala Lumpur  Telephone number: +603-2283 2800
<b>PRINCIPAL BANKER</b>	: CIMB Bank Berhad (13491-P) 2-2-1, Wisma Paosan Jalan Taming Kanan 1 Taman Taming Jaya 43200 Balakong Selangor Darul Ehsan  Telephone No.: +603-8961 0594
<b>INDEPENDENT MARKET RESEARCHER</b>	: Protégé Associates Sdn Bhd (67S767-H) Suite C-06-06, Plaza Mont' Kiara 2, Jalan Kiara Mont' Kiara S0480 Kuala Lumpur  Telephone No: +603 6201 9301
<b>ADVISER, SPONSOR, UNDERWRITER AND PLACEMENT AGENT</b>	: M&A Securities Sdn Bhd (1S017-H) No. 4S-3, The Boulevard Mid Valley City Lingkaran Syed Putra S9200 Kuala Lumpur  Telephone number: +603-2284 2911
<b>ISSUING HOUSE AND SHARE REGISTRAR</b>	: Equiniti Services Sdn Bhd (11324-H) Level 8, Menara MIDF 82, Jalan Raja Chulan S0200 Kuala Lumpur  Telephone number: +603-2166 0933
<b>LISTING SOUGHT</b>	: ACE Market of Bursa Securities

## 2. INFORMATION SUMMARY

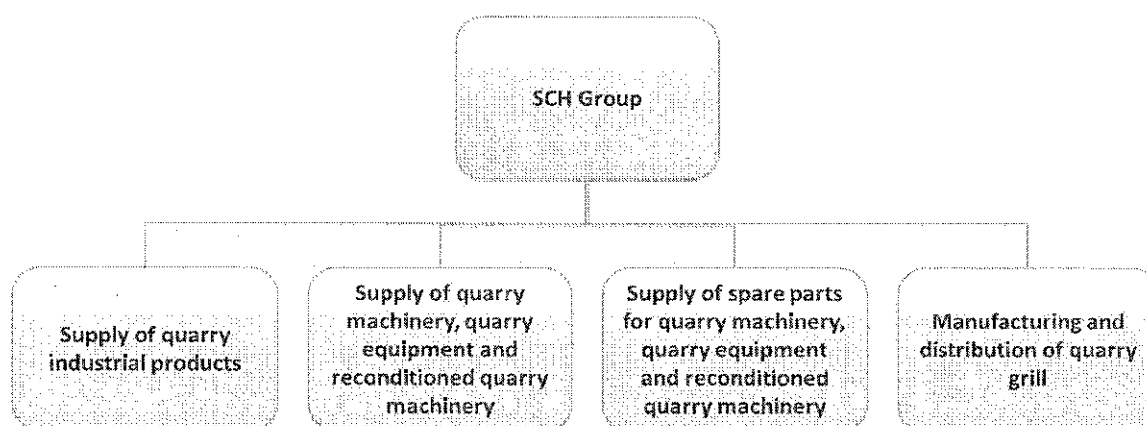
THE INFORMATION CONTAINED IN THIS SECTION IS INTENDED ONLY TO BE A SUMMARY OF SOME SALIENT INFORMATION RELATING TO US AND OUR IPO, AND THE INFORMATION CONCERNED IS DERIVED FROM AND SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS PROSPECTUS. YOU SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER OR NOT TO INVEST IN OUR SHARES. PROSPECTIVE INVESTORS ARE ADVISED TO READ THE RISK FACTORS DESCRIBED IN SECTION 4 OF THIS PROSPECTUS FOR AN UNDERSTANDING OF THE RISKS ASSOCIATED WITH THE INVESTMENT IN OUR GROUP.

### 2.1 HISTORY AND BUSINESS

Our Group offers a wide range of quarry-based products ranging from quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery and its related spare parts as well as quarry grill that are widely used by quarry operators and quarry plants in the quarry industry.

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

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



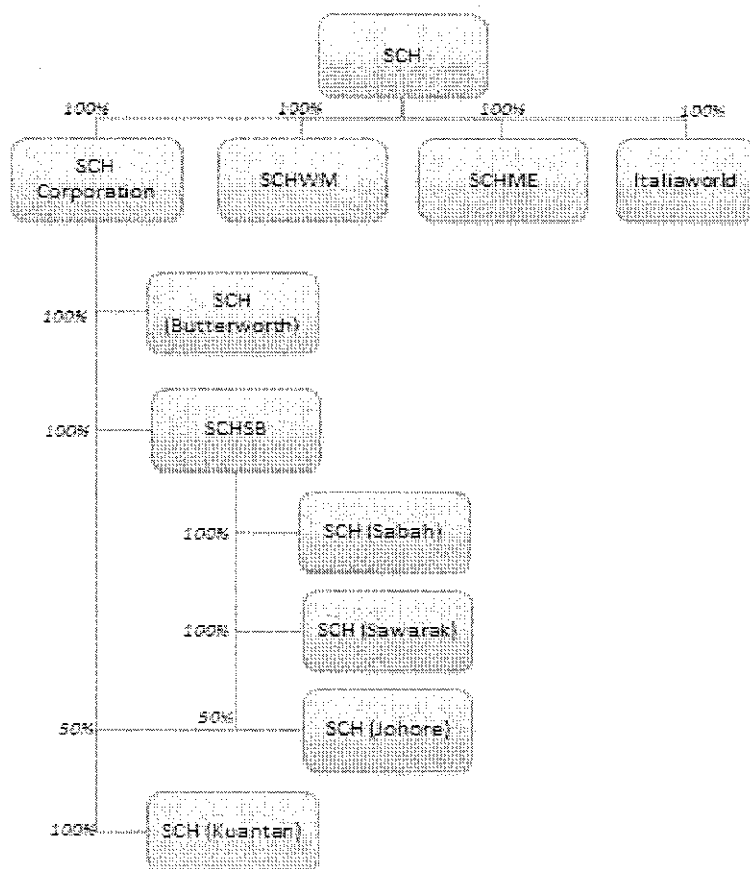
We are currently distributing and supplying our products to more than 500 domestic customers in the quarrying activities in Malaysia. We also have also distributed our products to our customers located in Singapore, Indonesia, Thailand, Myanmar and Cambodia. We have also successfully penetrated into the mining industry since 2011 and we are currently supplying our quarry industrial products and quarry machinery to iron ore and gold mines.

We pride ourselves as a quarry specialist supplier of quarry industrial products, quarry machinery and quarry equipment for quarrying activities where the products we distribute are used in various stages of a quarrying process which include but not limited to the drilling and blasting stage to the various crushing stages to screening activities of a quarrying process. We have been distributing and supplying our products to the quarry industry for the last 25 years and recently to the mining industry.



## 2. INFORMATION SUMMARY (Cont'd)

As at the LPD, our Group structure is as follows:-



**Note:-**

^ The substantial shareholders of SCH (Johore) is SCH Corporation and SCHSB, holding 150,000 shares or 50% equity interest each in SCH (Johore).

Further details on our history and business overview are set out in Sections 5 and 6 of this Prospectus, respectively.

The details of our subsidiaries are summarised as follows:-

Company	Principal Activities
SCH Corporation	Investment holding
SCHWM	Manufacturing and distribution of quarry grill
SCHME	Supplying and distributing quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry
Italiaworld	Supplying and distributing all kinds of quarry industrial products to the quarry industry in the South East Asia region mainly Singapore and Indonesia
SCHSB	Supplying and distributing all kinds of quarry industrial products and quarry machinery in the central region of peninsular Malaysia
SCH (Butterworth)	Distributing all kinds quarry industrial products to the quarry industry in the northern region of peninsular Malaysia

**2. INFORMATION SUMMARY (Cont'd)**

<b>Company</b>	<b>Principal Activities</b>
SCH (Kuantan)	Distributing all kinds quarry industrial products to the quarry industry in the eastern region of peninsular Malaysia
SCH (Johore)	Distributing all kinds quarry industrial products to the quarry industry in the southern region of peninsular Malaysia
SCH (Sabah)	Distributing all kinds quarry industrial products to the quarry industry in the north east of east Malaysia
SCH (Sarawak)	Distributing all kinds quarry industrial products to the quarry industry in the north west of east Malaysia

As at the LPD, our Company does not have any associated company.

Please refer to Section 5.5 of this Prospectus for further information on our subsidiaries.

**2.2 OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL**

Our Promoters, substantial shareholders, Directors and key management personnel are as follows:-

<b>Name</b>	<b>Designation</b>
<b><i>Promoters and Substantial Shareholders</i></b>	
Lau Mong Ling	Promoter and substantial shareholder
Wong Sin Chin	Promoter and substantial shareholder
Yeen Yoon Hin	Promoter and substantial shareholder
<b><i>Directors</i></b>	
Chan Wan Choon	Independent Non-Executive Chairman
Lau Mong Ling	Managing Director and Deputy Chairman
Wong Sin Chin	Executive Director
Yeen Yoon Hin	Executive Director
Gan Khong Aik	Independent Non-Executive Director
Sim Yee Fuan	Independent Non-Executive Director
Rahimi bin Ramli	Independent Non-Executive Director
<b><i>Other Key Management Personnel</i></b>	
Lim Lee Pooi	Chief Marketing Officer
Wendy Kam	Financial Controller
Tong Poh Yoke	Group Finance and Administrative Manager
Leong Mun Wah	Business Development Manager of SCHME
Wong Kin Seng	Business Development Manager of SCHSB and acting Branch Manager of SCH (Johore)
Low Kuan Ming	Branch Manager of SCH (Butterworth)
Yeem Weng Cheong	Branch Manager of SCH (Kuantan)
Chang Choi Ann	Branch Manager of SCH (Sabah)
Alan Then Soon Fatt	Branch Manager of SCH (Sarawak)

Further details of our Promoters, substantial shareholders, Directors and key management personnel are set out in Section 8 of this Prospectus.

**2. INFORMATION SUMMARY (Cont'd)****2.3 FINANCIAL HIGHLIGHTS**

The proforma figures are provided for illustrative purposes only and should be read in conjunction with the proforma consolidated financial information set out in Section 11.1 of this Prospectus, Accountants' Report and its accompanying notes and assumptions in Section 13 of this Prospectus and the management discussion and analysis of financial condition and results of operations as set out in Section 12 of this Prospectus.

**2.3.1 Proforma Consolidated Statements of Comprehensive Income**

The following table sets forth an extract of the proforma consolidated statements of comprehensive income for the past four (4) FYEs from 2010 to 2013 which have been prepared for illustration purposes on the assumption that the current structure of our Group existed throughout the FYEs under review.

	<b>&lt;-----Proforma Group-----&gt;</b>			
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>
	<b>31 August</b>	<b>31 August</b>	<b>31 August</b>	<b>31 August</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	40,044	44,267	54,240	61,251
Less: Cost of sales	(26,939)	(28,689)	(34,429)	(39,917)
<b>Gross profit</b>	<b>13,105</b>	<b>15,578</b>	<b>19,811</b>	<b>21,334</b>
Other operating income	984	992	1,068	562
Administrative expenses	(6,586)	(7,222)	(7,397)	(8,336)
Selling and distribution expenses	(1,839)	(1,560)	(2,121)	(1,990)
Operating expenses	(329)	(39)	(16)	(174)
<b>Profit from operations</b>	<b>5,335</b>	<b>7,749</b>	<b>11,345</b>	<b>11,396</b>
Finance costs	(767)	(1,066)	(1,084)	(942)
<b>Profit before taxation</b>	<b>4,568</b>	<b>6,683</b>	<b>10,261</b>	<b>10,454</b>
Taxation	(1,361)	(1,770)	(2,786)	(2,792)
<b>Net profit for the financial year, representing total comprehensive income for the financial year</b>	<b>3,207</b>	<b>4,913</b>	<b>7,475</b>	<b>7,662</b>
No. of 5 shares assumed to be in issue ('000)*	321,542	321,542	321,542	321,542
EBIT	5,335	7,749	11,345	11,396
EBITDA	6,598	9,281	13,021	13,367
Gross profit margin (%)	32.73	35.19	36.52	34.83
PBT margin (%)	11.41	15.10	18.92	17.07
PAT margin (%)	8.01	11.10	13.78	12.51
Effective tax rate (%)	29.79	26.49	27.15	26.71
Gross EP5 (sen)	1.42	2.08	3.19	3.25
Net EP5 (sen)	1.00	1.53	2.32	2.38
No. of 5 shares assumed to be in issue ('000)^	412,234	412,234	412,234	412,234
Diluted net EP5 (sen)^	0.78	1.19	1.81	1.86

**Notes:-**

\* Based on the number of Shares in issue before our IPO.

^ Based on the number of Shares in issue after our IPO.

## 2. INFORMATION SUMMARY (Cont'd)

Detailed information on our proforma consolidated statements of comprehensive income is set out in Section 11.1.1 of this Prospectus.

### 2.3.2 Proforma Consolidated Statements of Financial Position

The proforma consolidated statements of financial position as set out below are provided for illustrative purposes only to show the effects on the consolidated statements of financial position of our Group as at 31 August 2013 had our Public Issue and utilisation of proceeds been completed on that date.

Detailed information on our proforma consolidated statements of financial position is set out in Section 11.1.2 of this Prospectus.

	<----- Proforma Group ----->			
	I	II	III	
	As at 31 August 2013 RM'000	(1)After Acquisitions RM'000	(2)After Proforma I and Public Issue RM'000	(3)After Proforma II and Utilisation of Proceeds RM'000
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	-	13,591	13,591	23,591
Capital work in progress	-	94	94	94
<b>Total Non-Current Assets</b>	-	<b>13,685</b>	<b>13,685</b>	<b>23,685</b>
<b>Current Assets</b>				
Inventories	-	24,788	24,788	29,788
Trade receivables	-	18,406	18,406	18,406
Other receivables	321	3,188	3,188	2,487
Cash and bank balances	1	2,217	23,076	6,776
Tax recoverable	-	401	401	401
Fixed deposits with licensed banks	-	1,527	1,527	1,527
<b>Total Current Assets</b>	<b>322</b>	<b>50,527</b>	<b>71,386</b>	<b>59,385</b>
<b>Total Assets</b>	<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
<b>Equity</b>				
Share capital	-	32,154	41,223	41,223
Share premium	-	-	11,790	11,200
Merger deficit	-	(24,515)	(24,515)	(24,515)
Retained profits	(15)	31,225	31,225	29,814
Foreign exchange reserve	-	65	65	65
<b>Total equity attributable to the owners of the Company</b>	<b>(15)</b>	<b>38,929</b>	<b>59,788</b>	<b>57,787</b>
<b>LIABILITIES</b>				
<b>Non-Current Liabilities</b>				
Hire purchase payables	-	2,202	2,202	2,202
Bank borrowings	-	2,745	2,745	2,745
Deferred tax liabilities	-	140	140	140
<b>Total Non-Current Liabilities</b>	-	<b>5,087</b>	<b>5,087</b>	<b>5,087</b>

**2. INFORMATION SUMMARY (Cont'd)**

	<----- Proforma Group ----->			
	I	II	III	
	As at 31 August 2013 RM'000	(1) After Acquisitions RM'000	(2) After Proforma I and Public Issue RM'000	(3) After Proforma II and Utilisation of Proceeds RM'000
<b>Current Liabilities</b>				
Trade payables	-	6,977	6,977	6,977
Other payables	337	2,821	2,821	2,821
Amount owing to Directors	-	19	19	19
Hire purchase payables	-	1,146	1,146	1,146
Bank borrowings	-	9,108	9,108	9,108
Tax payable	-	125	125	125
<b>Total Current Liabilities</b>	<b>337</b>	<b>20,196</b>	<b>20,196</b>	<b>20,196</b>
<b>Total Equity and Liabilities</b>	<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
Par value per ordinary share (RM)	^0.10	0.10	0.10	0.10
Number of ordinary shares ('000)	^	321,542	412,234	412,234
NA (RM'000)	(15)	38,929	59,788	57,787
NA per share (RM)	(750)	0.12	0.15	0.14
Borrowings (All interest bearing debts) (RM'000)	-	15,201	15,201	15,201
Gearing (Times)	-	0.39	0.25	0.26

**Notes:-**

(1) Incorporates the effects of the Acquisitions.

(2) Incorporates the effects of Proforma (I) and Public Issue.

(3) Incorporates the effects of Proforma (II) and utilisation of proceeds as set out in Section 3.10 of this Prospectus.

^ Represents 20 SCH Shares.

Detailed information on our proforma consolidated statements of financial position is set out in Section 11.1.2 of this Prospectus.

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**2. INFORMATION SUMMARY (Cont'd)****2.3.3 Proforma Consolidated Statement of Cash Flow**

The proforma consolidated statement of cash flow for the FYE 31 August 2013 as set out below are provided for illustrative purposes only and are based on the assumptions that the current structure of our Group existed throughout the financial years under review and adjusted for our Public Issue and the utilisation of proceeds.

	FYE 31 August 2013 RM'000
<b>Cash flows from Operating Activities</b>	
<b>Profit before taxation</b>	10,454
Adjustments for:	
Bad debts written off	70
Depreciation of property, plant and equipment	1,971
Property, plant and equipment written off	3
Interest expenses	938
Interest income	(53)
Inventories written off	12
Other investments written off	112
Gain on disposal of property, plant and equipment	(276)
Reversal of impairment on trade receivables	(46)
Impairment on trade receivables	46
<b>Operating profit before working capital changes</b>	<b>13,231</b>
<b>Changes in working capital:</b>	
Inventories	(7,543)
Trade receivables and other receivables	(732)
Trade payables and other payables	(67)
Amounts owing by directors	(77)
<b>Cash generated from operations</b>	<b>4,812</b>
Interest paid	(938)
Interest received	53
Tax paid	(3,085)
Tax refund	61
<b>Net cash from operating activities</b>	<b>904</b>
<b>Cash Flow From Investing Activities</b>	
Purchase of property, plant and equipment	(10,559)
Proceeds from disposal of other investments	455
Capital work-in-progress incurred	(94)
<b>Net cash used in investing activities</b>	<b>(10,198)</b>
<b>Cash Flows From Financing Activities</b>	
Repayment of hire purchase payables	(2,154)
Decrease in bankers' acceptance and trust receipts	(1,114)
Repayment of term loans	(973)
Fixed deposit pledged as collaterals	(40)
Proceeds from public issue	20,859
Payment for listing expenses	(1,300)
<b>Net cash from financing activities</b>	<b>15,278</b>

**2. INFORMATION SUMMARY (Cont'd)**

	FYE 31 August 2013 RM'000
<b>Net increase in cash and cash equivalents</b>	<b>5,984</b>
<b>Cash and cash equivalents at beginning of the financial year</b>	<b>787</b>
<b>Exchange fluctuation adjustment at beginning of the financial year</b>	<b>5</b>
<b>Cash and cash equivalents at end of the financial year</b>	<b>6,776</b>
<b>Cash and cash equivalents at end of the financial year comprises:</b>	
Cash and bank balances	6,776
Fixed deposit pledged with a licensed banks	1,527
	8,303
Less: Fixed deposit pledged with a licensed banks	(1,527)
	<b>6,776</b>

**2.3.4 Dividend Policy**

Our Company presently does not have any formal dividend policy. The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of our Board and any final dividend proposed is subject to our shareholders' approval.

Upon Listing, our Board intends to adopt a stable and sustainable dividend policy to allow our shareholders to participate in the profits of our Group while maintaining an optimal capital structure and ensuring sufficient funds for our future growth.

As our Company is an investment holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends and other distributions that we receive from our subsidiaries. The payment of dividends or other distributions by our subsidiaries will depend on their operation results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective board of directors deem relevant.

Further details of our dividend policy are set out in Section 12.8 of this Prospectus.

**2.3.5 Auditors' Qualification**

None of the financial statements of the companies within our Group for the financial years under review were subject to any audit qualification and modification.

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**2. INFORMATION SUMMARY (Cont'd)****2.4 PRINCIPAL STATISTICS RELATING TO OUR IPO**

The following statistics relating to our IPO are derived from the full text of this Prospectus and should be read in conjunction with that text:-

	RM
<i>Authorised:-</i> 500,000,000 Shares	50,000,000
<i>Issued and paid-up:-</i> 321,542,020 Shares credited as fully paid-up	32,154,200
<i>To be issued pursuant to our Public Issue:-</i> 90,692,000 new Shares credited as fully paid-up	9,069,200
<i>Enlarged issued and paid-up share capital after our IPO</i> 412,234,020 Shares	41,223,402
IPO Price per Share	0.23
Total market capitalisation based on our enlarged issued and paid-up share capital upon listing	94,813,824.60

Further details on our IPO are set out in Section 3 of this Prospectus.

**2.5 UTILISATION OF PROCEEDS**

We expect the total estimated gross proceeds to be raised by our Company from our Public Issue to be approximately RM20.86 million based on our IPO Price. The proceeds from our Public Issue are expected to be utilised in the following manner:-

Utilisation of Proceeds	Time frame	RM'000	%
(i) Capital expenditure on construction of our new operation facility	36 months	10,000	47.94
(ii) General working capital requirements	12 months	8,859	42.47
(iii) Estimated listing expenses	1 month	2,000	9.59
<b>Total</b>		<b>20,859</b>	<b>100.0</b>

Further detailed information on our utilisation of proceeds is set out in Section 3.10 of this Prospectus.

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## **2. INFORMATION SUMMARY (Cont'd)**

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### **2.6 COMPETITIVE STRENGTHS**

Our Directors believe that our Group's business sustainability and growth is built on the following competitive strengths:-

- (a) Wide range of integrated quarry services;
- (b) Quarry specialist supplier;
- (c) Qualified and experienced management team;
- (d) Strong customer and supplier relationship;
- (e) Wide geographical coverage; and
- (f) Focus on customer service.

Further details on our Group's competitive strengths are set out in Section 6.14 of this Prospectus.

### **2.7 FUTURE PLANS AND PROSPECTS OF OUR GROUP**

Our future plans are as follows:-

- (a) Increase domestic and regional market share;
- (b) Expanding our range of services provided;
- (c) Manpower expansion; and
- (d) Establishing quarry machinery and quarry equipment showroom and service centre.

Further details on our Group's future plans are set out in Section 6.15 of this Prospectus.

### **2.8 RISK FACTORS**

Before investing in our Shares, you should carefully consider, along with other matters in this Prospectus, the risks and investment considerations as set out in Section 4 of this Prospectus (which may not be exhaustive), and are summarised below:-

#### **(a) Risks relating to our Group:-**

- Dependency on the quarry industry.
- Dependency on experienced management and key personnel.
- Non-exclusivity of distributorship agreements by our principals.
- Foreign currency exchange fluctuation.
- We are subject to the credits risks of our customers.
- We are dependent on obtaining adequate financing to fund our operations.
- We are exposed to product liability claims and warranty claims by our customers.
- Reliance on imports.
- Shipping disruptions.
- Dependency on our major suppliers, partners and principals.
- Debt covenants.
- Operational risks and insurance coverage.
- Foreign operations risks.
- Property not issued with Certificate of Fitness.

#### **(b) Risks relating to our industry:-**

- Competition.
- Changes in quarry machinery and quarry equipment technology.

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**2. INFORMATION SUMMARY (Cont'd)**

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**(c) Risks relating to the investment in our Shares:-**

- No prior market for our Shares.
- Failure/delay in or termination/abortion of our Listing.
- Dividend payment.
- Trading price and volume of our Shares.

**(d) Other risks:-**

- Political and economic risks.
- Control by our Promoters/substantial shareholders.
- Forward-looking/prospective statements.

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### **3. PARTICULARS OF OUR IPO**

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#### **3.1 INTRODUCTION**

This Prospectus is dated 21 January 2014. Our IPO is subject to the terms and conditions of this Prospectus.

We have registered a copy of this Prospectus with the SC. We have also lodged a copy of this Prospectus, together with the Application Forms with the ROC. Neither the SC nor the ROC takes any responsibility for its contents.

We have also obtained the approval from Bursa Securities vide its letter dated 9 September 2013, for, *inter-alia*, our admission to the Official List of the ACE Market of Bursa Securities and for the permission to deal in and for the listing of and quotation for all our entire enlarged issued and paid-up share capital on the ACE Market of Bursa Securities.

Our Shares will be admitted to the Official List of the ACE Market of Bursa Securities and an official quotation will commence after, *inter-alia*, the receipt of confirmation from Bursa Depository that all of our IPO Shares have been duly credited into the respective CDS Accounts of the successful applicants and the notices of allotment have been issued and despatched to all the successful applicants.

Pursuant to Section 14(1) of the Securities Industry (Central Depository) Act 1991, Bursa Securities has prescribed our Shares as securities to be deposited into the CDS. Following this, we will deposit our Shares directly with Bursa Depository and any dealings in our Shares will be carried out in accordance with the Securities Industry (Central Depository) Act 1991 and Depository Rules. We will not issue any share certificates to successful applicants.

Pursuant to the Listing Requirements, at least 25% of our enlarged issued and paid-up share capital for which listing is sought must be in the hands of a minimum number of 200 public shareholders, each holding not less than 100 Shares each upon admission to the ACE Market of Bursa Securities. We expect to meet the public shareholding requirement at the point of our Listing. In the event we fail to meet the said requirement pursuant to our IPO, we may not be allowed to proceed with our Listing on the ACE Market of Bursa Securities. In such an event, we will return in full, without interest, all monies paid in respect of all applications. If any such monies are not repaid within fourteen (14) days after we become liable to do so, the provision of sub-section 243(2) of the CMSA shall apply accordingly.

You should rely only on the information contained in this Prospectus or any applicable Prospectus supplement. Neither we nor our advisers have authorised anyone to provide you with information that is different and not contained in this Prospectus. The delivery of this Prospectus or any issue made in connection with this Prospectus shall not, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Prospectus. Nonetheless, should we become aware of any subsequent material change or development affecting a matter disclosed in this Prospectus arising from the date of issue of this Prospectus up to the date of our Listing, we shall further issue a supplemental or replacement prospectus, as the case may be, in accordance with the provisions of Section 238 of the CMSA.

We are not making any invitation to subscribe for our IPO Shares in any jurisdiction and in any circumstances in which such offer or invitation are authorised or lawful to any person to whom it is unlawful to make such an offer or invitation. As the distribution of this Prospectus and the sale of our IPO Shares in certain other jurisdictions may be restricted by law, persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions. The distribution of this Prospectus and the making of our IPO in certain jurisdictions outside Malaysia may be restricted by law. The distribution of this

**3. PARTICULARS OF OUR IPO (Cont'd)**

Prospectus and the sale of any part of our IPO Shares are subject to the Malaysian laws and we, together with M&A Securities as our Adviser, Sponsor, Underwriter and Placement Agent, take no responsibility for the distribution of this Prospectus and the offer of any part of our IPO Shares outside Malaysia, which may be restricted by law in certain other jurisdictions.

**You must have a CDS account when applying for our IPO Shares.** In the case of an application by way of Application Form, you must state your CDS account number in the space provided in the Application Form. If you do not presently have a CDS account, you should open a CDS account at an ADA prior to making an application for our IPO Shares. Please refer to Section 16 of this Prospectus for further details on the procedures for application for our IPO Shares.

In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish your CDS account number to the Participating Financial Institution by way of keying in your CDS account number if the instructions on the ATM screen at which you enter your Electronic Share Application require you to do so. A corporation or institution cannot apply for our IPO Shares by way of Electronic Share Application.

In the case of an Application by way of Internet Share Application, only an applicant who has a CDS account and an existing account to their internet financial services with the Internet Participating Financial Institutions can make an Internet Share Application. You shall furnish your CDS account number to the Internet Participating Financial Institutions by keying your CDS account number into the online application form. A corporation or institution cannot apply for our IPO Shares by way of Internet Share Application.

Our IPO is subject to the terms and conditions of this Prospectus and upon acceptance, our IPO Shares are expected to be allocated in the manner described below.

The SC and Bursa Securities assume no responsibility for the correctness of any statement made or of any opinion or report expressed in this Prospectus. Our admission to the Official List of the ACE Market of Bursa Securities shall not be taken as an indication of the merits of our Group, our Shares and/or our IPO exercise. This Prospectus can also be viewed or downloaded from the website of Bursa Securities at [www.bursamalaysia.com](http://www.bursamalaysia.com).

**YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR ANY OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

**3.2 OPENING AND CLOSING OF APPLICATION PERIOD**

The Application period will open at 10.00 a.m. on 21 January 2014 and will remain open until 5.00 p.m. on 27 January 2014 or such further period or periods as our Directors, our Promoters, Offerors and our Underwriter may in their absolute discretion mutually decide. **LATE APPLICATIONS WILL NOT BE ACCEPTED.**

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**3. PARTICULARS OF OUR IPO (Cont'd)****3.3 IMPORTANT TENTATIVE DATES**

<b>Events</b>	<b>Tentative Dates</b>
Issuance of this Prospectus/Opening of Application for our IPO	21 January 2014
Closing of application for our IPO	27 January 2014
Balloting of the application for our IPO Shares (as defined herein)	29 January 2014
Allotment of our IPO Shares to successful applicants	7 February 2014
Date of Listing	13 February 2014

These dates are tentative and are subject to changes which may be necessary to facilitate the implementation procedures. Our Directors, Promoters, Offerors and our Underwriter may, in their absolute discretion, mutually decide to extend the closing date of the Application to a further date or dates. Should the closing date of the Application be extended, the dates for the balloting, allotment of our IPO Shares and the listing of and quotation for our entire enlarged issued and paid-up share capital on the ACE Market of Bursa Securities would be extended accordingly. Any changes to the closing date of the Application will be advertised in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia prior to the original closing date of the Application.

**3.4 DETAILS OF OUR IPO****3.4.1 Public Issue**

Our public issue of 90,692,000 Issue Shares at our IPO Price, representing approximately 22.0% of our enlarged issued and paid-up share capital, and is subject to the terms and conditions of this Prospectus and upon acceptance, our Issue Shares shall be allocated in the following manner:-

**(I) Malaysian Public**

13,000,000 Shares, representing 3.15% of our enlarged issued and paid-up share capital, will be made available for application by the Malaysian Public, to be allocated via balloting process, as follows:-

- (a) 6,500,000 Shares made available to public investors; and
- (b) 6,500,000 Shares allocated to Bumiputera public investors.

The basis of allocation for our Issue Shares shall take into account the desirability of distributing our Issue Shares to a reasonable number of applicants in view of broadening our Group's shareholding base to meet the public spread requirements, and to establish a liquid and adequate market for our Shares.

**(II) Eligible Directors, employees and business associates/persons who have contributed to the success of our Group**

13,000,000 Shares, representing 3.15% of our enlarged issued and paid-up share capital, will be reserved for our eligible Directors, employees and business associates/persons who have contributed to the success of our Group under the Pink Form Allocations. Further details of our Pink Form Allocations are set out in Section 3.4.3 of this Prospectus.



**3. PARTICULARS OF OUR IPO (Cont'd)****(III) Private placement to selected investors**

64,692,000 Shares, representing 15.70% of our enlarged issued and paid-up share capital has been reserved for private placement to selected investors, as follows:-

- (a) 45,030,000 Shares by way of private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry; and
- (b) 19,662,000 Shares by way of private placement to identified investors.

Applicants for the private placement to selected investors will be selected in a fair and equitable manner to be determined by our Directors.

The basis of allocation for our IPO Shares shall take into account the desirability of distributing our IPO Shares to a reasonable number of applicants in view of broadening our shareholding base to meet the public spread requirements and to establish a liquid and adequate market in our Shares.

There is no over-allotment or 'greenshoe' option that will result in an increase in the amount of our IPO Shares.

**3.4.2 Offer for Sale**

Our offer for sale of 32,980,000 Offer Shares, representing 8.00% of our enlarged issued and fully paid-up share capital, at our IPO Price to be offered by our Offerors to selected investors by way of private placement and is payable in full on application upon such terms and conditions as set out in this Prospectus.

Our Offerors, whom are also our Promoters are offering the Offer Shares and their relationship with our Group for the past four (4) FYEs 2010 to 2013 are as follows:-

Name	Address	Material relationship with our Group	Before IPO <sup>(1)</sup>		Offer Shares offered			After IPO	
			No. of SCH Shares	%	No. of SCH Shares	% <sup>(2)</sup>	% <sup>(3)</sup>	No. of SCH Shares	% <sup>(4)</sup>
Lau Mong Ling	No. 270, Jalan 52H8 Park Avenue Seremban 2, 70300 Seremban, Negeri Sembilan Darul Khusus	Promoter, Director and Substantial shareholder	106,035,224	32.98	10,996,000	3.42	2.67	95,039,224	23.05
Wong Sin Chin	No. 38, Jalan 4/100A, Taman Gemilang, Cheras 56000 Kuala Lumpur	Promoter, Director and Substantial shareholder	106,035,083	32.98	10,992,000	3.42	2.67	95,043,083	23.06
Yeen Yoon Hin	No. 12, Jalan PUJ 9/9A, Taman Puncak Jalil, Bandar Putra Permai, 43000 Seri Kembangan Selangor Darul Ehsan	Promoter, Director and Substantial shareholder	106,034,903	32.98	10,992,000	3.42	2.67	95,042,903	23.06

**3. PARTICULARS OF OUR IPO (Cont'd)****Notes:-**

- (1) After the completion of the Acquisitions.
- (2) Based on our issued and paid-up share capital of 321,542,020 Shares before our IPO.
- (3) Based on our enlarged issued and paid-up share capital of 412,234,020 Shares after our IPO.
- (4) After our Offer for Sale.

Our Offerors shall bear all the expenses such as placement and miscellaneous fees estimated to be approximately RM0.18 million relating to their respective portion of the Offer Shares. The Offer Shares are not underwritten by our Underwriter.

Further details of our Offerors can be found in Section 8.2 of this Prospectus.

Our Underwriter will underwrite 26,000,000 Issue Shares made available for application by the Malaysian Public and Pink Form Allocations. The 64,692,000 Issue Shares and 32,980,000 Offer Shares available for application by selected investors shall be placed out by our Placement Agent.

Any of our Issue Shares not subscribed for under Section 3.4.1(I) and Section 3.4.1(II) shall be made available to selected investors via private placement. Thereafter, any remaining re-offered Issue Shares that are not subscribed for will then be subscribed for by our Underwriter based on the terms of the Underwriting Agreement. However, in the event that all of our Issue Shares under Section 3.4.1(I) are oversubscribed, shares not subscribed for under Section 3.4.1(II), Section 3.4.1(III) and Section 3.4.2, if any, will be made available for application for subscription by the Malaysian Public.

**3.4.3 Pink Form Allocations**

We have allocated 13,000,000 Issue Shares to our eligible Directors, employees and business associates/persons who have contributed to the success of our Group under the Pink Form Allocations as follows:-

Category	No. of eligible persons/ corporations	Aggregate number of Issue Shares allocated
Eligible Directors	4	1,680,000
Eligible employees	28	7,600,000
Business associates/persons who have contributed to the success of our Group	11	3,720,000
<b>Total</b>	<b>43</b>	<b>13,000,000</b>

The criteria of allocation for the abovementioned Issue Shares to our eligible Directors and employees (as approved by our Board) are based on, *inter-alia*, the following factors:-

- (a) Our employee must be an eligible and confirmed employee and on the payroll of our Group;
- (b) The number of shares allocated to our eligible employees are based on their seniority, position, their length of service and their respective contribution made to our Group as well as other factors deemed relevant to our Board; and
- (c) Full time employee of at least eighteen (18) years of age.

Our Issue Shares to be allotted to the business associates/persons who have contributed to the success of our Group shall be based on amongst others, the nature and terms of their business relationship and the length of their respective relationship with us, and their contribution and support to our Group, as approved by our Board. The persons who have contributed to the success of our Group include business contacts, suppliers and customers.

**3. PARTICULARS OF OUR IPO (Cont'd)**

The criteria for allocation to our eligible Directors is based on amongst others, length of service, recent and past contribution to our Group, designation as executive or non-executive. Details of the proposed allocation to our Directors are as follows:-

<b>Name</b>	<b>Designation</b>	<b>No of Issue Shares allocated</b>
Chan Wan Choon	Independent Non-Executive Chairman	420,000
Gan Khong Aik	Independent Non-Executive Director	420,000
Sim Yee Fuan	Independent Non-Executive Director	420,000
Rahimi bin Ramli	Independent Non-Executive Director	420,000
<b>Total</b>		<b>1,680,000</b>

**3.5 SHARE CAPITAL, CLASSES OF SHARES AND RANKINGS**

Upon completion of our IPO exercise, our share capital would be as follows:-

<b>Details</b>	<b>No. of SCH Shares</b>	<b>Par value RM</b>	<b>Issued and paid-up RM</b>
<b>Authorised share capital</b>	500,000,000	0.10	50,000,000
<b>Issued and fully paid-up</b>			
As at the date of this Prospectus	321,542,020	0.10	32,154,202
To be issued pursuant to our Public Issue	90,692,000	0.10	9,069,200
<b>Enlarged issued and paid-up share capital upon our Listing</b>	<b>412,234,020</b>	<b>0.10</b>	<b>41,223,402</b>
Offer for Sale	32,980,000	0.10	3,298,000
<b>Market capitalisation (based on our IPO Price and the enlarged issued and paid-up share capital upon our Listing)</b>			<b>94,813,824.60</b>

**Note:-**

*Our Offer for Sale would not have any effect on our issued and paid-up share capital.*

**OUR IPO PRICE IS PAYABLE IN FULL UPON APPLICATION.**

As at the date of this Prospectus, we have only one (1) class of shares, being ordinary shares of RM0.10 each, all of which rank *pari passu* amongst one another. Our IPO Shares will, upon allotment and issue, rank *pari passu* in all respects with our existing issued and paid-up ordinary shares including voting rights and will be entitled to all rights and dividends and other distributions that may be declared subsequent to the date of allotment of our IPO Shares.

Subject to any special rights attaching to any Shares which may be issued by us in the future, our shareholders shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions and any surplus in the event of the liquidation of our Group, in accordance with our Memorandum and Articles.

### **3. PARTICULARS OF OUR IPO (Cont'd)**

Each of our shareholders shall be entitled to vote at any of our general meeting in person, or by proxy or by attorney or by other duly authorised representative. On a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one (1) vote, and in the case of a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each ordinary share held. A proxy may but need not be a member of our Group and the provisions of Section 149(1)(b) of the Act shall not apply to our Group.

#### **3.6 PURPOSES OF OUR IPO**

The purposes of our IPO are as follows:-

- (a) To provide an opportunity for the Malaysian Public, including our eligible Directors, employees and business associates/persons who have contributed to the success of our Group to participate in our Groups' equity and continuing growth;
- (b) To enable our Group to raise funds for the purposes specified in Section 3.10 herein;
- (c) To enable our existing and continuing shareholders to realise all or part of their investments in our Group;
- (d) To enhance the stature of our Group in the marketing of our products, and to retain and attract new, skilled employees particularly in the quarry industry; and
- (e) To enable our Group to gain recognition through our listing status and further enhance our corporate reputation and image which is aimed at expanding our customer base in Malaysia and abroad.

#### **3.7 BASIS OF ARRIVING AT OUR IPO PRICE**

Our IPO Price was determined and agreed upon by us and M&A Securities, as our Adviser, Sponsor, Underwriter and Placement Agent, after taking into consideration the following factors:-

- (a) The net PE Multiple of about 10.19 times based on our Group's proforma net EPS of approximately RM0.024 for the FYE 2013 and our issued and paid-up share capital of 321,542,020 Shares;
- (b) Our proforma consolidated NA per Share as at 31 August 2013 after our IPO is RM0.12 based on our proforma audited consolidated NA as at 31 August 2013 of approximately RM38.93 million and our issued and paid-up share capital after the Acquisitions;
- (c) Our operating history, financial performance and financial position as elaborated in the following sections of the Prospectus:-
  - Section 11 of the Prospectus, which describes the summary of our Group's proforma consolidated financial statements, together with the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11.1 of this Prospectus;
  - Section 12 of the Prospectus, which provides the management's discussion and segmental analysis of the audited results for the past four (4) FYE's 2010 to 2013; and

**3. PARTICULARS OF OUR IPO (Cont'd)**

- Section 13 of this Prospectus, which provides the Reporting Accountants report on the financial position of our Group for the past four (4) FYE's 2010 to 2013.
- (d) Our Group's future plans and prospects, as follows:-
- Increase domestic and regional market share;
  - Expanding our range of services provided;
  - Manpower expansion; and
  - Establishing quarry machinery and quarry equipment showroom and service centre

Further details of our future plans and prospects are further described in Section 6.1S of this Prospectus.

However, you should note that our market price upon Listing is subject to the vagaries of market forces and other uncertainties that may affect the price of our Shares being traded. You should form your own views on the valuation of our IPO Shares before deciding to invest in them. You are reminded to carefully consider the risk factors as set out in Section 4 of this Prospectus and form your own views on the valuation of our IPO Shares before deciding to invest in our Shares.

**3.8 TOTAL MARKET CAPITALISATION UPON LISTING**

Based on our IPO Price and our enlarged issued and paid-up share capital comprising 412,234,020 Shares upon Listing, our total market capitalisation will be RM94,813,824.60.

**3.9 DILUTION**

Dilution is the amount by which our IPO Price to be paid pursuant to our IPO exceeds the NA per Share immediately after our IPO. Our proforma consolidated NA per Share as at 31 August 2013 before adjusting for the gross proceeds to be raised from our IPO and based on the issued and fully paid-up share capital as at the date of this Prospectus of 321,542,020 Shares was RM0.10.

Pursuant to our IPO, our proforma consolidated NA per Share as at 31 August 2013 after adjusting for the utilisation of gross proceeds to be raised from our IPO and based on the enlarged issued and paid-up share capital upon our Listing would have been RM0.14. This represents an immediate increase in the proforma consolidated NA per Share to our existing shareholders of RM0.02. The following table illustrates such dilution on a per Share basis:-

	<b>RM</b>
IPO Price	0.23
Our proforma consolidated NA per Share as at 31 August 2013 before taking into account our Public Issue	0.12
Increase in the proforma consolidated NA per Share attributable to new shareholders	0.02
Our proforma consolidated NA per Share as at 31 August 2013 after taking into account our Public Issue	0.14
Dilution in the proforma consolidated NA per Share to our new public investors	0.00
Dilution in the proforma consolidated NA per Share as a percentage of our IPO Price	39.13%

**3. PARTICULARS OF OUR IPO (Cont'd)**

The following table shows the average effective cost per Share paid by our existing shareholders for Shares acquired by them since our incorporation prior to the date of this Prospectus as well as new investors who subscribe for our IPO Shares pursuant to our IPO:-

Shareholders	No. of SCH Shares received	Total Consideration RM	Average Effective Cost per Share RM
Lau Mong Ling	*106,035,224	10,603,520	0.10
Wong Sin Chin	*106,035,083	10,603,509	0.10
Yeen Yoon Hin	*106,034,903	10,603,490	0.10
Lim Lee Pooi	*2,815,750	281,575	0.10
Au Yong Sau Kuen	*207,020	20,702	0.10
Wong Sang @ Wong Hock Lim	*414,040	41,404	0.10
Subscribers' shares <sup>^</sup>	20	2	0.10
<b>Total</b>	<b>321,542,020</b>	<b>32,154,202</b>	<b>0.10</b>
	No. of IPO Shares	Total Consideration RM	Average Effective Cost per Share RM
New investors	123,672,000	28,444,560	0.23

**Notes:-**

\* Issued pursuant to the Acquisitions.

<sup>^</sup> On 31 January 2012, our Company had undertaken a share split whereby two (2) ordinary shares of RM1.00 each was sub-divided into 20 ordinary shares of RM0.10 each, which is held by Zaharah binti Md Radzi and Rawani binti Ahmad of 10 ordinary shares of RM0.10 each. These shares has been transferred to Lau Mong Ling on 11 November 2013.

Apart from the Shares received by our Directors/substantial shareholders pursuant to the Acquisitions, there is no material acquisition of any existing Shares that involved cash in our Group by our Directors, key management personnel, substantial shareholders or persons connected with them, or in which they have the right to acquire, since the Acquisitions prior to the date of this Prospectus.

There is no minimum subscription to be raised from our IPO. However, in order to comply with the public spread requirements of Bursa Securities, the minimum subscription in terms of the number of IPO Shares will be the number of IPO Shares required to be held by public shareholders of our Group to comply with the public spread requirements as per the Listing Requirements or as approved by Bursa Securities.

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**3. PARTICULARS OF OUR IPO (Cont'd)****3.10 UTILISATION OF PROCEEDS**

The estimated gross proceeds arising from our IPO of RM20.86 million shall accrue entirely to us and are planned to be utilised within one (1) to thirty-six (36) months from the date of our Listing in the following manner:-

Utilisation of Proceeds	Time frame	RM'000	%
(i) Capital expenditure on construction of our new operation facility	36 months	10,000	47.94
(ii) General working capital requirements	12 months	8,859	42.47
(iii) Estimated listing expenses	1 month	2,000	9.59
<b>Total</b>		<b>20,859</b>	<b>100.0</b>

**Notes:-**

Pending full utilisation, we intend to place the proceeds from our IPO (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institution(s) or in short-term money market instruments.

**(i) Capital expenditure on construction of our new operation facility**

We intend to construct our new operation facility to cater for our business growth as well as to expand and further develop our core business activities, which is aimed at increasing our inventory storage space to cater the growing inventory level of the quarry machinery, quarry equipment and quarry grill that our Group carries to be supplied to our customers. Our new facility shall house our new corporate office, warehouse, showroom for the quarry machinery and quarry equipment, and space for fabrication works for reconditioned quarry machinery under 5CHME. With the additional inventory storage space available, we are able to stock up more inventories in our warehouse and storage facility, as well as displaying our range of quarry machinery and quarry equipment at our newly established showroom.

The new operation facility will be a four (4)-storey building with a total built-up area of 8,176 sq m, to be built on a leasehold vacant industrial land belonging to us with a land size of 8,510 sq m located at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan. The estimated cost of construction of our new head-office and facilities is expected to amount to approximately RM14.0 million. The construction cost will be funded via the proceeds from our IPO of RM10.00 million and bank borrowings of RM4.00 million.

Currently, the building plans for our new operation facility are pending the relevant authorities approval. However, we expect that the building of our new operation facility will begin immediately upon our Listing and is estimated to complete its overall construction within thirty six (36) months from the date of our Listing.

**(ii) General working capital requirements**

A total RM8.86 million or 42.49% of the proceeds raised from our IPO has been earmarked to supplement the general working capital requirements of our Group. RM3.86 million or 18.50% of the cash proceeds shall be used in our day-to-day operations such as the payment of labour, defrayment of operating expenses, installation and transportation cost as well as other overheads deemed necessary for the smooth running of our operations.

In addition, we also intend to utilise RM5.00 million or 23.97% from our proceeds earmarked for general working capital requirements to purchase brand new quarry machinery and quarry equipment as inventories for our distribution and supply of quarry machinery and quarry equipment business segment. All of these brand new quarry machinery and quarry equipment will be purchased in bulk orders in order to meet our client's future demands and requirements. The purchase of these brand new quarry machinery and quarry equipment is intended to stock-up our inventory levels.

Presently, the purchase is made based on "as-needed basis" and is based on our customer's purchase orders in order to mitigate overstocking risk in our Group's overall inventories level.

However, we anticipate an increase in the demand for our range of brand new quarry machinery and quarry equipment. This anticipation requires our Group to change our inventory procurement strategy i.e. stocking-up. This is of the view of the prospects of the growing demand for quarry-based materials needed to support the booming construction industry, as outlined under the Malaysian government's Economic

### 3. PARTICULARS OF OUR IPO (Cont'd)

*Transformation Programme, such as the MRT construction project, building of highways and infrastructure projects, the Iskandar Malaysia development projects and other construction projects in Malaysia. This development bodes well for the quarry industry. As more quarry-based materials would be needed, the supporting industrial products and spares, quarry machinery and quarry equipment market would also be in high demand.*

*We are purchasing in advance to bring in more ready inventories, so as to shorten the time-to-delivery to our customers in the quarry industry to minimise the disruption of their quarrying process. Our Group has taken the practice to maintain a sustainable level of inventories in order for us to distribute and supply our products to our customers on timely basis and help our customers' mitigate the risk of delay and ensure smooth quarrying process. This also helps to prevent shortages of the required quarry industrial products and spare parts of quarry machinery, quarry equipment and reconditioned quarry machinery that is required to be supplied to our customers.*

#### (iii) **Estimated listing expenses**

*The amount allocated of RM2.00 million is based on the estimated cost for our Listing. If our actual listing expenses are higher than the amount budgeted, the deficit will be funded out of the portion allocated for our general working capital requirements. Conversely, if our actual Listing expenses are lower than the amount budgeted, the excess will be utilised for our general working capital requirements. The following summarises the estimated expenses incidental to our Listing to be borne by our Group as follows:-*

<b>Estimated Listing Expenses</b>	<b>RM'000</b>
Professional fees*	1,180
Fees payable to the authorities	280
Underwriting, placement and brokerage fees	477
Printing, advertising fees and contingencies^	63
<b>Total</b>	<b>2,000</b>

#### **Notes:-**

\* Includes advisory fees for, amongst others, our Principal Adviser, Solicitors, Reporting Accountants and IMR.

^ Other incidental or related expenses in connection with our IPO.

Our Offer for Sale is expected to raise gross proceeds of approximately RM7,585,400, which will accrue entirely to our Offerors and we will not receive any of the proceeds. Our Offerors shall bear all of the expenses such as placement fee, registration fee and share transfer fee relating to our Offer Shares, the aggregate of which is estimated to be approximately RM0.18 million.

#### **3.10.1 Financial impact from utilisation of proceeds**

Our utilisation of proceeds from our IPO is expected to enhance our working capital position. We intend to utilise approximately RM3.86 million from our IPO proceeds for our working capital requirements which will be used in our day-to-day operations such as the payment of labour, defrayment of operating expenses, installation and transportation cost as well as other overheads deemed necessary for the smooth running of our operations. Our cash and cash equivalents will be approximately RM6.78 million after our Listing based on our proforma consolidated cash flow statement for the FYE 2013. This will allow us to internally fund our daily operational activities without being overly dependent on external funding.

#### **3.11 BROKERAGE, PLACEMENT AND UNDERWRITING COMMISSION**

##### **Underwriting Commission**

Our Underwriter has agreed to underwrite 26,000,000 Issue Shares made available for application by the Malaysian Public and Pink Form Allocations. We are obligated to pay our Underwriter the underwriting commission at the rate of 2.00% of the total value of the underwritten Shares at our IPO Price.



### 3. PARTICULARS OF OUR IPO (Cont'd)

#### Placement Fees

Our Placement Agent has agreed to place out 52,642,000 IPO Shares in our Company to be offered to selected investors. We are obliged to pay our Placement Agent a placement fee at the rate of 2.00% of the value of 19,662,000 Issue Shares placed out to investors selected by our Placement Agent, at our IPO Price. The placement fee for the 32,980,000 Offer Shares placed out to investors selected by our Placement Agent will be entirely borne by our Offerors.

#### Brokerage Fees

Brokerage is payable in respect of the 26,000,000 Issue Shares at the rate of 1.00% of our IPO Price in respect of successful applicants which bear the stamp of member companies of Bursa Securities, member of the Association of Banks in Malaysia, members of the Malaysia Investment Banking Association in Malaysia or Issuing House.

Pending the deployment of the proceeds raised from our IPO as aforementioned, the funds will be placed in short-terms deposits with financial institutions, used to invest in short-term money market instruments and/or used for working capital requirements as our Directors may deem appropriate.

#### 3.12 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

The following are the salient terms contained in the Underwriting Agreement including terms which allow the Underwriter to withdraw from the underwriting obligation after the opening of our Public Issue. The capitalised terms and numbering references used in this section shall have the respective meanings and numbering references as ascribed thereto in the Underwriting Agreement:-

- 1.1 Pursuant to the terms of the Underwriting Agreement, M&A Securities has agreed to underwrite 26,000,000 Issue Shares.
- 1.2 The several obligations of the Underwriter under the Underwriting Agreement shall be further conditional upon the following ("**Conditions Precedent**"):-
  - (a) the acceptance of the listing proposal from Bursa Securities, the clearance of registrable prospectus from the SC and the lodgement of registrable prospectus with the CCM respectively together with copies of all documents required under Section 42 of the Act prior to the issuance of the Prospectus to the public;
  - (b) the issuance of the Prospectus (including advertisement of the Prospectus and all other procedures, requirements, letters and documents) required under Section 42 of the Act to the public within three (3) months from the date hereof or such extension as consented by the Underwriter;
  - (c) there having been, as at any time hereafter up to and including the Closing Date, no material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise of the Company and its subsidiaries (which in the reasonable opinion of the Underwriter is or will be material in the context of the issue of the Underwritten Shares) from that set forth in the Prospectus, nor the occurrence of any event nor the discovery of any fact rendering inaccurate, untrue or incorrect to an extent which is or will be material in any of the representations, warranties and undertakings, if they are repeated on and as of the Closing Date;

### 3. PARTICULARS OF OUR IPO (Cont'd)

- (d) the issue, offering and subscription of the Underwritten Shares in accordance with the provisions hereof and the Prospectus not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority of Malaysia (including Bursa Securities);
  - (e) all necessary approvals and consents required in relation to the IPO including but not limited to governmental approvals having been obtained and are in full force and effect;
  - (f) the Underwriter having been satisfied that the arrangements have been made by the Company to ensure payment of the expenses;
  - (g) the delivery to the Underwriter prior to the date of registration of the Prospectus of (i) a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors of the Company and the shareholders in general meeting approving the Underwriting Agreement, the Prospectus, the IPO and authorising the execution of the Underwriting Agreement and the issuance of the Prospectus; (ii) a certificate dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence;
  - (h) the delivery to the Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the Board of Directors of the Company as the Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of the Underwriting Agreement that will adversely affect the performance or financial position of the Group or its subsidiaries nor the occurrence of any event rendering, untrue or incorrect, to a material extent any representations and/or warranties as though they have been given and/or made on such date; and
  - (i) the Underwriter being satisfied that the Company will, following completion of the IPO be admitted to the Official List and its entire issued and paid-up share capital listed and quoted on the ACE Market of Bursa Securities without undue delay.
- 1.3 In the event any of the Conditions Precedent are not satisfied by the Closing Date, the Underwriter shall thereupon be entitled but not bound to terminate the Underwriting Agreement by notice given to the Company not later than three (3) market days after the Closing Date and upon such termination the Company and the Underwriter shall be released and discharged from their obligations save for the Company's obligations and none of the parties shall have a claim against the other save for antecedent breaches by the Company and claims arising therefrom. Each party shall in such event return any and all moneys paid to the other under the Underwriting Agreement within seventy-two (72) hours of the receipt of such notice (except for monies paid by the Group for the relevant payment of the expenses). The Underwriter reserves the right to waive or modify any of the conditions aforesaid and such waiver or modification shall not prejudice the Underwriter's rights under the Underwriting Agreement.
- 1.4. The Underwriter may by notice in writing to the Group given at any time on or before the allotment and issuance of the IPO Shares, terminate and cancel and withdraw its commitment to underwrite the 26,000,000 Issue Shares if:-

### 3. PARTICULARS OF OUR IPO (Cont'd)

- (a) there is any breach by the Group of any of the representations, warranties or undertakings, which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, or by the Closing Date, whichever is earlier, or withholding of information of a material nature from the Underwriter, which is required to be disclosed pursuant to the Underwriting Agreement which, in the opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the IPO, or the distribution of the IPO Shares; or
- (b) there is withholding of information of a material nature from the Underwriter, which, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, which, in the opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group and the success of the IPO, or the distribution of the IPO Shares; or
- (c) there shall have occurred, happened or come into effect in the opinion of the Underwriter any material and/or adverse change to the business or financial condition of the Company or any of its subsidiaries; or
- (d) there shall have occurred, happened or come into effect any of the following circumstances:-
  - (i) any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or
  - (ii) any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Group and/or the Underwriter (including without limitation, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents); which, (in the reasonable opinion of the Underwriter), would have or can reasonably be expected to have, a material adverse effect on and/or materially prejudice the business or the operations of the Company or any of its subsidiaries and the success of the IPO, or the distribution of the IPO Shares, or which has or is likely to have the effect of making any material part of this agreement incapable of performance in accordance with its terms;
  - (iii) the FTSE Bursa Malaysia KLCI Index ("Index") is, at the close of normal trading on Bursa Securities, on any market day:-
    - (aa) On or after the date of the Underwriting Agreement; and
    - (ba) Prior to the allotment of the IPO Shares

Lower than ninety percent (90%) of the level of the Index at the last close of normal trading on the relevant exchange on the market day immediately prior to such date and remains at or below that level for at least three (3) market days

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**3. PARTICULARS OF OUR IPO (Cont'd)**

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- (iv) in the event of national disorder, outbreak of war or the declaration of a state of national emergency.
  - (e) there is failure on the part of the Company to perform any of their respective obligations contained in the Underwriting Agreement.
  - (f) any matter which arose immediately before the date of the Prospectus would have constituted a material and adverse omission in the context of the IPO; or
  - (g) any event, act or omission which gives or is likely to give rise to any liability which will have a material and adverse effect on the Company pursuant to the indemnities contained under the Underwriting Agreement.
- 1.5 Upon such notice(s) being given, the Underwriter shall be released and discharged of its obligations without prejudice to its rights whereby the Underwriting Agreement shall be of no further force or effect and no party shall be under any liability to any other in respect of the Underwriting Agreement, except that the Company shall remain liable in respect of its obligations and liabilities for the payment of the costs and expenses already incurred prior to or in connection with such termination, for the payment of any taxes, duties or levies or such outstanding fees, and for any antecedent breach, and its undertaking to indemnify the Underwriter.

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#### **4. RISK FACTORS**

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**NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL THE OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.**

##### **4.1 RISKS RELATING TO OUR GROUP**

The risks in our Group include, without limitation, the following:-

###### **4.1.1 Dependency on the quarry industry**

Our Group is primarily dependent on the quarry industry. Most of our revenue were generated from the quarry industry, hence our financial health is closely linked to the quarry industry. Our operations and financial performance will be adversely affected if there is a decline in the production volume of various quarry based materials, which could, amongst others, caused by the slowdown in the construction and building demand in Malaysia and/or adverse changes in the regulatory environment governing the quarry industry.

Notwithstanding the aforementioned possibilities, our Group believes that the demand for various quarry based materials remain positive, given the importance of the construction industry in our country. According to the IMR Report, the growth in the quarry industry is likely to be underpinned by the Malaysian Government's initiatives such as the Tenth Malaysian Plan ("10MP") and the Economic Transformation Programme ("ETP") which features a number of major property development and infrastructure projects that would give rise to the construction industry in Malaysia. These positive trends have a flow-over effect on the quarry machinery and equipment market as more quarrying activities would be needed to meet the higher demand of quarry materials, the supporting products and services of the quarry machinery and equipment market would also be in higher demand.

The above positive developments will increase various quarrying activities and quarrying operations by quarry operators and mining operators in order to meet the increasing demand for quarry based materials for use in major property development and infrastructure projects. Thus, the increase in quarrying activities and quarrying operations by our customers would in turn increase the demand of our quarry-based products to be distributed and supplied to them. The increase in quarrying activities would lead to longer quarry operation hours and increasing wear and tear of the various quarry industrial products, quarry machinery and quarry equipment, as well as its related spare parts, and quarry grills used in a quarrying process. The need to frequently replace these products on a timely manner would thus contribute to higher demand for our products to be distributed and supplied to our customers.

Whilst the above present positive outlook for our business operations, there can be no assurance that any changes in the quarry industry will not have a material adverse effect on our operations and financial performance.

In addition, concerns of the Government on the environmental impact arising from quarry industry such as noise, air and sound pollution may lead to changes of the Government's rules and regulations to protect our country's natural resources. As our Group's financial performance is closely linked to the quarry industry, there will be no assurance that any future changes of the Government's rules and regulations towards the quarry industry will not have material impact to our Group's financial performance.

#### **4. RISK FACTORS (*Cont'd*)**

##### **4.1.2 Dependency on experienced management and key personnel**

We attribute our success to the leadership and contributions of our key management team, which comprises Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin, Lim Lee Pooi and Leong Mun Wah as well as our other key management personnel. We believe that our continued and future success is therefore dependent to a significant extent on our ability to retain our key management personnel, who is responsible for formulating and implementing our business strategies, business development and daily management and operations. The loss of these key management personnel without any suitable and timely replacement, and our inability to attract or retain qualified and right personnel would have an unfavourable and material impact on our Group's operations.

We strive to minimise this risk by ensuring that we have the ability to retain our existing Directors, key management personnel as well as technical personnel. Our Group recognises the importance of attracting and retaining the key personnel and have put in place human resource strategies and developing a human resource plan that include suitable compensation packages, career development, training and development for the key personnel. Our Group have also implemented a number of incentive schemes, which includes performance bonuses, annual performance increment, sales commissions and the opportunity to participate in our IPO, which would serve to attract, motivate and retain key management. In addition, our IPO exercise will also serve as a vehicle for our Group to attract new talents and at the same time, reward our key management staff. We have also put in place various measures to ensure a smooth management succession plan. Kindly refer to Section 8.12 for the details of our management succession plan.

However, there can be no assurance that the above measures will always be successful in retaining our Directors and key management personnel or in ensuring a smooth transition or management succession plan should such key persons are no longer able to serve our Group.

##### **4.1.3 Non-exclusivity of distributorship agreements by our Principals**

Our Group has not entered into any written distributorship agreements between our principals, namely Junjin CSM, Nakayama, Alpha Plus and Ryoko Sangyo Corporation (the trading arm of Mitsubishi), (collectively, the "Principals"). Although the distributorship letters that we have received by our Principals (excluding Alpha Plus, which has not given us the distribution letter) are not a legally binding document for both parties to the distributorship rights, our Principals have acknowledged our Group as their supplier and distributor of their products in the stated regions, as per the distributorship rights letters given.

In general, the terms of the distributorship are as per the normal distribution process made through the purchase orders, delivery orders and invoices, of which the terms are in accordance with normal industry practices, whereby our Group is given a specific numbers of days from the date of invoice (depending on our Principals) to make payment for the products ordered from these Principals.

The above arrangements between both parties were made and created over the long period business relationship and neither party sees the need to enter into a distribution agreement to further strengthen this business bond between the parties.

For our purchases of quarry industrial products, quarry machinery and quarry equipment as well as its related spare parts business segment, we face a risk of termination or withdrawal of our non-exclusive distributorship rights from our Principals. In the event that our non-exclusive distributorship rights is being withdrawn from our Principals for any reasons, there may be a negative impact on our Group's quarry industrial products, quarry machinery and quarry equipment as well as its related spare parts business segment. Nevertheless, our Group has cultivated a strong and good working relationship with our Principals and the

**4. RISK FACTORS (Cont'd)**

brand manufactures we worked with, and has established a strong distribution network and customer base over the years. Such achievements are important for these brand manufacturers and Principals to further expand its market coverage and penetration into the quarrying and mining industry not only in Malaysia, but also in the South East Asia region. As such, our Group do not expect to encounter significant problems in obtaining quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts from these brand manufacturers and our Principals. Our continuing strong relationship with these brand manufacturers and Principals would also enable our Group to source quality quarry industrial products, quarry machinery, and quarry equipment at competitive terms.

Nonetheless there can be no assurance that this risk will not have any adverse impact to our operations and financial performance.

**4.1.4 Foreign currency exchange fluctuation**

A significant proportion of our purchases are transacted in foreign currencies such as the USD, whilst our revenue are mainly denominated in RM. Most of our quarry industrial products, quarry machinery, quarry equipment and its related spare parts are imported and transacted in USD, hence our Group's gross profit and gross profit margin are directly affected by the foreign exchange fluctuation. The following is our Group's breakdown of purchases made during the FYE 2010, FYE 2011, FYE 2012 and FYE 2013:-

	<b>FYE 2010</b>		<b>FYE 2011</b>		<b>FYE 2012</b>		<b>FYE 2013</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Purchases transacted in foreign currencies	17,952	85	20,449	80	28,255	86	30,355	85
Purchases transacted in RM	3,066	15	5,089	20	4,730	14	5,430	15
<b>Total purchases</b>	<b>21,018</b>	<b>100</b>	<b>25,538</b>	<b>100</b>	<b>32,985</b>	<b>100</b>	<b>35,785</b>	<b>100</b>

There is a financial risk to our business if there is any adverse fluctuation in any one or more currencies transacted by our Group. In such a situation, there is a possibility that we could incur foreign exchange losses and/or our product pricing may increase which could make us less competitive. Our Group had in the past incurred foreign exchange gain/loss due to foreign purchases transacted. The following is our Group's foreign exchange gain/loss for the financial years under review:-

	<b>FYE 2010</b>	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Realised loss/(gain) on foreign exchange:-				
- SCH Corporation Group	3.1	0.1	(2.8)	(400.0)
- SCHWM	0.8	3.1	(2.0)	(4.0)
- SCHME	(2.2)	(0.4)	(0.3)	(2.0)
<b>Total realised loss/(gain)</b>	<b>1.7</b>	<b>2.8</b>	<b>(5.1)</b>	<b>(406)</b>

For most of our larger purchases such as quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery, we utilise the letter of credit facility for our purchases made from our foreign suppliers, which provides us with a degree of protection. The usage of letter of credit facility helps our Group to mitigate against the risk of fluctuations in foreign exchange rate for our foreign purchases, by locking in/fixing upfront the current exchange rate as at the date of the purchases made, which will then mitigate any changes in the total cost of purchase arising from the movement in foreign exchange rate.

#### 4. RISK FACTORS (*Cont'd*)

Our Group was also granted a credit term of 150 days to 180 days from our foreign quarry machinery and quarry equipment suppliers, i.e. Junjin CSM and Seishin Corporation, in FYE 2013. Our Group has previously utilised financing facilities to fully repay our foreign suppliers prior to the delivery of quarry machinery and quarry equipment. With these credit term granted from our suppliers, it gives us the flexibility to be able to time our repayment to our foreign suppliers within the credit period granted to us when the foreign exchange rates are favourable, as compared to the foreign exchange rate recorded in our books at the time of purchase made. As such, our Group managed to record a foreign exchange gain of RM0.406 million during FYE 2013.

In addition, as the RM is currently a managed float since the de-pegging of the RM, this may prevent any extreme fluctuations of the RM *vis-à-vis* USD, and hence the effects of any foreign currency risks are less significant and mitigated to a certain extent.

Our management will continue to monitor our foreign exchange exposure by keeping abreast with current political, economic and regulatory conditions of the countries that we work with, both our customers as well as suppliers. We will take the necessary steps to closely monitor foreign currency risk in terms of our exposure size and fluctuations. Our management may consider using certain hedging mechanism in the future to minimise our exchange rate exposure whenever deemed appropriate. Nevertheless, there is no assurance that any adverse fluctuations in foreign exchange rates would not have a material impact on our Group's financial performance.

##### 4.1.5 We are subject to the credit risks of our customers

Our financial performance and position are dependent, to a certain extent, on the creditworthiness of our customers. If circumstances arise that affect our customer's ability or willingness to pay us, we may experience payment delays or in more severe cases, we may not be able to collect payment from our customers. Accordingly, we would have to make provisions for doubtful debts, or incur debt write-offs, which may have an adverse impact on our profitability.

We generally grant our customers credit terms within the range between 90 days to 180 days. We have in the past faced certain credit risk whereby our customers did not make payment within the credit period given to them. There is no assurance that we will be able to collect such debts on time, or at all. If our customers experience cash flow difficulties or a decline in their business performance, they may default in their payments to us. As a result, we may experience payment delays or in more severe cases, non-recovery of debts from our customers. We would then have to make provisions for doubtful debts, or incur debt write-offs, which may have a material adverse impact on our financial results.

In mitigating our exposure to credit risk, we will assess the credit standing of the existing and prospective customers prior to accepting their orders. In addition, we regularly review our trade receivable ageing and monitor subsequent collection of debts. Our Group maintains proper follow up procedures which include sending out reminder letters, calls and field visits to recover the long outstanding debts.

Although we strive to reduce this risk through our credit evaluation process, there can be no assurance that our customer's credit risk will not have an adverse impact on our Group's future financial performance.

##### 4.1.6 We are dependent on obtaining adequate financing to fund our operations

We are required to stock up our inventories, before we are able to sell them to the end users in the quarry industry and collect the revenue from our customers. We need to ensure that our inventory level is sufficient in order for us to distribute and supply our products to our



#### 4. RISK FACTORS (*Cont'd*)

customers on timely basis and help our customers' mitigate the risk of delay and ensure smooth quarrying process.

We face the risk that we are unable to collect the revenue on a timely basis. In order to fund our purchases from our suppliers, we require adequate funding either from internal resources or borrowings to fund the initial purchases. If we are unable to secure adequate financing, our cash flow, operations, growth and expansion plans will be adversely affected. Normally, we are granted trade credit facilities of between 150 days to 180 days to finance our purchases from our suppliers.

Although we strive to mitigate this risk through careful cash flow management and stringent credit control, there can be no assurance that this risk would not have an adverse impact on our operations and financial performance.

##### 4.1.7 We are exposed to product liability claims and warranty claims by our customers

The quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery, and the supply of its related spare parts as well as quarry grills that we distribute and supply to the quarry industry must conform to and perform according to our customer's specifications.

Our Group has not experienced any product liabilities claim for damages suffered from manufacturing/design defects for the products we distribute and supplied in the past. In terms of product warranty, our Group generally provides manufacturer product warranty to its customers, which ranges from one (1) to twelve (12) months, depending on the type and condition of the products supplied.

Our Group will have the recourse to claim any liabilities made by our customers from the manufacturer and brand owners of the quarry industrial products, quarry machinery and quarry equipment, should there be a defect in its structural design. It is a common practice for manufacturers and brand owners to recall these quarry industrial products, quarry machinery and quarry equipment, should there be a defect in its original design, without any liability to be incurred by our Group. As such, our Group's risk in relation to the product liabilities claims, defects, accidents and malfunctions is mitigated. Hence, there is minimal impact to our Group arising from any of these warranty claims.

In relation to the reconditioned quarry machinery, Junjin CSM sells the used hydraulic crawler drilling machinery to our Group, and it is then reconditioned by our servicing team. Our servicing team has received on-going technical training by Junjin CSM to provide technical support and maintenance services for the range of such quarry machinery and quarry equipment to our customers in the quarry industry. These reconditioned quarry machinery will then be sold and marketed to smaller quarry operators that are mainly located in East Malaysia.

Our Group will not claim any product liabilities from Junjin CSM for any defects due to the original quarry machinery design defects during the warranty period. However, the warranty period provided by our Group is only for one (1) month for this reconditioned quarry machinery, which covers the major parts of the reconditioned quarry machinery which include but not limited to the engine, transmission, drive train and hydraulics. Our management does not expect this product liabilities risk to be material. In addition, our Group also distributes brand new Junjin CSM's range of quarry machinery and quarry equipment, and as such will be aware of any potential original quarry machinery and quarry equipment defects, thus further mitigating this risk.

With regards to our reconditioned quarry machinery, we are required to rectify defects in our workmanships at no additional cost to our customers if it is still within the warranty period of

**4. RISK FACTORS (Cont'd)**

one (1) month given for the reconditioned quarry machinery. If we are required to rectify defects during the warranty period, which result in substantial costs being borne by us, the profitability of our products will be reduced. Our Group have not received any warranty claims nor encountered any product liability claims for our reconditioned quarry machinery in the past. As our Group is not the manufacturer of the reconditioned quarry machinery or the parts used in the reconditioning of these reconditioned quarry machinery, our Group will not be subjected to any product liability claims from our customers. In view of this, our Group has not made any provision for product liability claims in relation to the reconditioned quarry machinery for the financial years under review.

We have provided for warranty against manufacturing defects for the quarry grills that we manufacture and supply to our customers, and we have not experienced any unresolved quarry grill claims from our customers. However, we have rectified manufacturing defects in the manufacturing of quarry grills in FYE 2010. The number of claims made for our quarry grills and the cost to rectify are as follows:-

	<b>FYE 2010</b>	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2013</b>
<b>Number of warranty claims*</b>	20	-	-	-
<b>Total cost to rectify (RM)</b>	9,22S	-	-	-

**Note:-**

- \* *The warranty claims made by customers were due to manufacturing defect detected in the quarry grills that we manufactured. Subsequently, our Group has rectified the manufacturing defect and we have undertaken continuous product development and enhancement initiatives to improve our quarry grill manufacturing processes and hence, they were no further defect claims for the quarry grills.*

We may also be subject to product liability claims from our customers or by third parties, for the losses or damages suffered as a result of manufacturing defects. These third parties are our customers who purchase our products such as resellers, distributors and hardware dealers. End users refer to the customers who purchased our products through/from these resellers, distributors and hardware dealers. These end users may assert product liability claims on both of manufacturing and/or design defects, by making a warranty claim to these resellers, distributors and hardware dealers, which would then proceed to make a direct product liability claims to our Group. In such an event, our Group have the recourse to claim for further product liabilities from the manufacturer and brand owners of the quarry industrial products, quarry machinery and quarry equipment, should there be a defect in its structural design. However, our Group has not experienced any product liabilities claim for damages suffered from manufacturing/design defects for the products we distribute and supplied in the past from these third parties and end users.

We have not purchased insurance coverage for product liability and thus not covered or compensated by insurance in respect of losses, claims and liability arising from or in connection with product liability. Should these events occur, our financial performance and position could be adversely affected.

We firmly believe that with the experience and expertise of our Group and by working closely with our manufacturers, suppliers and distributors to ensure that prescribed prescription of our range of products are met, hence any defects in these products supplied is minimised. However, there is no assurance that any repair or replacement works to be carried out during the specified defects liability period will not have a material and adverse impact on our Group's financial performance. Our Group also recognises the importance of product liability protection towards our Group's financial performance and condition. Thus, as part of our Group's on-going risk management practice and business expansion plans, our Group is currently studying the viability and suitability of an insurance coverage policy to mitigate any potential product liability we may be held liable in the future.

#### **4. RISK FACTORS (Cont'd)**

To mitigate the risk of defects occurring, our Group seeks to ensure that all manufacturers, suppliers and distributors which we deal with are trustworthy and reliable and have a good track record of its quality. To date, our Group has not been subject to any material defect liability claims or incurred a significant adverse impact on our financial performance as a result of having to carry out rectification works.

##### **4.1.8 Reliance on imports**

Most of our products are imported from Japan, Korea, China, USA and Australia. Our reliance on imports may pose a risk to our business in the event of, among others, shortage of supply, delays in shipment, imposition of duties and/or taxes, and increase in transportation costs. However, we wish to highlight that we have not faced any risk of imposition of duties and/or taxes and increase in transportation costs for our purchases in the past.

A significant proportion of quarry machinery, quarry equipment and reconditioned quarry machinery for the use of the quarry industry in Malaysia are imported. As such, general problems associated with imports would most likely affect our Group's competitors as our competitors also place reliance on imports.

Our Group shall continually seek to diversify our source of purchases for our quarry industrial products and raw materials for the manufacturing of our quarry grills by seeking local partners in order to limit our dependence on the foreign market for our foreign purchases. Hence, by diversifying our source of purchases to include local suppliers, we should be able to minimise our risks in the event that any one of our existing foreign suppliers is affected by unforeseen circumstances.

Our Group strives to minimise the effects of risk of disruption of supply of our products by holding adequate level of inventories of our quarry-based products to act as a buffer against any unfavourable disruption in supply, so as to minimise disruptions and to ensure timely delivery to our customers' to mitigate the risk of delay and ensure smooth quarrying operations of our customers. Nonetheless there can be no assurance that this risk will not have any adverse impact to our operations and financial performance.

##### **4.1.9 Shipping disruptions**

Our Group relies on marine transportation as a significant portion of our Group's bulky products are imported from overseas. In addition, the delivery of quarry machinery, quarry equipment and the reconditioned quarry machinery to East Malaysia also relies on marine transportation. Therefore, our Group is exposed to shipping disruptions that may arise as a result of weather conditions, political turmoil, pirate attacks, social unrest, port strikes, oil spills, delayed or lost shipments, which may have an adverse impact to our Group's business. However, our Group has not faced any shipping disruptions in the past that has affected our overall operations.

To mitigate the risk of shipping disruptions, the majority of our imported products are mainly done on the Cost, Insurance and Freight ("CIF") basis, where our suppliers are responsible for paying the costs associated with the transport of the goods to the named port at destination. These costs include marine insurance in our name which limits our damages associated with shipping disruptions. Nonetheless, there can be no assurance that any shipping disruptions will not have any adverse material impact to our business operations in the future.

##### **4.1.10 Dependency on our major suppliers, partners and Principals**

Our Group relies on our suppliers, partners and Principals, in which we work closely with to support our business activities and Principals, which are our suppliers who provide us

#### 4. RISK FACTORS (*Cont'd*)

distribution rights to distribute and supply their quarry machinery and quarry equipment. Any severance of these relationships will have a negative impact on our Group's ability to supply our products to our customers.

Our suppliers supply our Group with the quarry industrial products and the spare parts for our quarry machinery, quarry equipment and reconditioned quarry machinery business segments, as well as the raw materials for the manufacturing of quarry grills. Most of our products are imported from Japan, Korea, China, USA and Australia. Our Group usually make purchases from our approved list of suppliers and prefers to maintain long-term business relationships with our suppliers based upon their trustworthiness and reliability in the supply of quality quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts and raw materials for the manufacturing of quarry grill. The suppliers of the spare parts for the quarry machinery, quarry equipment and reconditioned quarry machinery are both local and overseas authorised suppliers that are approved by our Principals.

Our business partners are engineering companies which we have established close relationship in the past to support its engineering projects and quarrying operations. Our business partners shall refer and recommend us to potential customers to purchase quarry based products such as our quarry industrial products, quarry machinery and quarry equipment and quarry grills as it can be supplied to the various stages of quarrying process. However, we wish to highlight that there is no arrangement made between our Group and our business partners for benefits in return to them for such referrals made, commission fees, recommendation fees, profit sharing arrangement, joint ventures and other form of benefits arrangement. However, we intend to continue working closely with our business partners in the near future to undertake and bid for potential engineering projects.

Our Principals are quarry machinery and quarry equipment brand manufacturers, which includes Junjin CSM, Nakayama, Alpha Plus and Ryoko Sangyo Corporation, all of which act as our Principals for our range of quarry industrial products, quarry machinery and quarry equipment as well as its related spare parts.

Our Group has been relatively dependent on our major suppliers namely, Seishin Corporation and Junjin CSM, which accounted for 19.97% and 38.90% respectively of our Group's total purchases during FYE 2013.

Our Group's performance and relationship with our suppliers have been strong and positive, whereby we have received an appreciation award from Junjin CSM for our outstanding contribution to the sales volume of Junjin CSM branded quarry machinery in Malaysia. This appreciation award, which was awarded in FYE 2010 for our Group's contribution to Junjin CSM's growth in its overall sales volume (24 units of Junjin CSM's hydraulic crawler drill, with a value of RM17.12 million sold between FYE 2007 to FYE 2010) in the Malaysian quarry machinery and equipment market. However, we are not aware of any awards that have been awarded by Junjin CSM to any other parties/suppliers in the past relating to the sales of the Junjin CSM's quarry machinery and quarry equipment for the Malaysian region.

Although our Group has been given the rights to distribute Nakayama and Junjin CSM brand quarry machinery and quarry equipment, we recognise the importance of not only relying on a sole supplier and will continually seek to diversify our supplier base. While our Group has endeavoured to diversify our supplier base in order to reduce the risk of an interruption in supplies, there can be no assurance that such endeavours will be successful and that any disruption in supply will not have a material adverse impact on the operations of our Group.

We have been dealing with our major suppliers, partners and Principals for at least three (3) years. However, our Group seeks to mitigate this risk by continuously maintaining good relationships we have to ensure minimal disruptions on our supply chain and operations.

#### 4. RISK FACTORS (*Cont'd*)

##### 4.1.11 Debt covenants

Pursuant to the credit facility agreements entered into by our Group with various banks or financiers, we are bound by certain positive and negative covenants which may limit our operating and financial flexibility. The aforesaid covenants are of a nature which is commonly contained in credit facility agreements in Malaysia. Any act by our Group falling within the ambit or scope of such covenants will require the consent of the relevant banks/financiers. Breach of such covenants may give rise to a right by the banks or financiers to terminate the relevant credit facility and/or enforce any security granted in relation to that credit facility. Our Board is aware of such covenants and will take all necessary precautions to prevent any such breach.

As at the LPD, neither we nor any of our subsidiaries are in breach of any terms and conditions or covenants associated with credit arrangements or bank loans, which can materially affect our business operations or financial position.

##### 4.1.12 Operational risks and insurance coverage

We are susceptible to various operational risks such as accidents, outbreaks of fire or floods, energy crises or other natural calamities, which may cause significant losses or damage to our goods, production facilities, warehouse and office thus disrupting and affecting our business operations.

As we are aware of the adverse consequences arising from inadequate insurance coverage for the accidents and outbreaks that could disrupt our business operations, we have taken up insurances which covers fire & lightning, burglary, money losses, life & personal accidents covering our properties, furniture & fixtures, assets, employees, equipment, stocks and inventories.

However, there is no assurance that this coverage is sufficient to cover all potential losses, and indemnify us against all possible liabilities arising from our operations.

We seek to limit the above risks through the implementation of the following plans and risk-management practices:-

- (i) Our facilities are equipped with the basic regulatory fire-fighting equipment such as fire extinguishers. Employees are trained on the use of these equipment, the proper fire-fighting techniques and procedures, and evacuation drills; and
- (ii) We ensure that our facilities, warehouses and workshops meet all safety requirements stipulated in various licenses issued by the relevant authorities. We also conduct various in-house training and briefing on safety requirements, and the proper use of our quarry machinery. By complying with the safety requirements issued by the relevant authorities, and making sure our employees are adequately trained, we minimise the risks of industrial accidents in our facilities.

Despite the above, there is no assurance that our insurance coverage is sufficient to offset the potential financial losses arising from public liability, fire, theft, and personal coverage of our insurance policies. We may be liable to the amounts claimed. If such events were to occur, our business and financial performance may be materially and adversely affected.

There are also other risks such as natural disasters, riots, general strikes, acts of terrorism and any other risks that cannot be reasonably insured against, which may adversely affect our operations. However, we wish to highlight that our operations have not been affected by any of such events thus far.

#### **4. RISK FACTORS (Cont'd)**

##### **4.1.13 Foreign operations risks**

With our Group's operations consisting of operations in Singapore (via Italiaworld), we are subjected to foreign operations risks. These risks may include amongst others, country risk, regulatory risks and political risks which are entirely out of our Group's control and there is no assurance that these risks will not have any material adverse effects on our Group's operations and profitability.

In addition, as mentioned in Section 6.15 of this Prospectus, our Group is looking at expanding our operations to other countries in this region, which includes Indonesia, Thailand, Vietnam, Myanmar and Cambodia, where we seek to expand our distribution and supply business. Unfavourable developments in political, economic, government control and regulatory framework of these overseas markets may affect our Group's plans for expansion.

Whilst our Group practices prudent financial risk management and efficient operating procedures, there is no assurance that adverse political and economic development, which is beyond our control, will not materially affect our Group.

Our Group is also subjected to more specific risks in this context and may include among others, credit risk and market risk. Our Group will mitigate these risks by ensuring that our customer base consists of well-established and reputable companies as well as undertaking thorough due diligence prior to the commencement of any overseas ventures or entering into any overseas contracts.

##### **4.1.14 Property not issued with Certificate of Fitness**

As disclosed in Section 5.7.2 of this Prospectus, one of the properties rented by our Group located at Lot 7782-S, Batu 12½ Serdang Lama, 43300 Seri Kembangan, Selangor Darul Ehsan has not been issued with a Certificate of Fitness by the local authorities. The said property is currently being used as our storage facility since August 2011 for our quarry machinery, quarry equipment and reconditioned quarry machinery business segment. As at 31 August 2013, we have a total of twenty-three (23) units of quarry machinery and quarry equipment (6 units of Nakayama SR Series Vertical Shaft, 6 units of Junjin CSM's hydraulic crawler drill, 4 units of Dyteco Jaw Crusher, 2 units of other quarry equipment and 5 units of hydraulic crawler drilling machinery) that were stored in this storage facility, with a total book value of RM7.87 million as at 31 August 2013.

We wish to highlight that SCHSB currently has a tenancy agreement with the landlord of the said property, being Low Han Leong Brothers Sdn Bhd, which has expired on 31 July 2013. Our Company has since renewed the tenancy agreement with Low Han Leong Brothers Sdn Bhd for the period from 1 August 2013 to 31 July 2015. Our management has decided that it is a more cost-effective measure to remain at this property at this juncture, until the completion of our new operation facility, as we will have to incur additional costs in the form of a penalty charges for early termination of the tenancy agreement and further relocation cost incurred to relocate to a new operation site.

The local council for this property, Majlis Perbandaran Subang Jaya has confirmed and recognised that there was no application for the Certificate of Fitness submitted by the developer of the said property. We have purchased fire insurance coverage for our quarry machinery, quarry equipment and reconditioned quarry machinery stored at this facility. However, if we are unable to claim for insurance damages, we shall incur losses for all of these quarry machinery, quarry equipment and reconditioned quarry machinery stored at this facility, and the amount of these losses shall be its total book value.

We wish to highlight that our management is of the view that any relocation prior to the completion of our new operation facility, if necessary, will not affect our Group's overall

#### 4. RISK FACTORS (*Cont'd*)

operations materially, and we do not foresee any difficulty in relocating to an alternative site should the need arises as interim measure prior to the completion of our new operation facility.

In the event the existing site shall no longer be available, our management has identified two (2) backup sites for relocating our storage facility to the following locations:-

- (a) Lot 35, Jalan CJ 1/, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan, which is currently vacant and has been earmarked for our Group's new operation facility. This vacant land can be easily converted into a storage facility by erecting fencing perimeters around the site for security purposes; or
- (b) A warehouse and storage facility located at Port Klang.

In mitigating this risk, SCHSB has also provided an undertaking to relocate our storage facility to our new operation facility located at H.S.(M) 13156, PT 23677, Mukim Ceras, Tempat Cheras Jaya, Daerah Hulu Langat, Negeri Selangor bearing the postal address of Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan, upon completion of construction of the said operation facility, which is expected to be within thirty six (36) months from the date of our Listing. In any event, as the said property is used only as a storage facility, thus we do not foresee any particular difficulty in relocating to an alternative site should the need arises as an interim measure prior to the completion of our new operation facility.

Although there has been no action taken by the authorities on this matter, there can be no assurance that we may be allowed to continue operating from this property in the future.

## 4.2 RISKS RELATING TO OUR INDUSTRY

### 4.2.1 Competition

Our Group constantly seeks to take proactive measures to mitigate competition risk, including constantly reviewing our marketing strategies in response to the ever-changing market conditions and the adoption of niche marketing concepts and strategies on our sales and after-sales period services, such as packaging certain spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery at lower selling price to encourage our regular customers to purchase additional units of quarry machinery and quarry equipment, as well as providing first interval service with complimentary spare parts for our quarry machinery and quarry equipment. These strategies have been effective in positioning our Group to meet the needs of our target markets. This enables our Group to provide our customers with value added after-sales service, which includes on site repair and maintenance services for customers who bought our quarry machinery, quarry equipment and reconditioned quarry machinery with a maximum of 24 hours response time (same day response for sites within Klang Valley. Sites outside Klang Valley will take 24 hours). We also provide continuous site visits to the quarry operation site of our customers.

We constantly strive to offer quality and reasonably-priced products to meet our customer's needs and preferences. We have more than 25 years of experience in the quarry industry, where it puts us in a better position to advise our customers on each product's features based on our customers' needs and preferences. In addition, the wide selection of products we carry enables our customers to have required replacement parts that are to be replaced within the specified usage hours.

In addition, our Group's proven track record and our team of experienced and skilled personnel are also a major mitigating factor to this risk as it enables our Group to remain

#### **4. RISK FACTORS (Cont'd)**

competitive in the future. Our Group mitigates this risk through constant monitoring of our competitors' movements on services provided and stocking, as well as their pricing strategies. Our Group believes that our competitive advantages and strengths will give us the edge needed to maintain or improve our market position and market share.

However, there can be no assurance that we will be able to compete effectively with the existing and new competitors in the future, in light of the changing and competitive market environment. There can also be no assurance that our Group will be able to maintain or increase our market share in the future in light of competition from existing competitors and/or potential new entrants to the industry.

##### **4.2.2 Changes in quarry machinery and quarry equipment technology**

The quarry machinery and equipment market which we operate in deals with quarry machinery and quarry equipment that are highly technology based and advancement in these technologies are expected to enhance quarrying operations and productions. Hence, changes in technology can slowly render old quarry machinery, quarry equipment, spare parts and expertise obsolete.

As a distributor and supplier of quarry machinery, quarry equipment and reconditioned quarry machinery, our Group's exposure to the risk of changes in the quarry machinery and quarry equipment technology are fairly low. Our Group can easily upgrade our product portfolio to fit the demand of time. As a result, we can trade any quarry machinery, quarry equipment and quarry industrial products that are available in the market with ease. In addition, as evident in our Group's offering of reconditioned quarry machinery that are of older models, there exists a market for older model quarry machinery as smaller operations do not require the use of the latest quarry machinery and quarry equipment technology. However, there can be no assurance that any changes to the factors mentioned above will not have any material adverse impact on our Group's financial performance and position.

#### **4.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES**

##### **4.3.1 No prior market for our Shares**

Prior to our Listing, there has been no public trading for our Shares on any stock market. Accordingly, there can be no assurance that an active market for our Shares will develop and continue to develop upon our Listing or, if developed, that such a market will be sustained. Our IPO Price was determined after taking into consideration a number of factors including but not limited to our Group's historical earnings, prospects and future plans, our financial and operating history and conditions, and the market value of our assets. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market of Bursa Securities upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

The price at which our Shares will trade on the ACE Market of Bursa Securities after our IPO may be influenced by a number of factors including, amongst others, the depth and liquidity of the market for our Shares, investors' individual perceptions of our Group, market and economic conditions. There is no assurance that the market price may not decline below our IPO Price. Hence, there can be no assurance of the ability of the shareholders or the prices at which they would be able to sell their shares.



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#### **4. RISK FACTORS (Cont'd)**

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##### **4.3.2 Failure/delay in or termination/abortion of our Listing**

Our Listing is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:-

- (a) The selected investors fail to subscribe for the portion of our IPO Shares;
- (b) Our Underwriter exercising its rights pursuant to the Underwriting Agreement discharging itself from their obligations therein; and
- (c) We are unable to meet the public shareholding spread requirement as determined by Bursa Securities, which is at least 25% of our enlarged issued and paid-up share capital of our Shares for which listing is sought must be held by a minimum number of 200 public shareholders holding not less than 100 Shares each upon the completion of our IPO and at the point of our Listing.

In this respect, we will exercise our best endeavour to comply with the various regulatory requirements, including, *inter-alia*, the public shareholding spreads requirement in paragraph (c) above for our successful Listing. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or non-implementation of our Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within fourteen (14) days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.0% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares could only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires the sanction of our shareholders by special resolution in a general meeting, consent of our creditors (unless dispensation with such consent has been granted by the High Court of Malaysia) and the confirmation of the High Court of Malaysia. There can be no assurance that such monies can be recovered within a short period of time or at all in such circumstances.

##### **4.3.3 Dividend payment**

Our Company, an investment holding company, derives its income mainly from dividends received from our subsidiaries. Hence, our ability to pay future dividend and our ability to sustain our dividend policy in the future are largely dependent on the performance of our subsidiaries. In determining the size of any dividend recommendation, we will also take into consideration a number of factors, including but not limited to our financial performance, cash flow requirements, debt servicing and financing commitments, availability of distributable reserves and tax-exempt profits/tax credits, future expansion plans, loan covenants and compliance with regulatory requirements.

##### **4.3.4 Trading price and volume of our Shares**

The trading prices and volume of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

#### **4. RISK FACTORS (*Cont'd*)**

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our listed shares.

Nevertheless, the profitability of our Group is not dependent on the performance of Bursa Securities as the business activities of our Group have no direct correlation with the performance of securities listed on Bursa Securities.

#### **4.4 OTHER RISKS**

##### **4.4.1 Political and economic risks**

The performance of our Group is correlated to the overall economic and political conditions both domestically and internationally, as it is largely dependent on the performance of the quarry industry.

Like all other business entities, adverse developments in political, economic and regulatory conditions in Malaysia could unfavourably affect our financial position and business prospects. These risks include, among others, risks of war, changes in economic conditions, changes in interest rates and unfavourable changes in Government policies such as introduction of new regulations, import duties and tariffs.

Our Group has taken efforts to diversify our range of services and markets, improve on our marketing and distribution strategies as well as pre-empting certain regulations to mitigate any possible adverse impact on our Group from any adverse development in political, economic and regulatory authorities.

Whilst we strive to continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that adverse political, economic and regulatory factors will not materially affect our operations, financial performance and future prospects.

##### **4.4.2 Control by our Promoters/substantial shareholders**

Upon our Listing, our Promoters, as set out in Section 8.1 and Section 8.2 of this Prospectus will collectively control 69.17% of our Group's enlarged issued and paid-up share capital.

Thus, our Promoters will be able to exercise some influence over the business direction and matters governing our Group requiring the vote of our Company's shareholders unless we are required to abstain from voting by law and/or by the relevant guidelines or regulations. The interests of our Promoters may differ from or have conflict with the interests of other shareholders of our Company.

Nevertheless, as a step towards good corporate governance, we have appointed one (1) Independent Non-Executive Chairman, three (3) Independent Non-Executive Directors and an Audit Committee have been set up to ensure that all future transactions involving related parties, if any, are entered into on arms-length basis, or normal commercial terms that are not more favourable to the related parties than those generally available to third parties and are not to the detriment of our minority shareholders.

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**4. RISK FACTORS (Cont'd)**

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**4.4.3 Forward-looking/prospective statements**

Certain statements in this Prospectus are based on historical data of our Group which may not be reflective of future results and others are forward-looking in nature that are based on assumptions and subject to uncertainties and contingencies which may or may not be achievable. Whether such statements would ultimately prove to be accurate depends upon a variety of factors that may affect our businesses and operations, and such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, plans, performances and achievements, expressed or implied, by such prospective statements. Although we believe that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such prospective statements or expectations will prove to be correct in the future. Any deviation from the expectations may have a material adverse effect on our business and financial performance.

The above is not an exhaustive list of challenges we are currently facing or that may develop in the future. Additional risks whether known or unknown, may in the future have a material adverse effect on us and/or our IPO Shares.

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## 5. GENERAL INFORMATION ON OUR GROUP

### 5.1 INCORPORATION AND HISTORY

Our Group's history can be traced back to 1983 with the founding of our subsidiary, SCHSB by Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. SCHSB began its operations as a distributor and supplier of general industrial products for various industries located in a rented premise at Jalan Loke Yew, Kuala Lumpur.

During that period, the majority of trading companies offer only certain range of quarry industrial products. To better compete and differentiate ourselves from other trading companies, SCHSB under the stewardship of Lau Mong Ling decided to focus on solely supplying quarry industrial products that are used in the quarry industry instead.

The repositioning of SCHSB as a quarry industrial products supplier was timely, as it was in line with the Fourth (4<sup>th</sup>) Malaysian Plan by the Government's five (5) year plan, where the Government emphasised on the development of various infrastructure facilities around Malaysia, which led to the construction boom in Malaysia during the mid-1980s. It was therefore an opportune time for SCHSB to capitalise the growing demand for quarry industrial products by the quarry industry to produce various construction materials for the construction and building industry in Malaysia.

In 1985, our Group's first distribution centre outside of Klang Valley was established in Butterworth, Penang through the establishment of SCH (Butterworth), as means to cater to the quarry industry's growing needs and demand in the northern region of Malaysia. The establishment of the said distribution centre helped to minimise transportation costs and improve the delivery time to our customers in the northern region.

Following the success of our distribution centre in Butterworth, our Group then focused on expanding the types of products supplied to the quarry industry. This was done in order to capture higher market share and improve our market position while at the same time, distinguishing ourselves from the rest of our competitors. During this period, our Group also manage to expand our customer base, and supply products directly to end-users such as quarry operators. In 1988, we moved out from our rented premise in Jalan Loke Yew, Kuala Lumpur to a bigger premise located at Taman Shamelin Perkasa, Kuala Lumpur to better facilitate our growth and business expansion in the Klang Valley.

The 1990's saw our Group embarking on an expansion plan that would increase our distribution network around Malaysia. In 1991, we expanded our business and geographic coverage in East Malaysia, with the incorporation of SCH (Sabah) located in Kota Kinabalu, Sabah. This is part of our Group's strategy to tap into Sabah's growing primary industries which included quarry and mining industries.

In 1992, our Group further expanded our distribution coverage to include the southern region of Malaysia, with the opening our third (3<sup>rd</sup>) distribution centre in Johor Bahru through the incorporation of SCH (Johore). In 1994, our Group opened our fourth (4<sup>th</sup>) distribution centre in Kuantan, Pahang through SCH (Kuantan). Our Group then further expanded our penetration into the quarry market in East Malaysia by opening our fifth (5<sup>th</sup>) distribution centre in Kuching, Sarawak in 1997 through SCH (Sarawak). Through our distribution centres located in strategic locations nationwide, our Group managed to provide timely services to our end-user based customers in the quarry industry in an efficient manner while saving time, costs and resources.

In 1999, our Group acquired a wire-mesh factory which resulted in the establishment of SCHWM. The acquisition and establishment of the wire-mesh factory and company was part of our Group's plan to offer a more comprehensive range of products to the quarry industry in Malaysia. In 2000, our Group expanded into Singapore with the establishment of Italiaworld,

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

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which is principally involved in the distribution of all kinds quarry industrial products for the quarry industry in the South East Asia region mainly Singapore and Indonesia.

In 2005, SCHSB's business operations were relocated to our current premise located in Balakong, Selangor. In 2006, our Group ventured into the offering of quarry machinery and quarry equipment for use in the quarry industry through the establishment of SCHME. The penetration into the quarry machinery and quarry equipment business was part of our Group's overall strategy of providing comprehensive quarry product-based offerings to our customers in the quarry industry while maintaining our competitiveness as a comprehensive quarry industrial products supplier in Malaysia. Our experience in the quarry industry has also played a part in the decision to expand into the provision of quarry machinery and quarry equipment, as our Group saw the demand for more affordable quarry machinery and quarry equipment made from Asian countries, as opposed to higher priced European machinery.

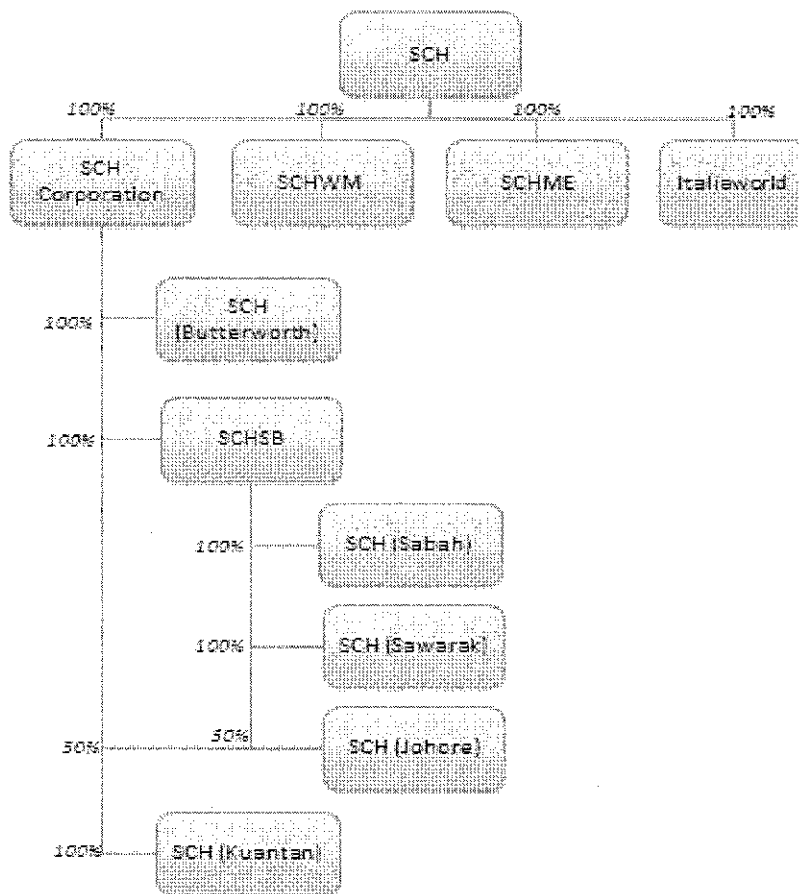
In 2008, our Group commenced distribution of Nakayama and Junjin CSM's range of quarry machinery and quarry equipment to the quarry industry. Our Group sold our first Nakayama vertical-shaft impact crusher to YTL group of companies, one of Malaysia's leading conglomerates. In 2010, our Group ventured into the reconditioned quarry machinery business segment.

Owing to the dynamism and experience of our Promoters, our business grew rapidly over the years and has now transformed into a major player in the quarry machinery and equipment market with a wide distribution network covering the major economic regions in Malaysia and having with a market share of 17.2% of the quarry equipment and machinery market in Malaysia in 2012. This increase in geographical spread has given our Group a strong competitive advantage over our competitors in providing fast turnaround service to our customers' requirements and also has enabled our Group to penetrate a wider market and gaining a larger market share in the quarry industry.

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## 5. GENERAL INFORMATION ON OUR GROUP (Cont'd)

Our Group structure as at the LPD and prior to our IPO is diagrammatically summarised below:-



**Note:-**

^ The substantial shareholders of SCH (Johore) are SCH Corporation and SCHSB, holding 150,000 shares or 50% equity interest each in SCH (Johore).

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.2 SHARE CAPITAL**

Our authorised share capital is RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each, of which RM32,154,202 comprising 321,542,000 Shares have been issued and fully paid-up as at the LPD. The movements in our issued and paid-up share capital since the date of our incorporation are set out below:-

Date of Allotment	No. of SCH Shares Allotted	Par Value RM	Consideration/ Types of Issue	Resultant Issued and Paid-up Share Capital RM
22 December 2011	2	1.00	RM2/Subscribers' shares	2
31 January 2012 <sup>^</sup>	20	0.10	RM2/Share split	2
11 November 2013	321,542,000	0.10	RM32,154,200/Acquisitions	32,154,202

**Note:-**

<sup>^</sup> On 31 January 2012, our Company had undertaken a share split whereby two (2) ordinary shares of RM1.00 each was sub-divided into 20 ordinary shares of RM0.10 each, which is held by Zaharah binti Md Radzi and Rawani binti Ahmad of 10 ordinary shares of RM0.10 each. As part of our IPO, Zaharah binti Md Radzi and Rawani binti Ahmad, whom are employees of Boardroom.com Sdn Bhd, our secretarial firm, were appointed as nominees of our Company to facilitate the establishment of our Company. Both Zaharah binti Md Radzi and Rawani binti Ahmad have resigned as directors of our Company on 31 March 2012 and the subscribers' shares held by them has been transferred to Lau Mong Ling on 11 November 2013.

As at the LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment. Upon completion of our IPO, our enlarged issued and paid-up share capital will be increased to RM41,223,402 comprising 412,234,020 Shares.

**5.3 ACQUISITIONS**

In preparation for our Listing, we have undertaken the Acquisitions. Under the Acquisitions, our Company had entered into four (4) sale and purchase agreements to acquire the entire equity interest in SCH Corporation, SCHWM, SCHME and Italiaworld. The Acquisitions were completed on 11 November 2013.

The new Shares issued pursuant to the Acquisitions shall rank *pari passu* in all respects with our existing issued Shares including the voting rights and will be entitled to all rights and dividends and other distributions, the entitlement date of which are subsequent thereof.

**5.3.1 Acquisition of SCH Corporation**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between our Company and the vendors of SCH Corporation, being Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin, our Company acquired SCH Corporation's entire issued and paid-up share capital of RM7,880,002 comprising 7,880,002 ordinary shares of RM1.00 each for a total purchase consideration of RM23,556,900, which was wholly satisfied by the issuance of 235,569,000 new Shares at an issue price of RM0.10 per Share on 11 November 2013. Immediately thereafter, SCH Corporation became a wholly-owned subsidiary of SCH.

The purchase consideration of SCH Corporation of RM23,556,900 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited consolidated NA position of SCH Corporation as at 31 August 2012 of RM23,556,869.

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.3.2 Acquisition of SCHWM**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between our Company and the vendors of SCHWM, being Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin, Au Yong Sau Kuen and Wong Sang @ Wong Hock Lim, our Company acquired SCHWM's entire issued and paid-up share capital of RMS00,000 comprising S00,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,070,200, which was wholly satisfied by the issuance of 20,702,000 new Shares at an issue price of RM0.10 per Share on 11 November 2013. Immediately thereafter, SCHWM became a wholly-owned subsidiary of SCH.

The purchase consideration of SCHWM of RM2,070,200 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited NA position of SCHWM as at 31 August 2012 of RM2,070,194.

**5.3.3 Acquisition of SCHME**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between our Company and the vendors of SCHME, being Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin and Lim Lee Pooi, our Company acquired SCHME's entire issued and paid-up share capital of RM400,000 comprising 400,000 ordinary shares of RM1.00 each for a purchase consideration of RMS,631,S00, which was wholly satisfied by the issuance of S6,31S,000 new Shares at an issue price of RM0.10 per Share on 11 November 2013. Immediately thereafter, SCHME became a wholly-owned subsidiary of SCH.

The purchase consideration of SCHME of RMS,631,S00 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited NA position of SCHME as at 31 August 2012 of RMS,631,4S8.

**5.3.4 Acquisition of Italiaworld**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between our Company and the vendors of Italiaworld, being Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin, our Company has acquired Italiaworld's entire issued and paid-up share capital of SGD100,000 comprising 100,000 ordinary shares for a total purchase consideration of RM89S,600, which was wholly satisfied by the issuance of 8,956,000 new Shares at an issue price of RM0.10 per Share on 11 November 2013. Immediately thereafter, Italiaworld become a wholly-owned subsidiary of SCH.

The purchase consideration of Italiaworld of RM89S,600 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited NA position of Italiaworld as at 31 August 2012 of SGD3S9,S28 (equivalent to RM89S,S12, based on the exchange rate of SGD1.00:RM2.4908 as at 31 August 2012).

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## 5. GENERAL INFORMATION ON OUR GROUP (Cont'd)

### 5.4 LISTING SCHEME

In conjunction with, and as an integral part of our Listing, the details of our Listing Scheme are as follows:-

#### (I) Public Issue

Pursuant to our Public Issue, we shall issue 90,692,000 new Shares at our IPO Price to be allocated in the following manner:-

- (a) 13,000,000 Issue Shares will be made available for application by the Malaysian Public, to be allocated via balloting, to the following:-
  - (i) 6,500,000 Shares made available to public investors; and
  - (ii) 6,500,000 Shares allocated to Bumiputera public investors.
- (b) 13,000,000 Issue Shares made available to our eligible Directors, employees and business associates/persons who have contributed to the success of our Group; and
- (c) 64,692,000 Issue Shares by way of private placement to selected investors to the following:-
  - (i) 45,030,000 Shares by way of private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry; and
  - (ii) 19,662,000 Shares by way of private placement to identified investors.

The Issue Shares shall rank *pari passu* in all respects with our existing issued Shares including the voting rights and will be entitled to all rights and dividends and other distributions, the entitlement date of which are subsequent thereof.

Upon completion of our Public Issue, our issued and paid-up share capital will increase from RM32,154,202 comprising 321,542,020 Shares to RM41,223,402 comprising 412,234,020 Shares.

#### (II) Offer for Sale

Concurrent with our Listing, our Company will undertake an offer for sale of 32,980,000 Shares at our IPO Price. Our Offerors are offering for sale 32,980,000 Offer Shares, representing approximately 8.0% of our enlarged issued and paid-up share capital to selected investors. The Offer Shares are payable in full on application upon such terms and conditions as set out in this Prospectus.

#### (III) Listing

Upon completion of our IPO, our Company's entire enlarged issued and paid-up share capital of RM41,223,402 comprising 412,234,020 Shares shall be listed on the ACE Market of Bursa Securities.

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.5 SUBSIDIARIES**

All of our subsidiaries are wholly-owned by our Company. As at the date of this Prospectus, we do not have any associated companies. Details of our subsidiaries are summarised as follows:-

Company	Date/ Place of incorporation	Date of commencement of business	Authorised share capital  RM (unless otherwise stated)	Issued and paid-up share capital  RM (unless otherwise stated)	Effective equity interest  %	Principal activities
<b>Subsidiaries held by our Company</b>						
SCH Corporation	13 January 1993/ Malaysia	3 June 1996	25,000,000	7,880,002	100.00	Investment holding
SCHWM	S March 1999/ Malaysia	S March 1999	500,000	500,000	100.00	Manufacturing and distribution of quarry grill
SCHME	17 August 2006/ Malaysia	17 August 2006	500,000	400,000	100.00	Supplying and distributing quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry
Italiaworld	29 April 2000/ Singapore	29 April 2000	SGD100,000	SGD100,000	100.00	Supplying and distributing all kinds of quarry industrial products to the quarry industry in the South East Asia region mainly Singapore and Indonesia
<b>Subsidiaries held by SCH Corporation</b>						
SCHSB	9 September 1983/ Malaysia	9 September 1983	10,000,000	6,000,000	100.00	Supplying and distributing all kinds of quarry industrial products and quarry machinery in the central region of peninsular Malaysia

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

Company	Date/ Place of incorporation	Date of commencement of business	Authorised share capital  RM (unless otherwise stated)	Issued and paid-up share capital RM (unless otherwise stated)	Effective equity interest  %	Principal activities
5CH (Butterworth)	27 July 1983/ Malaysia	27 July 1983	500,000	500,000	100.00	Distributing all kinds of quarry industrial products to the quarry industry in the northern region of peninsular Malaysia
5CH (Kuantan)	23 November 1993/ Malaysia	16 June 1994	500,000	100,000	100.00	Distributing all kinds of quarry industrial products to the quarry industry in the eastern region of peninsular Malaysia
5CH (Johore)^	18 November 1992/ Malaysia	22 February 1993	500,000	300,000	^50.00	Distributing all kinds of quarry industrial products to the quarry industry in the southern region of peninsular Malaysia
<b>Subsidiaries held by SCHSB</b>						
5CH (Sabah)	15 November 1991/ Malaysia	15 November 1991	500,000	300,005	100.00	Distributing all kinds of quarry industrial products to the quarry industry in the north east of east Malaysia
5CH (Sarawak)	12 May 1997/ Malaysia	2 July 1997	500,000	300,000	100.00	Distributing all kinds of quarry industrial products to the quarry industry in the north west of east Malaysia

**Note:-**

^ The substantial shareholders of 5CH (Johore) is 5CH Corporation and SCHSB, holding 150,000 shares or 50% equity interest each in 5CH (Johore).

**5.5.1 SCH Corporation****(a) History and business**

5CH Corporation was incorporated in Malaysia under the Act on 13 January 1993 as a private limited company under the name of Iwin Venture 5dn Bhd. It subsequently changed its company name to Iwin Corporation (Malaysia) 5dn Bhd on 17 September 1994 and assumed its present name since 25 January 1999. 5CH Corporation is principally an investment holding company.

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

There have been no material changes in the manner in which SCH Corporation conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCH Corporation's present authorised share capital is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCH Corporation as at the LPD is RM7,880,002 comprising 7,880,002 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of SCH Corporation since its incorporation are as follows:-

Date of allotment	No. of shares allotted	Par value	Consideration/ Types of issue	Resultant issued and paid-up share capital
		RM		RM
13 January 1993	2	1.00	RM2/Subscribers' shares	2
1 August 1996	7,880,000	1.00	RM7,880,000/ *Acquisition of subsidiaries	7,880,002

**Note:-**

\* Issued pursuant to the share swap for the acquisition of SCHSB, SCH (Johore), SCH (Butterworth) and SCH (Kuantan) by SCH Corporation on 1 August 1996.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCH Corporation. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment, which was subsequently disposed.

**(c) Substantial shareholders and Directors**

SCH Corporation is a wholly-owned subsidiary of our Company and the Directors are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin.

**(d) Subsidiaries and associated companies**

Save for SCHSB, SCH (Butterworth), SCH (Johore) and SCH (Kuantan) being the subsidiaries of SCH Corporation, SCH Corporation does not have any other subsidiary or associated companies.

**5.5.2 SCHWM****(a) History and business**

SCHWM was incorporated in Malaysia under the Act on 5 March 1999 as a private limited company under the name of Initial Freeway Sdn Bhd. It subsequently assumed its present name on 13 May 1999. The principal activities of SCHWM are in the manufacturing and distribution of quarry grill.

There have been no material changes in the manner in which SCHWM conducts its business or activities since the last three (3) years prior to the LPD.

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****(b) Share capital**

SCHWM's present authorised share capital is RMS00,000 comprising S00,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCHWM as at the LPD is RM500,000 comprising S00,000 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of SCHWM since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration/ Types of issue</b>	<b>Resultant issued and paid-up share capital</b>
		<b>RM</b>		<b>RM</b>
S March 1999	2	1.00	RM2/Subscribers' shares	2
16 August 2000	499,998	1.00	RM499,998/Cash	S00,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCHWM. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

SCHWM is a wholly-owned subsidiary of our Company and the Directors of SCHWM are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The alternate Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCHWM. However, they are not employees of SCHWM (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCHWM.

**(d) Subsidiary and associated companies**

As at the LPD, SCHWM does not have any subsidiary or associated company.

**5.5.3 SCHME****(a) History and business**

SCHME was incorporated in Malaysia under the Act on 17 August 2006 as a private limited company under its present name. The principal activities of SCHME are in the supplying and distributing quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry.

There have been no material changes in the manner in which SCHME conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCHME's present authorised share capital is RMS00,000 comprising S00,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCHME as at the LPD is RM400,000 comprising 400,000 ordinary shares of RM1.00 each. The movements

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

in the issued and paid-up share capital of SCHME since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration/ Types of issue</b>	<b>Resultant issued and paid-up share capital</b>
		<b>RM</b>		<b>RM</b>
17 August 2006	3	1.00	RM3/Subscribers' shares	3
28 May 2007	59,997	1.00	RM59,997/Cash	60,000
14 August 2007	40,000	1.00	RM40,000/Cash	100,000
16 April 2009	300,000	1.00	RM300,000/Cash	400,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCHME. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

SCHME is a wholly-owned subsidiary of our Company and the Directors of SCHME are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The alternate Directors are Lau Kok Foo (alternate to Lau Mong Ling), Wong Kim Yong (alternate to Wong Sin Chin) and Yeen Teck Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCHME. However, they are not employees of SCHME and are not involved in the day-to-day operations of SCHME.

**(d) Subsidiary and associated companies**

As at the LPD, SCHME does not have any subsidiary or associated company.

**5.5.4 Italiaworld****(a) History and business**

Italiaworld was incorporated in Singapore under the Singapore Companies Act, Chapter 50 on 29 April 2000 as a private limited company under its present name. Italiaworld is principally engaged in the supply and distribution of all kinds of quarry industrial products to the quarry industry in the South East Asia region mainly Singapore and Indonesia.

There have been no material changes in the manner in which Italiaworld conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

Italiaworld's present authorised share capital is SGD100,000 comprising 100,000 ordinary shares. The movements in issued and paid-up share capital of Italiaworld since its incorporation are as follows:-

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

Date of allotment	No. of shares allotted	Consideration/ Types of issue	Resultant issued and paid-up share capital SGD
29 April 2000	4	4/Subscribers' shares	4
18 May 2005	99,996	99,996/Bonus issue	100,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Italiaworld. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

Italiaworld is a wholly-owned subsidiary of our Company and the Directors of Italiaworld are Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin and Liew Yew Chern.

**(d) Subsidiary and associated companies**

As at the LPD, Italiaworld does not have any subsidiary or associated company.

**5.5.5 SCHSB****(a) History and business**

5CH5B was incorporated in Malaysia under the Act on 9 September 1983 as a private limited company under its present name. The principal activities of 5CH5B are in the supply and distribution of all kinds of quarry industrial products and quarry machinery in the central region of peninsular Malaysia.

There have been no material changes in the manner in which 5CH5B conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

5CH5B's present authorised share capital is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of 5CHSB as at the LPD is RM6,000,000 comprising 6,000,000 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of 5CH5B since its incorporation are as follows:-

Date of allotment	No. of shares allotted	Par value RM	Consideration/ Types of issue	Resultant issued and paid-up share capital RM
9 September 1983	2	1.00	RM2/Subscribers' shares	2
31 October 1983	124,998	1.00	RM124,998/Cash	125,000
17 September 1983	100,000	1.00	RM100,000/Cash	225,000
3 September 1991	125,000	1.00	RM125,000/Cash	350,000
1 October 1992	150,000	1.00	RM150,000/Cash	500,000
28 June 1996	5,500,000	1.00	RM5,500,000/Bonus issue	6,000,000

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCHSB. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

SCHSB is a wholly-owned subsidiary of SCH Corporation and the Directors of SCHSB are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The alternate Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCHSB. However, they are not employees of SCHSB (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCHSB.

**(d) Subsidiaries and associated companies**

As at the LPD, SCHSB's subsidiaries are SCH (Sabah) and SCH (Sarawak). SCHSB does not have any associated company.

**5.5.6 SCH (Sabah)****(a) History and business**

SCH (Sabah) was incorporated in Malaysia under the Act on 1S November 1991 as a private limited company under its present name. SCH (Sabah) is principally involved in the distribution of all kinds of quarry industrial products to the quarry industry in the north east of East Malaysia.

There have been no material changes in the manner in which SCH (Sabah) conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCH (Sabah)'s present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCH (Sabah) as at the LPD is RM300,00S comprising 300,005 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of SCH (Sabah) since its incorporation are as follows:-

Date of allotment	No. of shares allotted	Par value	Consideration/ Types of issue	Resultant issued and paid-up share capital
		RM		RM
1S November 1991	S	1.00	RM5/Subscribers' shares	S
11 January 1992	300,000	1.00	RM300,000/Cash	300,00S

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCH (Sabah). In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.



**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****(c) Substantial shareholders and Directors**

SCH (Sabah) is a wholly-owned subsidiary of SCHSB and the Directors of SCH (Sabah) are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The alternate Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCH (Sabah). However, they are not employees of SCH (Sabah) (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCH (Sabah).

**(d) Subsidiary and associated companies**

As at the LPD, SCH (Sabah) does not have any subsidiary or associated company.

**5.5.7 SCH (Sarawak)****(a) History and business**

SCH (Sarawak) was incorporated in Malaysia under the Act on 12 May 1997 as a private limited company under its present name. SCH (Sarawak) is principally involved in the distribution of all kinds of quarry industrial products to the quarry industry in the north west of East Malaysia.

There have been no material changes in the manner in which SCH (Sarawak) conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCH (Sarawak)'s present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCH (Sarawak) as at the LPD is RM300,000 comprising 300,000 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of SCH (Sarawak) since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration/ Types of issue</b>	<b>Resultant issued and paid-up share capital</b>
		<b>RM</b>		<b>RM</b>
12 May 1997	2	1.00	RM2/Subscribers' shares	2
20 August 1997	299,998	1.00	RM299,998/Cash	300,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCH (Sarawak). In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

SCH (Sarawak) is a wholly-owned subsidiary of SCHSB and the Directors of SCH (Sarawak) are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The alternate

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCH (Sarawak). However, they are not employees of SCH (Sarawak) (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCH (Sarawak).

**(d) Subsidiary and associated companies**

As at the LPD, SCH (Sarawak) does not have any subsidiary or associated company.

**5.5.8 SCH (Butterworth)****(a) History and business**

SCH (Butterworth) was incorporated in Malaysia under the Act on 27 July 1983 as a private limited company under the name of Engineering & Quarry Equipment Sdn Bhd. It then changed its name to Sin Chee Heng (Kedah) Sdn Bhd on 2 October 1989. It subsequently assumed its present name since 7 December 1993. SCH (Butterworth) is principally involved in the distribution of all kinds of quarry industrial products to the quarry industry in the northern region of peninsular Malaysia.

There have been no material changes in the manner in which SCH (Butterworth) conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCH (Butterworth)'s present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCH (Butterworth) as at the LPD is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of SCH (Butterworth) since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration/ Types of issue</b>	<b>Resultant issued and paid-up share capital</b>
		<b>RM</b>		<b>RM</b>
27 July 1983	3	1.00	RM3/ Subscribers' shares	3
28 October 1993	49,997	1.00	RM49,997/Cash	50,000
28 June 1996	200,000	1.00	RM200,000/Bonus Issue	250,000
1 January 2005	250,000	1.00	RM250,000/Cash	500,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCH (Butterworth). In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

SCH (Butterworth) is a wholly-owned subsidiary of SCH Corporation and the Directors of SCH (Butterworth) are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

alternate Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCH (Butterworth). However, they are not employees of SCH (Butterworth) (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCH (Butterworth).

**(d) Subsidiary and associated companies**

As at the LPD, SCH (Butterworth) does not have any subsidiary or associated company.

**5.5.9 SCH (Kuantan)****(a) History and business**

SCH (Kuantan) was incorporated in Malaysia under the Act on 23 November 1993 as a private limited company under its present name. SCH (Kuantan) is principally involved in the distribution of all kinds of quarry industrial products to the quarry industry in the eastern region of peninsular Malaysia.

There have been no material changes in the manner in which SCH (Kuantan) conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCH (Kuantan)'s present authorised share capital is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCH (Kuantan) as at the LPD is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The movements in the issued and paid-up share capital of SCH (Kuantan) since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration/ Types of issue</b>	<b>Resultant issued and paid-up share capital</b>
		<b>RM</b>		<b>RM</b>
23 November 1993	4	1.00	RM4/ Subscribers' shares	4
28 June 1996	99,996	1.00	RM99,996/Cash	100,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCH (Kuantan). In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

**(c) Substantial shareholders and Directors**

SCH (Kuantan) is a wholly-owned subsidiary of SCH Corporation and the Directors of SCH (Kuantan) are Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin. The alternate Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCH (Kuantan). However, they are not employees of SCH (Kuantan) (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCH (Kuantan).

**(d) Subsidiary and associated companies**

As at the LPD, SCH (Kuantan) does not have any subsidiary or associated company.

**5.5.10 SCH (Johore)****(a) History and business**

SCH (Johore) was incorporated in Malaysia under the Act on 18 November 1992 as a private limited company under its present name. SCH (Johore) is principally involved in the distribution of all kinds of quarry industrial products to the quarry industry in the southern region of peninsular Malaysia

There have been no material changes in the manner in which SCH (Johore) conducts its business or activities since the last three (3) years prior to the LPD.

**(b) Share capital**

SCH (Johore)'s present authorised share capital is RMS00,000 comprising S00,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of SCH (Johore) as at the LPD is RM300,000 comprising 300,000 ordinary shares of RM1.00 each. The movements in issued and paid-up share capital of SCH (Johore) since its incorporation are as follows:-

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Par value</b>	<b>Consideration/ Types of issue</b>	<b>Resultant issued and paid-up share capital</b>
		<b>RM</b>		<b>RM</b>
18 November 1992	S	1.00	RMS/ Subscribers' shares	S
6 December 1993	99,995	1.00	RM99,995/Cash	100,000
28 June 1996	50,000	1.00	RMS0,000/Bonus issue	150,000
25 September 2003	150,000	1.00	RM150,000/Cash	300,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SCH (Johore). In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****(c) Substantial shareholders and Directors**

The details of the substantial shareholders of SCH (Johore) as at the LPD are as follows:-

Name	Place of Incorporation	<----Direct---->		<----Indirect---->	
		No. of shares	%	No. of shares	%
SCH Corporation	Malaysia	150,000	50.00	-	-
SCHSB	Malaysia	150,000	50.00	-	-

The Directors of SCH (Johore) are Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin and Lim Lee Pooi. The alternate Directors are Lau Li Li (alternate to Lau Mong Ling), Wong Kin Seng (alternate to Wong Sin Chin) and Yeen Wei Yin (alternate to Yeen Yoon Hin).

The alternate Directors are the child of the respective Directors and represent the Directors at the Board meeting in the absence of the Director of SCH (Johore). However, they are not employees of SCH (Johore) (save for Wong Kin Seng, who is our Business Development Manager) and are not involved in the day-to-day operations of SCH (Johore).

**(d) Subsidiary and associated companies**

As at the LPD, SCH (Johore) does not have any subsidiary or associated company.

**5.6 MAJOR APPROVALS AND LICENSES****5.6.1 Major approvals, licenses and permits**

Save for the general business licenses possessed by our Group as disclosed below, as at the LPD there are no other major approvals, major licenses and permits issued to our Group in order for us to carry out our operations other than those pertaining to the general business requirements.

Our Group is not required to obtain any manufacturing business licenses under the Industrial Coordination Act, 1975 or under any local state laws for our manufacturing and distribution of quarry grills business segment as it does not meet the minimum requirements required under these laws and acts to apply for a manufacturing license.

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

As at the LPD, our general business is as follows:-

No.	Issuing Authority/Company/ Registration No.	Date of Issue	Date of Expiry	Nature of Approval/ Licenses	Equity and/or Major Conditions Imposed	Compliance status
1.	Majlis Perbandaran Kajang/ SCHSB License No:- L-18209	31 December 2012	31 December 2013	Business license	To be exhibited in the licensed premise	Complied
2.	Majlis Perbandaran Johor Bahru Tengah/SCH (Johore) License No:- L-2301145	31 December 2012	31 December 2013	Business license	To be exhibited in the licensed premise	Complied
3.	Majlis Perbandaran Kuantan/ SCH (Kuantan) License No:- L-4014600041998	31 December 2012	31 December 2013	Business license	To be exhibited in the licensed premise	Complied
4.	Majlis Perbandaran Seberang Perai/SCH (Butterworth) License No:- 5101264631	4 January 2013	9 January 2014	Storage and business license	To be exhibited in the licensed premise	Complied
5.	Majlis Perbandaran Kota Kinabalu/SCH (Sabah) License No:- DBKK 264319	31 December 2012	31 December 2013	Business license	To be exhibited in the licensed premise	Complied
6.	Kerajaan Negeri Sarawak/ SCH (Sarawak) License No:- 604050	3 October 2013	17 September 2014	Business license	To be exhibited in the licensed premise	Complied
7.	Majlis Perbandaran Kajang/ SCHWM License No:- L-6633	31 December 2012	31 December 2013	Business License	To be exhibited in the licensed premise	Complied

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.7 PROPERTIES OF OUR GROUP****5.7.1 Properties occupied and owned by our Group**

The summary details of the information on the material land and buildings owned by our Group as at the LPD are set out below:-

No.	Registered owner/ Title Details/ Postal address	Description of property/ Existing Use/ Tenure/Expiry of Lease	Express Condition/ Restriction in interest	Category of Land Use/ Land Area/ Built-up area sq m	Audited NBV as at 31 August 2013 RM	Date of Issuance of Certificate of Fitness for Occupation	Encumbrances
1.	<b><u>SCH (Johore)</u></b>						
(a)	Individual title held under HSD 227114, Lot PTD 62687, Mukim Pulau, Daerah Johor Bahru, Negeri Johor	3-storey shophouse Rented to an individual	To be used for three (3)-storey shophouse for business and residence built according to the plan approved by the local authority. All wastes and pollution from activities must be disposed to the places approved by the local authority. To adhere to all terms and conditions enforced by the local authority.	Building (Land use)  204 (Land)	434,871	1 November 1997	Charged to CIMB Bank Berhad
	No. 18, 18-1 and 18-2, Jalan Sri Perkasa 1/6, Taman Tampoi Utama, 81200 Johor Bahru, Johor Darul Takzim®	99 years lease expiring on 13 April 2094	Cannot be sold or transferred to foreigner without state authority consent.	318 (Built-up area)			

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

No.	Registered owner/ Title Details/ Postal address	Description of property/ Existing Use/ Tenure/Expiry of Lease	Express Condition/ Restriction in interest	Category of Land Use/ Land Area/ Built-up area sq m	Audited NBV as at 31 August 2013 RM	Date of Issuance of Certificate of Fitness for Occupation	Encumbrances
2.	<b>SCHSB</b>						
(a)	Individual title held under Geran 1S2419, Lot 32063, Mukim Pulai, Daerah Johor Bahru, Negeri Johor	1½ storey terrace factory  Warehouse	To be used for light industry two (2)-storey terrace factory built according to the plan approved by the local authority. All wastes and pollution from activities must be disposed to the places approved by the local authority. To adhere to all terms and conditions enforced by the local authority.  Cannot be transferred unless the factory stated in express conditions has been build.	Industrial (Land use)  223 (Land Area)  222 (Built-up area)	237,600	8 January 1994	None
(b)	Individual title held under Geran 1S2414, Lot 32061, Mukim Pulai, Daerah Johor Bahru, Negeri Johor	1½ storey terraced factory  Regional office of SCH (Johore) and warehouse.	To be used for light industry two (2)-storey terrace factory built according to the plan approved by the local authority. All wastes and pollution from activities must be disposed to the places approved by the local authority. To adhere to all terms and conditions enforced by the local authority.	Industrial (Land use)  223 (Land Area)  318 (Built-up area)	340,000	8 January 1994	Charged to CIMB Bank Berhad
	No. 32, Jalan Perdagangan 4, Taman Universiti, 81300 Skudai, Johor Bahru, Johor Darul Takzim	Freehold					
	No. 36, Jalan Perdagangan 4, Taman Universiti, 81300 Skudai, Johor Bahru, Johor Darul Takzim	Freehold					



**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

No.	Registered owner/ Title Details/ Postal address	Description of property/ Existing Use/ Tenure/Expiry of Lease	Express Condition/ Restriction in interest	Category of Land Use/ Land Area/ Built-up area sq m	Audited NBV as at 31 August 2013 RM	Date of Issuance of Certificate of Fitness for Occupation	Encumbrances
			Cannot be transferred unless the factory is completed in accordance with the local authority plan.				
(c)	Strata title held under Geran S9390/M1/2/4, Bangunan No. M1, Tingkat No. 2, Petak No. 4, Lot S2468, Bandar Selayang, Daerah Gombak, Negeri Selangor  No. 18-1B, Jalan SBC 3, Taman Sri Batu Caves, 68100, Selangor Darul Ehsan	Apartment  Rented to individual  Freehold	None	Commercial (Land use)  #N/A (Land Area)  59 (Built-up area)	S6,234	23 September 2000	None
(d)	Individual title held under Geran 118306, Lot 37285, Pekan Kajang, Daerah Ulu Langat, Negeri Selangor  No. 3, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan <sup>(1)</sup>	1½ storey semi- detached factory  Head-office of SCHSB and warehouse  Freehold	For industry use only  No restriction in interest	Industrial (Land use)  1,599 (Land Area)  952 (Built-up area)	2,520,750	23 March 1998	Charged to Public Bank Berhad

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

No.	Registered owner/ Title Details/ Postal address	Description of property/ Existing Use/ Tenure/Expiry of Lease	Express Condition/ Restriction in interest	Category of Land Use/ Land Area/ Built-up area sq m	Audited NBV as at 31 August 2013  RM	Date of Issuance of Certificate of Fitness for Occupation	Encumbrances
(e)	2 individual titles held under Geran 118304, Lot 37283 & Geran 118305, Lot 37284, respectively Pekan Kajang, Daerah Ulu Langat, Negeri Selangor  No. 5 and No. 7, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan <sup>(1)</sup>	Open sided single storey detached factory  Warehouse and manufacturing factory  Freehold	For industry use only  No restriction in interest	Industrial (Land use)  *1,115 (Land Area)  *990 (Built-up area)	900,000	10 October 2001	Charged to Public Bank Berhad
(f)	Individual title held under H.S.(M) 13156, PT 23677, Mukim Ceras, Tempat Ceras Jaya, Daerah Hulu Langat, Negeri Selangor  Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Ceras Jaya, 43200 Ceras, Selangor Darul Ehsan	Vacant industrial land  Currently vacant. To build a new operation facility in the future  99 years lease expiring on 30 December 2098	For industry use only  Cannot be transferred or charged without the state authority consent	Industrial (Land use)  8,510 (Land Area)  ^N/A (Built-up area)	4,216,532	N/A	Charged to United Overseas Bank (Malaysia) Berhad

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

No.	Registered owner/ Title Details/ Postal address	Description of property/ Existing Use/ Tenure/Expiry of Lease	Express Condition/ Restriction in interest	Category of Land Use/ Land Area/ Built-up area sq m	Audited NBV as at 31 August 2013 RM	Date of Issuance of Certificate of Fitness for Occupation	Encumbrances
3.	<b>SCH Kuantan</b>						
(a)	Individual title held under PN 4661, Lot 44677, Mukim Kuala Kuantan, Daerah Kuantan, Negeri Pahang  No. 3, Jalan Industri Tanah Putih Baru 5, Batu 3, Kawasan Perindustrian Perdana Jaya, Tanah Putih, Jalan Gambang, 25150 Kuantan, Pahang Darul Makmur	1½ storey terrace factory  Regional office for SCH (Kuantan) and warehouse  99 years lease expiring on 3 October 2075	For industrial building only  Cannot be transferred, leased or charged without written consent from state authority	Business buildings (Land use)  149 (Land Area)  188 (Built-up area)	161,256	9 October 1997	Charged to CIMB Bank Berhad
(b)	Individual title held under PN 4662, Lot 44676, Mukim Kuala Kuantan, Daerah Kuantan, Negeri Pahang Darul Makmur  No. 1, Jalan Industri Tanah Putih Baru 5, Batu 3, Kawasan Perindustrian Perdana Jaya, Tanah Putih, Jalan Gambang, 25150 Kuantan, Pahang Darul Makmur	1½ storey terrace factory  Regional office for SCH (Kuantan) and warehouse  99 years lease expiring on 3 October 2075	For industrial building only  Cannot be transferred, leased or charged without written consent from state authority	Business buildings (Land use)  177 (Land Area)  244 (Built-up area)	173,352	9 October 1997	Charged to CIMB Bank Berhad

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

No.	Registered owner/ Title Details/ Postal address	Description of property/ Existing Use/ Tenure/Expiry of Lease	Express Condition/ Restriction in interest	Category of Land Use/ Land Area/ Built-up area sq m	Audited NBV as at 31 August 2013 RM	Date of Issuance of Certificate of Fitness for Occupation	Encumbrances
4.	<b><u>SCH Sabah</u></b>						
	Master title held under Parent Title Lot No. 33 (MPKK No. 6) Title Country Lease No. 015022769, District of Kota Kinabalu, Sabah	Double storey terrace light industrial warehouse cum office	Cannot be transferred or charged without Government permission	Industrial (Land use)  439 (Land Area)	348,766	18 August 2000	Assigned to Malayan Banking Berhad
	Lot 6, Lorong Makat 3, Estate Perindustrian, Makat 88450 Kolombong, Sabah	Regional office for SCH (Sabah) and warehouse  999 years lease expiring on 17 August 2923		418 (Built-up area)			
S.	<b><u>SCH Butterworth</u></b>						
	Individual title held under held HSD 15745, PT S78, Mukim 06, Daerah Seberang Perai Tengah, Negeri Pulau Pinang	Double storey semi-detached light industrial factory	For industrial use only No restriction in interest	Industrial (Land use)  374 (Land Area)	374,352	26 November 1996	Charged to Malayan Banking Berhad
	No. 1, Lorong Nagasari 23, Taman Nagasari, Seberang Perai 13600 Pulau Pinang	Regional office for SCH (Butterworth) and warehouse  Freehold		129 (Built-up area)			

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## 5. GENERAL INFORMATION ON OUR GROUP (*Cont'd*)

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**Notes:-**

- (1) *These properties has extensions erected thereon consisting of awnings and extended roofing at the side, front and back portions ("Extensions"). These Extensions were made to accommodate additional storage spaces for storing our Group's inventories. The application for the temporary Certificate of Fitness for these Extensions has been approved by Majlis Perbandaran Kajang on 23 October 2013.*
- @ *Our Group intends to maintain this property to generate rental yield income for our Group.*
- \* *The properties located on No. S & 7, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan is a combined factory unit built across both lands. As such, the total built-up area of the factory is 990 sq m across both lands.*
- ^ *N/A as no building has been erected/build on this land. However, we have plans to build our new operation facility upon our successful Listing. Further details of our future plans are further elaborated in Section 6.15 of this Prospectus.*
- # *N/A as there is no measurement of the total land area occupied. These properties include shop houses and apartment units.*

There are no non-compliance with current statutory requirements, relevant land laws and building regulations in respect of the above properties owned by our Group. In addition, none of the properties disclosed above are in breach of any land use conditions or permissible land use.

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.7.2 Properties occupied which are rented by our Group**

The details of material properties rented by us as at the LPD are set out below:-

No.	Address	Owner/ Tenant	Description/ Existing Use	Built-up area sq m	Period of Tenancy/ Rental per annum RM	Date of Issuance of Certificate of Fitness for Occupation
1.	Lot 7782-S, Batu 12½ Serdang Lama, 43300 Seri Kembangan, Selangor Darul Ehsan	Low Han Leong Brothers Sdn Bhd/SCHS8	Open sided single storey detached factory/Storage facility	1,561	1 August 2013 to 31 July 2015/ RM187,200	*Not available
2.	Lot 236S, Block 233, Batu Kitang Light Industrial Park, 7½ Miles, Jalan Batu Kitang, 93250 Kuching, Sarawak	Kong Shian Lee and Ho Yune Lin/ SCH (Sarawak)	1½ Storey reinforced concrete semi-detached light industrial workshop/ Industrial workshop	635	1 March 2009 to 28 February 2014/ RM21,000	26 November 2002
3.	280, Woodlands Industrial Park ES @ Woodlands, #08-34 Singapore 757322	Wong & Lee Trading Enterprise/ Italiaworld	Office lot/ Regional office of Italiaworld	177	1 April 2013 to 31 March 2016/ ^SGD3,103 per month	7 March 2013

**Notes:-**

\* Not available as the Certificate of Fitness has not been issued for this property as at the LPD. As such, SCHS8 has provided an undertaking to relocate from the above mentioned property to our new operation facility located at H.S.(M) 13156, PT 23677, Mukim Ceras, Tempat Ceras Jaya, Daerah Hulu Langat, Negeri Selangor bearing the postal address of Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Ceras Jaya, 43200 Ceras, Selangor Darul Ehsan. We shall relocate from the above mentioned property to our new operation facility within six (6) months from the completion of construction of the said facility, which its overall construction is estimated to be completed within thirty-six (36) months from the date of our Listing.

^ Equivalent to RM8,007.60 (based on the exchange rate of SGD1.00:RM2.5806) inclusive of 7% Government service tax (GST) of Singapore.

Our Group has also rented several other accommodations/residential properties for our foreign workers for a total rental amount of approximately RM1,500 per month. We do not deem these rented properties to be material to our Group as we do not foresee any difficulties in securing alternative accommodation for our foreign workers should the said rental arrangements be terminated.

Save as disclosed above, there is no non-compliance with current statutory requirements, land rules or building regulations in respect of the landed properties owned/leased by our Group. In addition, none of the above land has breached any land use condition or permissible land use.

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.7.3 Business Location**

Our Group's head office is located at No. 3, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan. Details of the locations of business where our Group operates from are set out below:-

<b>Company</b>	<b>Address</b>	<b>Purpose</b>
SCHWM	No. S & 7, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan	Manufacturing and distribution of quarry grill
SCHME	No. 3, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan	Supplying and distributing quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry
Italiaworld	280, Woodlands Industrial Park E5 @ Woodlands, #08-34 Singapore 757322	Supplying and distributing all kinds of quarry industrial products to the quarry industry in the South East Asia region mainly Singapore and Indonesia
SCHSB	No. 3, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan	Headquarters office, supplying and distributing all kinds of quarry industrial products and quarry machinery in the central region of peninsular Malaysia
SCH (Sabah)	Lot 6, Lorong Makat 3, Estate Perindustrian, Makat Kolombong, 88450 Kolombong, Sabah	Distributing all kinds of quarry industrial products to the quarry industry in the north east of east Malaysia
SCH (Sarawak)	Lot 236S, Block 233, Batu Kitang Light Industrial Park, 7½ Miles, Jalan Batu Kitang, 93250 Kuching, Sarawak	Distributing all kinds of quarry industrial products to the quarry industry in the north west of east Malaysia
SCH (Butterworth)	No. 1, Lorong Nagasari 23, Taman Nagawari, 13600 Seberang Prai, Pulau Pinang	Distributing all kinds of quarry industrial products to the quarry industry in the northern region of peninsular Malaysia
SCH (Johore)	No. 36, Jalan Perdagangan 4, Taman Universiti, 81300 Skudai, Johor Bharu, Johor Darul Takzim	Distributing all kinds of quarry industrial products to the quarry industry in the southern region of peninsular Malaysia
SCH (Kuantan)	No. 1 & 3, Jalan Industri, Tanah Putih Baru S, Batu 3, Jalan Gambang, 25150 Kuantan, Pahang Darul Makmur	Distributing all kinds of quarry industrial products to the quarry industry in the eastern region of peninsular Malaysia

**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)****5.7.4 Acquisitions of Properties during the two (2) years preceding the date of this Prospectus**

Our Group has not acquired any properties during the past two (2) years preceding the date of this Prospectus.

**5.7.5 Material Plant and Equipment**

As at 31 August 2013, details of the material plant and equipment used by our Group for the manufacturing of quarry grill are set out below:-

<b>Material Plant and Equipment</b>	<b>Number of units</b>	<b>NBV as at 31 August 2013 RM'000</b>
Crimping machine	8	223
Weaving loom machine	6	18
Forklift	10	1
Volta belt joint machine	3	129
<b>Total</b>	<b>27</b>	<b>371</b>

**5.7.6 Regulatory Requirements and Environmental Issues**

There are no regulatory requirements and/or major environmental issues which may affect our Company's operations arising from the utilisation of our assets.

**5.7.7 Material Capital Expenditures and Divestitures**

Save as disclosed below, there were no other material capital expenditures (including interests in other corporations) made by us for the past four (4) financial years:-

<b>Description</b>	<b>FYE 2010 RM'000</b>	<b>FYE 2011 RM'000</b>	<b>FYE 2012 RM'000</b>	<b>FYE 2013 RM'000</b>
Leasehold land	*4,392	-	-	-
Plant and Machinery	-	(1)854	(2)888	-
Motor Vehicles <sup>(3)</sup>	1,531	652	910	1,265
<b>Total</b>	<b>5,923</b>	<b>1,506</b>	<b>1,798</b>	<b>1,265</b>

**Notes:-**

\* This is in relation to the purchase of the leasehold vacant industrial land by SCHSB on 31 March 2010. Further details of this leasehold vacant industrial land are further described in Section 5.7.1(g) above. This amount includes the capitalisation of the capital expenditures incurred for the purchase of this leasehold vacant industrial land, involving professional fees and stamp duty of RM57,999.50 and RM120,414, respectively.

(1) Purchase by SCHME of one (1) unit of Junjin CSM hydraulic crawler drill for a purchase cost of RM0.76 million and crimping machine at a purchase consideration of RM94,000. The Junjin CSM hydraulic crawler drill was purchased with the intention of renting it out to our customers, consisting of small quarry operators who do not have the financial capability of purchasing and maintaining the hydraulic crawler drill. We charged a monthly rental of approximately RM20,000 a month, for a period of three (3) years. The crimping machine is used to manufacture our quarry grills and is purchased to improve the efficiency of our quarry grills manufacturing production line. Our Group's policy on renting of our quarry machinery and quarry equipment is to recognise this arrangement as an operating lease in our accounts, as all of the risk and reward of the quarry machinery and quarry equipment are retained by our Group throughout the rental period and is capitalised as our property, plant and equipment, and depreciated on a straight line basis. The rental income generated is recognised in our income statement on a time proportioned basis over the relevant rental.

(2) Purchase by SCHME of one (1) unit of Dyteco jaw crusher for the purpose of renting it to our customer for a period of four (4) years and a monthly rental of approximately RM31,000 a month.



**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

*After the rental period for the renting of Junjin CSM hydraulic crawler drill and Dyteco jaw crusher has ended, our Group can either:-*

- (a) Renew the rental agreement with our existing customers to extend the rental period of these quarry machinery;*
- (b) Seek for new customers to rent these quarry machinery;*
- (c) Recondition the quarry machinery (for Junjin CSM hydraulic crawler drill only); or*
- (d) Dispose these quarry machinery as second hand quarry machinery.*

*(3) Involves the purchase of various motor vehicles by our subsidiaries.*

The above material capital expenditures were primarily financed by a combination of bank borrowings and internally generated funds.

Save as disclosed below, there were no other material capital divestitures (including interest in other corporations) made by our Group for the past four (4) financial years:-

<b>Description</b>	<b>FYE 2010 RM'000</b>	<b>FYE 2011 RM'000</b>	<b>FYE 2012 RM'000</b>	<b>FYE 2013 RM'000</b>
Land and building <sup>(1)</sup>	310	70	-	120
Plant and machinery	<sup>(2)</sup> 123	-	227	-
	<b>433</b>	<b>70</b>	<b>227</b>	<b>120</b>

**Notes:-**

- (1) This is in relation to the disposal of various apartment units and houses located in Perak, Sabah and Selangor.*
- (2) Disposal by SCHSB of one (1) unit of Nakayama cone crusher.*

Save for our planned capital expenditures relating to our expansion plans as set out in Section 6.15 of this Prospectus, we do not have any material capital expenditures and divestitures currently in progress, within or outside Malaysia.

**5.7.8 Material Plans to Construct, Expand or Improve Facilities**

As at the LPD, our Group has no immediate plans to construct, expand and improve our facilities, save for the following:-

- (a) We intend to construct our new operation facility to cater for our business growth as well as to expand and further develop our core competencies in the quarry machinery, quarry equipment and quarry grill. Our new facility shall house our new corporate office, warehouse, showroom for the quarry machinery and quarry equipment, and space for fabrication works for reconditioned quarry machinery under SCHME.

The new operation facility will be a four (4)-storey building with a total built-up area of 8,176 sq m, to be built on a leasehold vacant industrial land belonging to us with a land size of 8,510 sq m located at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan. The estimated cost of construction of our new head-office and facilities is expected to amount to RM14.0 million. The construction cost will be funded via the proceeds from our IPO of RM10.00 million and bank borrowings of RM4.00 million.

Upon completion of the construction of our new operation facility, we shall have an office space of approximately 8,176 sq m, which will house our corporate office, and housing our showroom for the quarry machinery and quarry equipment for display. In addition, we shall have a warehouse space with a size of approximately 4,959 sq m located at our new operation facility, which will house additional

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**5. GENERAL INFORMATION ON OUR GROUP (Cont'd)**

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warehouse space and fabrication area to conduct reconditioning works on the used quarry machineries.

Currently, the building plans for our new operation facility are pending the relevant authorities' approval. However, we expect that the building of our new operation facility will begin immediately upon our Listing and the overall construction is estimated to complete within thirty six (36) months from the date of our Listing.

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## 6. BUSINESS OVERVIEW

### 6.1 PRINCIPAL ACTIVITIES AND PRODUCTS

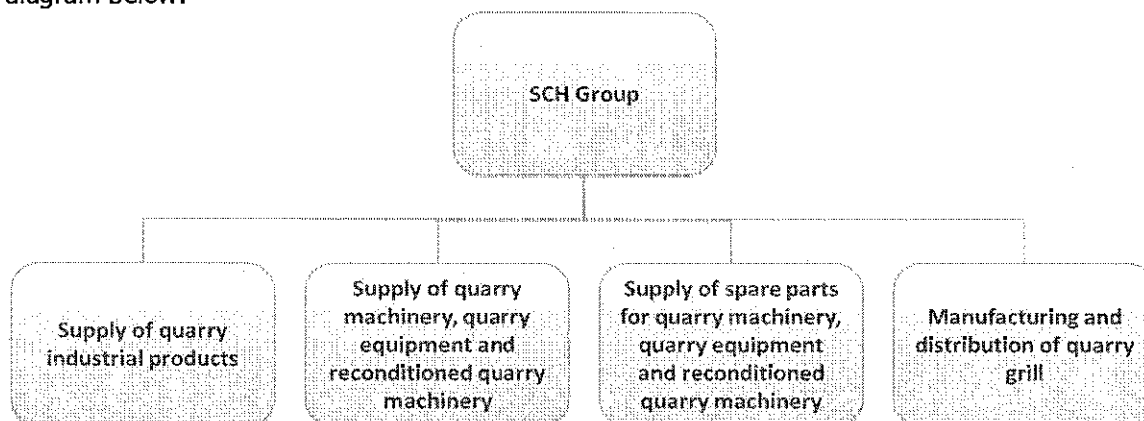
This section outlines our principal activities as well as the range of products which are supplied, distributed and manufactured by us.

#### 6.1.1 Principal business activities

Our Group offers a wide range of quarry-based products ranging from quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery and its related spare parts as well as quarry grill that are widely used by quarry operators and quarry plants in the quarry industry.

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

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



We are currently distributing and supplying our products to more than 500 domestic customers in the quarrying activities in Malaysia. We have also distributed our products to our customers located in Singapore, Indonesia, Thailand, Myanmar and Cambodia. The suppliers for our quarry industrial products include Seishin Corporation, Tiantai Yongli Import & Export, 2 Rivers Enterprise, Mitsubishi, Sumitomo Corporation and North Malaya Engineers Trading Co Sdn Bhd. We have secured the non-exclusive distributorship rights from Junjin CSM, Nakayama, Alpha Plus and Ryoko Sangyo Corporation. Ryoko Sangyo Corporation is the trading arm of Mitsubishi, to distribute its quarry industrial products such as Mitsubishi rock tools and drilling equipment. Further details of our non-exclusive distributorship rights are further described in Section 6.1.3 of this Prospectus.

Our quarry industrial products are further described in Section 6.1.2 of this Prospectus.

The brand new quarry machinery and quarry equipment that we distribute and supply are from reputable quarry machinery and quarry equipment manufacturers namely Nakayama (distributed by Seishin Corporation of Japan), Alpha Plus (manufactured by C & Oh Corporation of Korea) and Junjin CSM of Korea.

These quarry machinery and quarry equipment include Nakayama's range of crushing equipment, such as cone crushers, jaw crushers and gyropactor, as well as Junjin CSM and Alpha Plus range of machinery, which includes hydraulic crawler drill and hydraulic breakers. Our brand new quarry machinery and quarry equipment are further described in Section 6.1.3 of this Prospectus.

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**6. BUSINESS OVERVIEW (Cont'd)**

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To widen our range of quarry machinery and quarry equipment, we also supply reconditioned hydraulic crawler drilling machinery branded under Junjin CSM. The used hydraulic crawler drilling machinery is of an older model from Junjin CSM, the JD-700. These used hydraulic crawler drilling machinery are imported and reconditioned by our technical team to ensure that they are able to perform under the required conditions before they are sold. Further description of our reconditioned quarry machinery is set out in Section 6.1.3 of this Prospectus.

We also carry an extensive range of spare parts to complement our supply of quarry machinery, quarry equipment and reconditioned quarry machinery. These spare parts (both repairable and consumable parts) are parts of the quarry machinery and quarry equipment that are replaced after certain hours of usage in order to keep the quarry machinery and quarry equipment running. The repairable and consumable parts that we distribute are sourced from both local and overseas authorised suppliers that are approved by the quarry machinery and quarry equipment brand manufacturers. Our spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery are further described in Section 6.1.4 of this Prospectus.

We are also involved in the manufacturing and distribution of quarry grill. Our quarry grill products are marketed to quarry operators and are mostly produced according to their orders. Further description of quarry grill products are set out in Section 6.1.6 of this Prospectus.

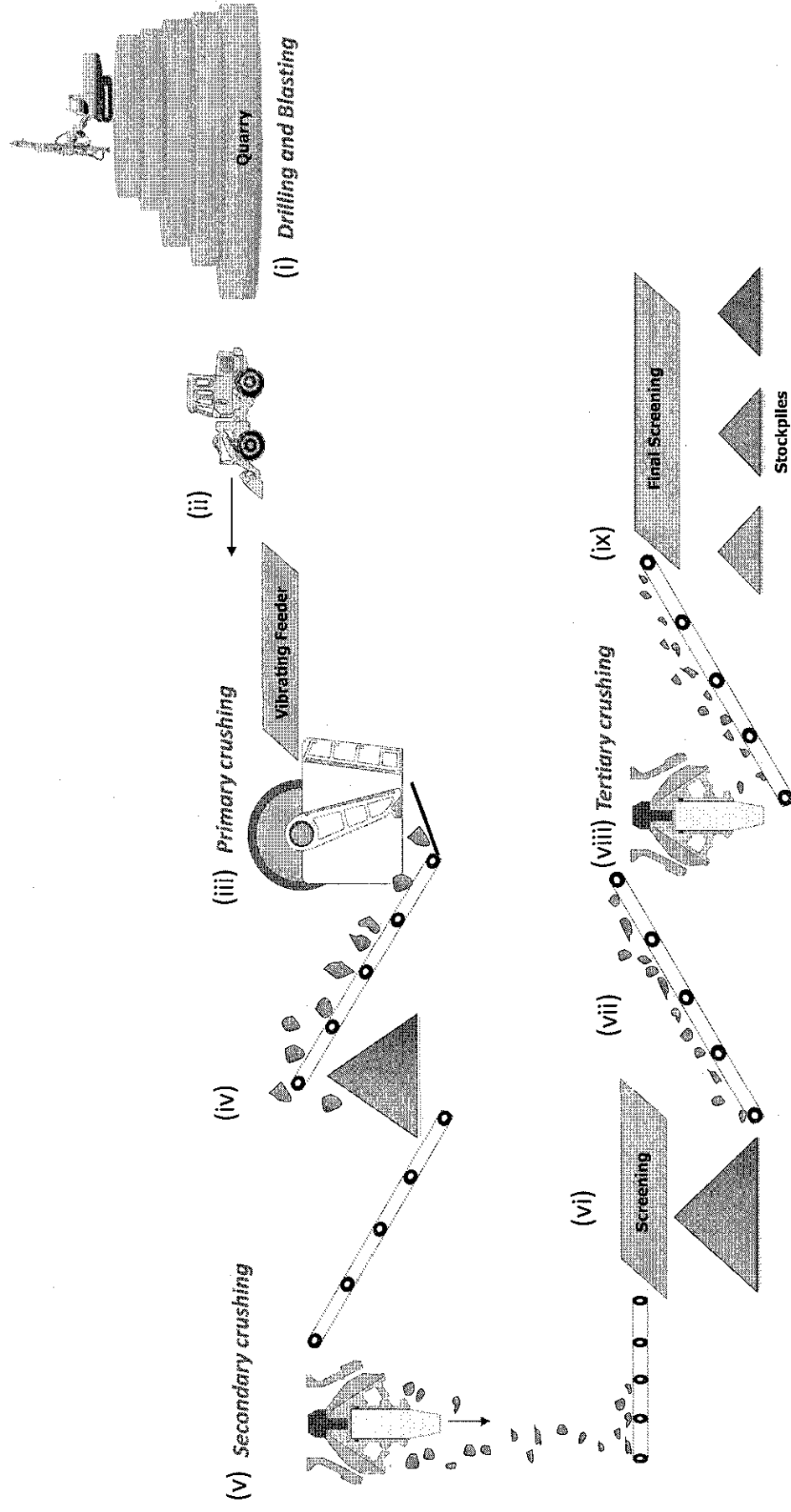
We have also successfully penetrated into the mining industry since 2011 and we are currently supplying our quarry industrial products and quarry machinery to iron ore and gold mines.

We pride ourselves as a quarry specialist supplier of quarry industrial products, quarry machinery and quarry equipment for quarrying activities where the products we distribute are used in various stages of a quarrying process which include but not limited to the drilling and blasting stage to the various crushing stages to screening activities of a quarrying process. We have been distributing and supplying our products to the quarry industry for the last 25 years and to the mining industry since 2011.

For better understanding of the usage of our products in a typical quarrying process from the initial stage of drilling and blasting rocks to final screening of rock material, we set out below a diagrammatic illustration and commentary of a general quarry operation:-

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6. BUSINESS OVERVIEW (Cont'd)



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**6. BUSINESS OVERVIEW (Cont'd)**

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One of the earliest steps in the process is the rock extraction process where a study is carried out to collect site information which range from the amount of shot holes required to location of shot holes to depth of shot holes, amongst others. Once these have been performed, drilling machines such as Junjin CSM's hydraulic crawler drill machinery are used to drill shot holes. Then, explosives and detonator cord are inserted into the shot holes before setting off the explosives, breaking the rock into smaller pieces. Once blasted, the rocks are often still in large unmanageable sizes. Operators then used rock breakers to further break down the sizes of these rocks.

Excavators are then used to move the blasted rocks to the quarry's processing area/ plant. Here, they are subjected to a series of crushing and screening processes, depending on the type of end product of the particular quarry. There are a number of crushing processes and they can be sectioned into primary, secondary and tertiary crushing and screening activities.

Blasted rocks are first fed into a chute to a vibrating feeder. The feeder screens out dusts and fine materials, leaving only rocks. The rocks are then fed to a crusher. A jaw crusher is usually used in this stage as it is designed to handle and crush large rocks with odd shapes into manageable sizes. Crushed rocks are then conveyed using conveyor belt system onto primary stockpile where the secondary crusher is fed.

The secondary crushing process is carried out to further break down the rocks into smaller sizes. The type of crushing equipment used in this stage can either be a cone crusher, jaw crusher or impact crusher.

In the case of cone crusher, it breaks down the size of stones by squeezing it between the cones. It is designed with a concave (a vertical conical chamber) and a mantle (a vertical conical crushing head). It crushes stones fed to it by rotating the mantle, crushing the stones between mantle and concave. By using a cone crusher, the size of the stones can be controlled by increasing or decreasing the gap between concave and mantle. Impact crusher on the other hand, utilises impact to crush rocks. Rocks that are fed to it are crushed and impacted by the built in rotor. Sizes of rocks are also adjustable by changing the gap between the impact plates and the rotor. The materials from the secondary crushers are then screened to separate the small size crushed stone and dust from larger stones.

Outputs from secondary crushing process are then subjected to a tertiary crushing process. This third crushing process normally utilises an impact crusher or a cone crusher, due to the equipment's abilities to adjust the size of the subject. The stones from tertiary crushing process are then conveyed by conveyor belts to another screening process in order to sort them according to their sizes.

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**6. BUSINESS OVERVIEW (Cont'd)**

The table below summarises the types of products we carry and supply to quarry operators at each stage of the quarrying process:-

Stage	Process	Our Products
(i)	Drilling and blasting	<ul style="list-style-type: none"> <li>Hydraulic crawler drill, power hydraulic drifter and hydraulic breaker</li> <li>Mitsubishi rock tools</li> <li>Ammonium nitrate</li> </ul>
(ii)	Transportation	<ul style="list-style-type: none"> <li>Various quarry industrial products that are attached to tractors and excavators such as bucket teeth, adaptor, repointer, duaplate and rock tyres.</li> </ul>
(iii)	Primary Crushing	<ul style="list-style-type: none"> <li>Jaw crusher</li> </ul>
(iv)	Conveying of primary crushing output	<ul style="list-style-type: none"> <li>Conveyor system which includes quarry industrial products such as conveyor belt, impact spring, conveyor roller, belt fastener, shaft mounted reducer, cone-bac epoxy backing system and packing compound.</li> </ul>
(v)	Secondary Crushing	<ul style="list-style-type: none"> <li>Cone crusher</li> </ul>
(vi)	Secondary screening	<ul style="list-style-type: none"> <li>Quarry grill</li> </ul>
(vii)	Conveying of secondary crushing output	<ul style="list-style-type: none"> <li>Conveyor system which includes quarry industrial products such as conveyor belt, impact spring, conveyor roller, belt fastener, shaft mounted reducer, cone-bac epoxy backing system and packing compound.</li> </ul>
(viii)	Tertiary crushing	<ul style="list-style-type: none"> <li>Cone crusher, jaw crusher and gyropactor.</li> <li>Conveyor system which includes quarry industrial products such as conveyor belt, impact spring, conveyor roller, belt fastener, shaft mounted reducer, cone-bac epoxy backing system and packing compound.</li> </ul>
(ix)	Final screening	<ul style="list-style-type: none"> <li>Quarry grill</li> </ul>

Our Group is equipped with more than 25 years of experience in the quarry industry and reputation as an established distributor and supplier of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts and quarry grill and to be a one-stop quarry specialist supplier by venturing into the provision of quarry engineering services (by collaborating with engineering companies). The type of quarry engineering services that we intend to provide include provision of designing, fabrication, installation and commissioning of quarry plants. Further description of our intended quarry engineering services is set out in Section 6.15 of this Prospectus.

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## 6. BUSINESS OVERVIEW (Cont'd)

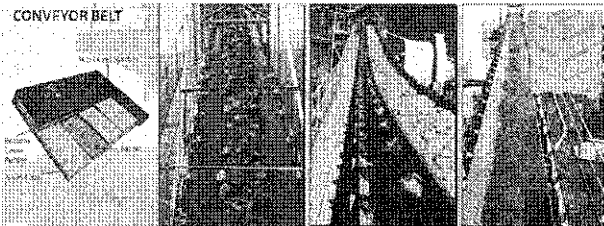
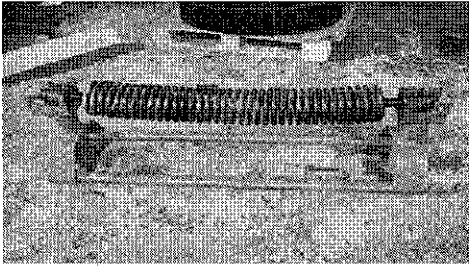
### 6.1.2 Quarry industrial products

Our quarry industrial products are sourced both locally and overseas such as Korea, Japan, China, USA and Australia. The supply of quarry industrial products is our Group's largest business segment and our Group's largest revenue contributor. Demand for our quarry industrial products is relatively constant and repetitive in nature, as these consumable quarry industrial products generally have a relatively short product life of approximately three (3) to six (6) months; depending on the hours of usage (approximately 10 hours per day, 6 days per week) due to the extensive wear and tear caused by the continuous usage during a quarrying process.

Thus, we are required to continuously provide and supply these quarry industrial products for use in a quarrying process for replacement as and when these quarry industrial products reached its maximum life span, or torn and worn out during the quarrying process. Our Group focuses on the delivery time to help our customers' mitigate the risk of delay and ensure the smooth conduct of the latter's projects.

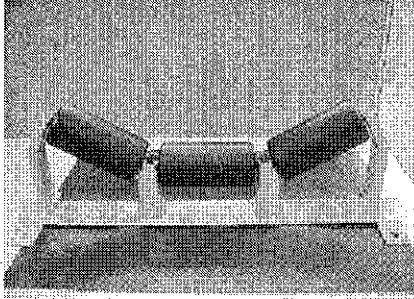
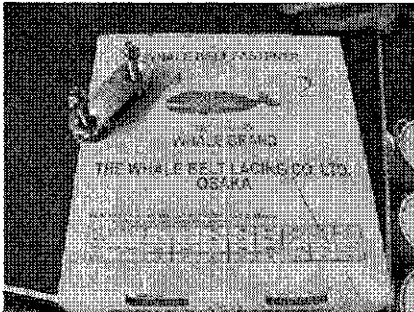
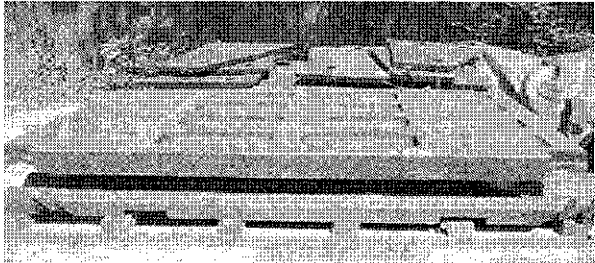

By offering a wide range of quarry industrial products, we are able to provide our customers with a higher degree of convenience as we are able to provide quarry industrial products from approved manufacturers and minimise the downtime in their quarrying operations and processes.

The table below lists the types of quarry industrial products that our Group carries:-

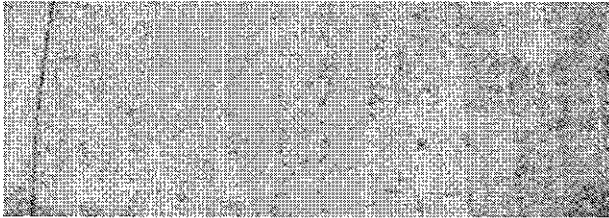
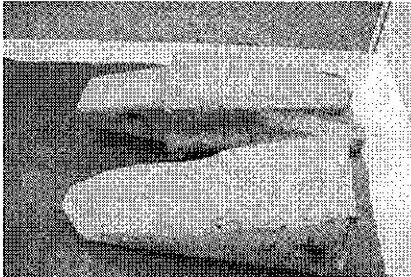
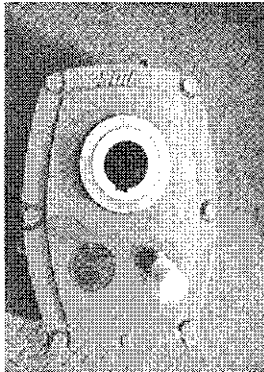
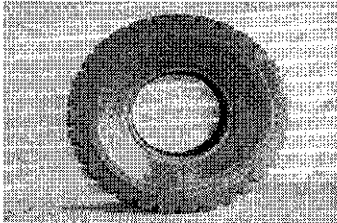
Quarry industrial products	Descriptions
<p><b>Conveyor Belt</b></p> 	<ul style="list-style-type: none"> <li>Conveyor belt is used to convey rock materials in a quarry plant to its intended destination. Conveyor belts are used in various sections of a quarry plant, depending on the size of the quarry plant.</li> <li>Our Group offers conveyor belts in various sizes, thickness and material, catering to the different needs of customers.</li> </ul>
<p><b>Impact Spring</b></p> 	<ul style="list-style-type: none"> <li>Used as part of a conveyor belt system, impact spring allows the conveyor belt system to convey materials of different weights.</li> </ul>





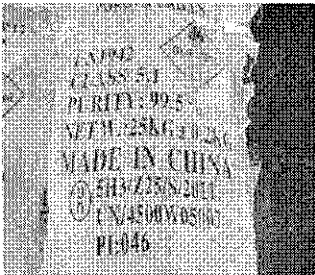
**6. BUSINESS OVERVIEW (Cont'd)**

Quarry industrial products	Descriptions
<p><b>Conveyor Roller</b></p> 	<ul style="list-style-type: none"> <li>• Used in a conveyor belt to support and facilitate the movement of the belt.</li> <li>• Available in various sizes that correspond to conveyor belt sizes.</li> </ul>
<p><b>Belt Fastener</b></p> 	<ul style="list-style-type: none"> <li>• Used to fasten conveyor belt, in order to maintain conveyor belt's productivity.</li> <li>• Available in various sizes for use with conveyor belts of different types and sizes.</li> </ul>
<p><b>Jaw plates</b></p> 	<ul style="list-style-type: none"> <li>• Used with jaw crushers, jaw plates are attached to break down various rock materials into smaller pieces.</li> <li>• It is highly wear-resistant and comes in various sizes and grades for various quarry operating conditions.</li> </ul>
<p><b>Mitsubishi Rock Tools</b></p> 	<ul style="list-style-type: none"> <li>• Used for rock drilling activities and attached to crawler drill machines, rock tools are made up of button bits, shank and adaptors.</li> <li>• These rock tools come in various shapes (button bits of conical, semi-ballistic, retrac button shapes) and sizes (different sizes and length for shanks and adaptors) which are used for various drilling activities and rock materials.</li> </ul>

**6. BUSINESS OVERVIEW (Cont'd)**

Quarry industrial products	Descriptions
<p><b>Duaplate</b></p> 	<ul style="list-style-type: none"> <li>• A type of chromium carbide composite cladding material that is used to prolong the life of clad plates.</li> <li>• Available in a range of different grades to suit a variety of quarry operating conditions.</li> </ul>
<p><b>Bucket Teeth/Adaptor/Repointer</b></p> 	<ul style="list-style-type: none"> <li>• A type of industrial product that is attached to the bucket of an excavator, bucket teeth/adaptor/ repointer is used as a type of ground engaging tool for excavators to shift large rock materials.</li> <li>• Our Group supplies bucket teeth/adaptor/repointer from various brands with different surfaces and grades to suit various quarry operating conditions.</li> </ul>
<p><b>Shaft Mounted Reducers</b></p> 	<ul style="list-style-type: none"> <li>• Used in material handling equipment such as conveyor belts, shaft mounted reducers are connected to belt pulleys and has the ability to provide speed and torque conversions to other device through a rotating power source.</li> </ul>
<p><b>Rock Tyre</b></p> 	<ul style="list-style-type: none"> <li>• Tyres used on machinery at quarry plants. Produce less heat while at the same time giving excellent anti-wear performance.</li> <li>• Available in various sizes to suit various types of machinery.</li> </ul>

**6. BUSINESS OVERVIEW (Cont'd)**

Quarry industrial products	Descriptions
<b>Packing Compounds</b> 	<ul style="list-style-type: none"> <li>A chemical compound that is used as adhesive material to hold conveyor belts.</li> </ul>
<b>Cone-Bac Epoxy Backing System</b> 	<ul style="list-style-type: none"> <li>Used to strengthen and join jaw plate to jaw crusher.</li> </ul>
<b>Ammonium Nitrate</b> 	<ul style="list-style-type: none"> <li>Chemical compound used as an explosive to blast rocks</li> </ul>

**6.1.3 Quarry machinery and quarry equipment**

We currently distribute a range of brand new quarry machinery and quarry equipment from three (3) foreign manufacturers, namely Nakayama, Junjin CSM and Alpha Plus, which are currently distributed to our customers in the quarrying industry located in Malaysia, Singapore and Indonesia. We also supply reconditioned hydraulic crawling machinery by Junjin CSM which are supplied and distributed to smaller quarry operators located in east Malaysia. The quarry machinery and quarry equipment that we distribute has an estimated product lifespan of between three (3) years to six (6) years, with regular interval maintenance.

This business segment began in 2006 as part of our Group's plan to venture and expand our product range offerings into the distribution and supply of quarry machinery and quarry equipment for the quarry industry. The quarry machinery and quarry equipment that we

**6. BUSINESS OVERVIEW (Cont'd)**

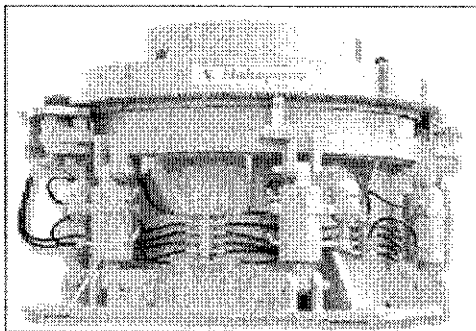
distribute and supply to quarry operators are used in various rock crushing stages of a quarrying process.

We currently have the non-exclusive distributorship rights to distribute and supply Nakayama brand range of crushers and Junjin CSM range of crawler drillers. The salient terms of these non-exclusive distributorship rights are as follows:-

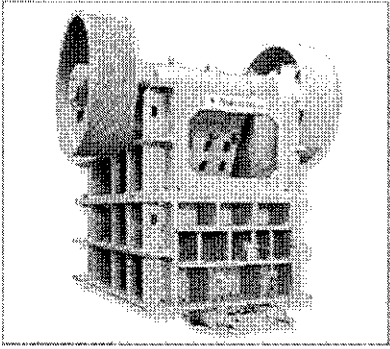
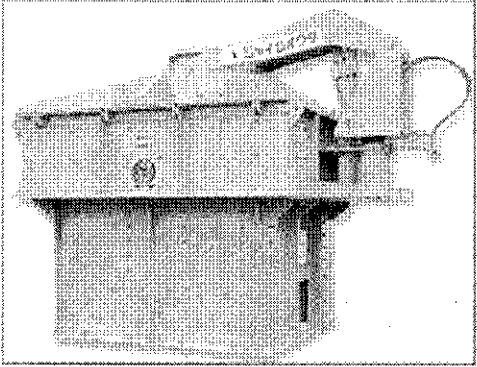
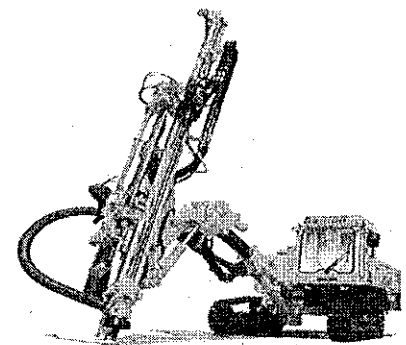
Name	Products	Region	Years
Junjin CSM	Junjin CSM hydraulic crawler drill and its related spare parts	Malaysia and Singapore region	Not stated, but has been distributing since 2008.
Ryoko Sangyo Corporation	Mitsubishi materials brand and rock drilling tools	Malaysia	Not stated, but has been distributing since 2009.
Nakayama	Nakayama crushing equipment	Malaysia	Not stated, but has been distributing since 2008.

Our Group is not aware of any other players that have been given with these distribution rights by these brand name owners for the Malaysian region. We wish to highlight that Alpha Plus has not given any distributorship terms and letters of distributorship. However, we have been distributing the Alpha Plus quarry machinery and quarry equipment since 2007. There are no distribution agreements made between our Group and the above brand names for the distribution of the above products. Other than the above shown allocated region for distribution, there are no other prohibitions and distribution duration imposed on our Group.

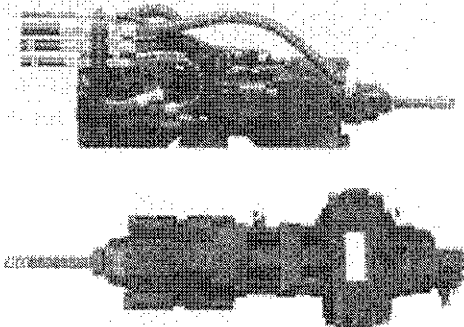
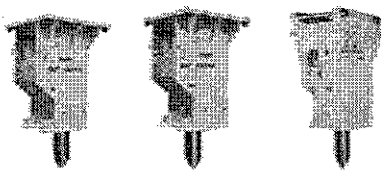
The table below describes the range of quarry machinery and quarry equipment that we currently distribute:-

Brand	Machinery/Equipment	Description
<b>Nakayama</b>	<b>Cone Crusher</b> 	<ul style="list-style-type: none"> <li>• For crushing rock materials.</li> <li>• For primary, secondary or tertiary crushing.</li> <li>• Centralised control system by a touching type control panel.</li> <li>• Optional online monitoring system that enhances safety and provides for remote monitoring.</li> <li>• Available in four (4) different models with different motor power and feed size.</li> </ul>

**6. BUSINESS OVERVIEW (Cont'd)**

<b>Brand</b>	<b>Machinery/Equipment</b>	<b>Description</b>
	<p data-bbox="512 271 679 297"><b>Jaw Crusher</b></p>  <p data-bbox="512 707 798 734"><b>SR Series Gyropactor</b></p> 	<ul style="list-style-type: none"> <li>• For primary or secondary crushing process as it can be fed with large sized rocks.</li> <li>• Optimum feed opening ratio.</li> <li>• Counter balanced design.</li> </ul> <ul style="list-style-type: none"> <li>• For secondary or tertiary crushing process, a cone crusher is used to produce artificial sand.</li> <li>• Designed with opened rotor which minimised blocking of feed material.</li> <li>• Rotor adopts a sectionalised design which is made up of assembled components for easy parts replacement.</li> <li>• Two (2) types of crushing chamber to choose from - metal and rock. Metal chamber is designed with anvils that provide positive crushing for sand manufacturing with greater reduction ratio. Rock chamber on the other hand allows for better sand shape.</li> <li>• Reversible rotation which doubles the anvil replacement.</li> </ul>
<b>Junjin CSM</b>	<p data-bbox="512 1525 815 1552"><b>Hydraulic Crawler Drill</b></p> 	<ul style="list-style-type: none"> <li>• Available in four (4) models differentiated by amongst others, drilling depths, type of hydraulic drifter, size of machinery as well as the size of bit and rod attached to the machinery</li> <li>• For drilling and blasting stage of a quarrying process, the hydraulic crawler drill is responsible for drilling into rocks to facilitate the insertion of explosives.</li> </ul>

**6. BUSINESS OVERVIEW (Cont'd)**

Brand	Machinery/Equipment	Description
	<b>Power Hydraulic Drifter</b> 	<ul style="list-style-type: none"> <li>• Used together with hydraulic crawler drill, Junjin CSM's power hydraulic drill offers high penetration rated with maximum drilling economy.</li> <li>• It is the section of a hydraulic crawler drill that is responsible for the drilling process.</li> <li>• Incorporates a hydraulic damper that protects the drifter and increases durability.</li> <li>• Available in two (2) models.</li> </ul>
<b>Alpha Plus</b>	<b>Hydraulic Breaker</b> 	<ul style="list-style-type: none"> <li>• High impact energy and impact rate.</li> <li>• High efficiency with optimised control valve.</li> <li>• Attached to excavators to break large sized rocks into smaller, more manageable sizes for crusher machinery after the drilling and blasting process.</li> </ul>

**6.1.4 Reconditioned quarry machinery**

In 2010, our Group ventured into the supplying and distributing of reconditioned hydraulic crawler drilling machinery that are imported from Junjin CSM. These used hydraulic crawlers drilling machinery is of an older model sold by Junjin CSM to our Group for reconditioning. These used hydraulic crawler drilling machinery are imported from Korea and are then subjected to reconditioning activities by our Group's technical team upon arrival to ensure that they are well-maintained and are able to perform under the required conditions before they are resold. Junjin CSM is fully aware that our Group reconditions its used hydraulic crawlers drilling machinery which are then resold to the smaller quarry operators in East Malaysia.

Junjin CSM sells and trades the used hydraulic crawler drilling machinery to our Group, and it is then reconditioned by our technical team. Our technical team has received on-going technical training by Junjin CSM to provide technical support and maintenance services for the range of such quarry machineries to our customers in the quarry industry. These reconditioned quarry machinery will then be sold and marketed to smaller quarry operators that are mainly located in east Malaysia. The used hydraulic crawler drilling machinery is of an older model from Junjin CSM, the JD-700.

The reconditioned hydraulic crawler drilling machinery does not compete directly with Junjin CSM's range of brand new hydraulic crawler drilling machinery. However, despite being an older model, it shares similar replacement spare parts with the current models of quarry machinery and quarry equipment which facilitate the maintenance of this machinery.

The sales of reconditioned quarry machinery by our Group acts as a brand building tool for Junjin CSM where potential customers, especially smaller quarry operators/quarry plants in East Malaysia will be introduced and exposed to the Junjin CSM brand and range of its products. This would create brand exposure, awareness and marketing opportunities for

## 6. BUSINESS OVERVIEW (*Cont'd*)

Junjin CSM should these quarry operators/quarry plants decide to eventually upgrade its usage of reconditioned quarry machinery to the newer Junjin CSM's range of quarry machinery and quarry equipment, when its quarry operational size and activities grows. Our Group would also be able to penetrate to the smaller quarry operators/quarry plants located in East Malaysia.

The reconditioned quarry machinery are targeted to be supplied and distributed to smaller quarry operators and quarry plants located in east Malaysia that does not require the use of new hydraulic crawler drilling machinery. The addition of this reconditioned hydraulic crawler drilling machinery into our range of quarry machinery and quarry equipment has enabled our Group to increase the range of products that we carry, facilitating our penetration into the market of smaller sized quarry operators and quarry plants located in Malaysia.

The offering of reconditioned hydraulic crawler drilling machinery provides smaller quarry operators and quarry plants an alternative to the choice of cheaper reconditioned quarry machinery for their quarrying operations, as compared to the usage of brand new machinery which is more expensive. Such offering enables smaller sized quarry operators and quarry plants in lowering their operating costs in quarry machinery and quarry equipment. This also provides the opportunity for these smaller quarry operators to engage our Group for our other range of products and services that can be provided to their quarrying operations, whilst exposing them to the Junjin CSM's brand name and range of quarry machinery and quarry equipment. In order to provide our customers with value added after sales service, these reconditioned hydraulic crawlers drilling machinery also comes with a one (1) month warranty by us, which covers the major parts of the machinery which include but not limited to the engine, transmission, drifter, drive train and hydraulic systems.

As at the LPD, we have not encountered any warranty claims by our customers for the reconditioned hydraulic crawler drilling machinery that we supply and distribute. Further, we have not made any provisions for any warranty claims on the reconditioned hydraulic crawler drilling machine as based on past trends, there have not been any warranty claims made within the one (1) month warranty period given to our customers. In any event, our management does not expect that this product liabilities risk to be material. In addition, our Group also distributes Junjin CSM's range of brand new quarry machinery and quarry equipment, and as such will be aware of any potential original quarry machinery and quarry equipment defects, thus further mitigating this risk.

In the near future, our Group aims to increase the number of models of reconditioned crawler drilling machinery from Junjin CSM and penetrate into the South East Asia markets.

The reconditioning activities are handled by our technical team which consists of a chief mechanic, supported by technicians and apprentices (which are interns undergoing practical training at our Group). The following details the various steps undertaken by our technical team during a reconditioning process of used hydraulic drilling machinery:-

- (a) Quarry machinery that arrived in Malaysia is thoroughly cleaned, both externally as well as internally.
- (b) Following the cleaning process, our technicians will proceed with a series of tests that aims to determine the working condition of the machinery. Among the areas checked are the starting conditions as well as the working condition of the battery, starting conditions of the engine, fuel pump and fuel injection system of the engine, as well as running the engine at specific rate of revolution. Once the conditions have been determined, our technicians will proceed with servicing the engine of the machinery, where engine oil, oil filter and air filter will be replaced. If the tests detect any defects on these machinery, our technical team would then send these

## 6. BUSINESS OVERVIEW (*Cont'd*)

machinery back to Junjin CSM for product liability claims and would not proceed with any reconditioning works for the said defective quarry machinery.

- (b) Our technicians will then test the conditions of the hydraulic system. The main hydraulic task will be cleaned, followed by a series of tests to determine the hydraulic system's working conditions under certain pressures. Then, the inner filters of the hydraulic system will be replaced with new parts.
- (c) Another area that is checked is the quarry machinery's power divider. During this stage, the technicians will inspect the conditions of the bearings, oil seal as well as checking for any oil leakages from the gearbox. If any leakages are detected, our technicians will perform the necessary repairs which include replacing old seals and parts with new spare parts.
- (d) The air compressor of the machine is then checked for any leakages as well as for worn parts. Its maximum air output is then checked to determine the condition of the air compressor, followed by an oil and filter change.
- (e) Other areas that are checked by our technicians include the wiring and lighting system, control panels and its switches, under carriage, rollers, sprockets, idlers, hoses, dust collector suction and its filters. Damaged and/ or worn parts are then changed.
- (f) Following all these checks, our technicians will then inspect the body of the machinery for dents, and if necessary, repairs will be carried out. Once the repairs are conducted, the machinery will then be sprayed with a new coat of paint.

### 6.1.5 Supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery

Our Group also carry a wide range of popular spare parts associated specifically for the use and act as replacement parts only for the quarry machinery, quarry equipment and reconditioned quarry machinery that we distribute and supply.

Among the consumable spare parts that we carry includes roller chains, machinery's engine parts such as pistons, engine cylinders, belts, tubes, valves, gears and various others.

It is of imperative importance that we continuously carry adequate stock for these consumable spare parts as it enables us to respond to our customers' request and queries and orders at a shorter time frame, thus allowing our customers to have minimum downtime and minimise disruptions in their quarrying operations. The spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery that we supply and distribute has an estimated product lifespan of between three (3) months to six (6) months, depending on the hours of usage of the quarry machinery, quarry equipment and reconditioned quarry machinery.

However, during a routine service, only regular consumable parts are normally replaced (depending on the hours of usage of the quarry machinery and quarry equipment), for example, the cone crusher's consumable spare parts that are normally replaced are the concave and mantle parts, as these are the consumable spare parts that crushes the rocks that are fed to the machine.

The various spare parts supplied for the quarry machinery, quarry equipment and reconditioned quarry machinery that we carry are sourced from local and overseas authorised suppliers that are approved by the quarry machinery and quarry equipment


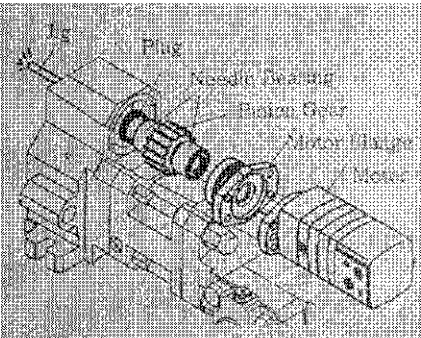


**6. BUSINESS OVERVIEW (Cont'd)**

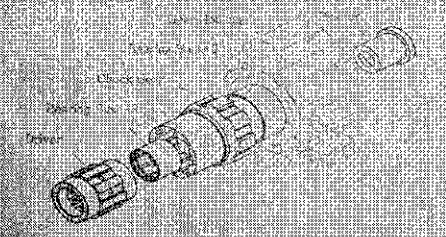
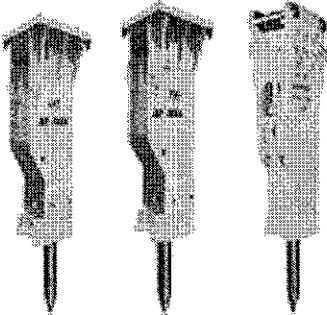

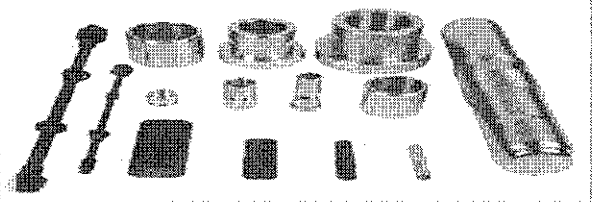
brand manufacturers. These consumable spare parts from overseas are mainly imported from various countries such as Korea, Japan, China, USA and Australia.

In addition, we also purchase these consumable spare parts from a local supplier for the engine used in Junjin CSM's hydraulic crawler drilling machinery. The local supplier, Scott & English (Malaysia) Sdn Bhd, is an agent appointed by Junjin CSM to sell the necessary quarry machinery and quarry equipment consumable spare parts for the engines used in Junjin CSM's hydraulic crawler drilling machinery.

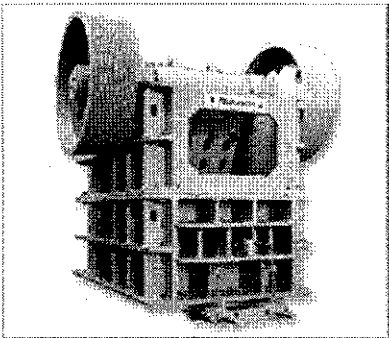
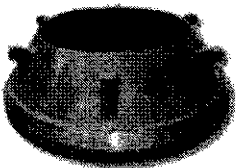
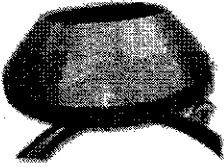

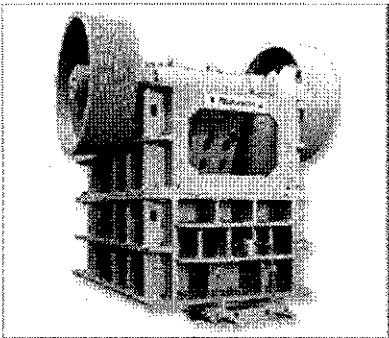
The table below shows an example of some of the major consumable spare parts that our Group carries according to the type of quarry machinery and quarry equipment that we currently distribute and supply:-

Quarry machinery and quarry equipment	Description
<p><b>Junjin CSM hydraulic crawler drill (with hydraulic drifter)</b></p> 	<p>The Junjin CSM hydraulic crawler drill machine consist of main four (4) segments, namely travelling device, working device (includes guide shell, boom, swing post and drifter), power resource and hydraulic control device. These four (4) segments consist of thousands of repairable and consumable spare parts that we distribute and supply. While the consumable spare parts of the hydraulic crawler drill machine are required to be replaced after certain specified hours (ranging from 50 work hours to 2,400 work hours), one of the main segments of the hydraulic crawler drill machine is the hydraulic drifter.</p> <p>The hydraulic drifter is a part of the hydraulic crawler drill machine that does the drilling activity while the latter allows for movement in a quarry plant. The following highlights the key areas of a hydraulic drifter that are required to be replaced at shorter regular intervals due to the nature of its purpose:</p> <p><b>Driving segment</b></p> <p>A part of the hydraulic drifter that drives the drilling mechanism, it consist of a number of parts as shown below:</p> 

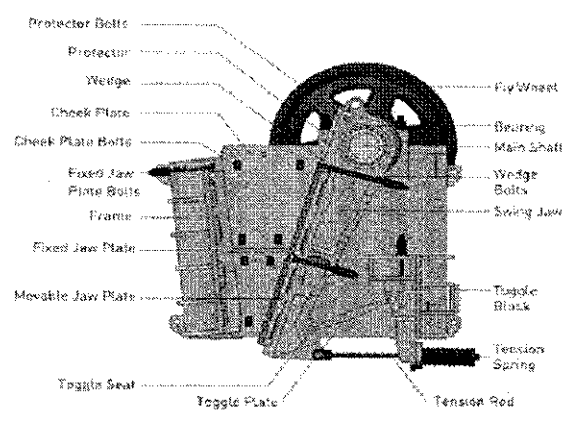
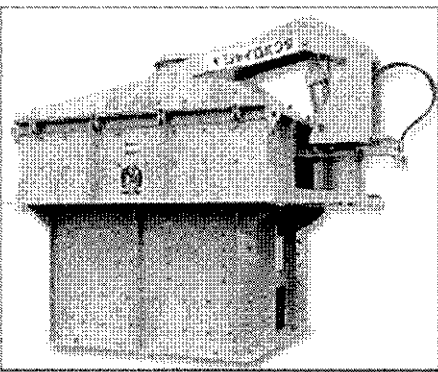
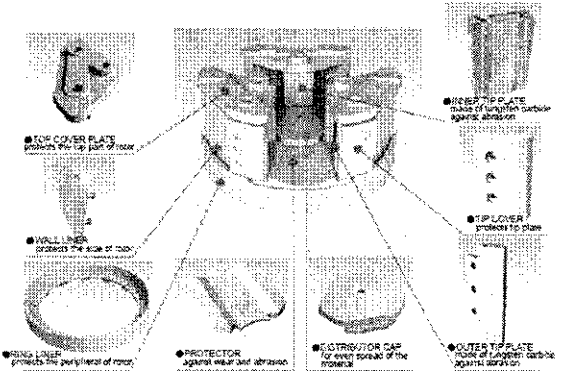
**6. BUSINESS OVERVIEW (Cont'd)**

Quarry machinery and quarry equipment	Description
	<p><b>Gear segment</b></p> <p>A segment that allows the operator of the hydraulic crawler drill to change the speed of the drill. The diagram below shows the gear housing and its major parts:</p>  <p><b>Damper segment</b></p> <p>Designed to absorb shocks resulting from drilling work, the segment also houses the motor of the hydraulic drifter.</p>
<p><b>Alpha Plus hydraulic breakers</b></p> 	<p>Hydraulic breakers are attached to excavators and used to break large sized rocks into smaller, more manageable sizes. Below shows an example of some key consumable parts of a hydraulic breaker:</p> <p><b>Chisel</b></p> <p>Chisel is the part of a hydraulic breaker that is used to break rocks. Therefore, it is one of the key part of the machinery that is required to be replaced with regular intervals for the machine to work within its optimum level. The diagram below shows an example of the type of chisels available:</p>  <p><b>Motor</b></p> <p>The hydraulic breaker is driven by a motor with various replaceable parts. The diagram below shows the replaceable motor parts such as piston, cylinder, heads, accumulator and valve:</p> 

**6. BUSINESS OVERVIEW (Cont'd)**

Quarry machinery and quarry equipment	Description
<p><b>Nakayama cone crushers</b></p> 	<p>Cone crushers, much like the hydraulic crawler drill, also consist of repairable and consumables spare parts. The section where spare parts are required to be replaced on regular intervals is the head section, which consist of the cone crusher's mantle and concave spare parts. This is the section of the machine where it crushes the rocks that are fed into it. Below are some sample of major consumable parts:</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="794 645 911 678"> <p><b>Concave</b></p>  </div> <div data-bbox="1107 645 1206 678"> <p><b>Mantle</b></p>  </div> </div> <p><b>Bush</b></p> 
<p><b>Nakayama jaw crushers</b></p> 	<p>The jaw crusher from Nakayama is a type of heavy-duty crusher that is built tough for maximum productivity. It incorporates a simple structure that reduces parts maintenance, and as such; cheap to use and maintain. The main consumable spare parts in a jaw crusher are jaw plates (which are described in Section 6.1.2 of this Prospectus). They make contact with the rocks that are fed into the machine, and have to withstand the force of the swing jaw, and eventually wear out. The diagram below shows a cross sectional area of a jaw crusher, highlighting the major parts of the machine:</p>

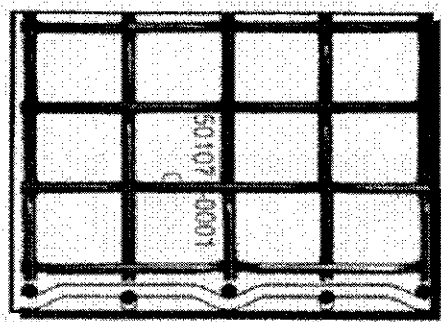
## 6. BUSINESS OVERVIEW (Cont'd)

Quarry machinery and quarry equipment	Description
	 <p>Diagram illustrating the components of a jaw crusher mechanism:</p> <ul style="list-style-type: none"> <li>Protector Bolts</li> <li>Protector</li> <li>Wedge</li> <li>Cheek Plate</li> <li>Cheek Plate Bolts</li> <li>Fixed Jaw</li> <li>Pinne Bolts</li> <li>Frame</li> <li>Fixed Jaw Plate</li> <li>Movable Jaw Plate</li> <li>Toggle Seat</li> <li>Toggle Plate</li> <li>Toggle Block</li> <li>Tension Spring</li> <li>Tension Rod</li> <li>Wedge Bolts</li> <li>Swing Jaw</li> <li>Bearing</li> <li>Main Shaft</li> <li>Fly Wheel</li> </ul>
<p><b>Nakayama SR series gyropactor</b></p> 	<p>A type of vertical-shaft impact crusher because of its design, a gyropactor machine is used to produce artificial sand. Its main feature lies in its reversible open type rotor which facilitates crushing of rocks fed to it. The main segment of the crushing chamber in the vertical-shaft impact crusher is the sectionalised rotor which allows for easy replacement of parts. The picture below shows the major replacement parts of the rotor:</p> <p>■ COMPONENTS WHICH MAKE UP THE ROTOR</p>  <ul style="list-style-type: none"> <li>● TOP COVER PLATE: protects the top part of rotor</li> <li>● WALL LINER: protects the side of rotor</li> <li>● RING LINER: protects the peripheral of rotor</li> <li>● PROTECTOR: against wear and abrasion</li> <li>● ROTOR COVER CAP: for even spread of the material</li> <li>● INNER TIP PLATE: made of tungsten carbide against abrasion</li> <li>● TIP COVER: protects tip plate</li> <li>● OUTER TIP PLATE: made of tungsten carbide against abrasion</li> </ul>

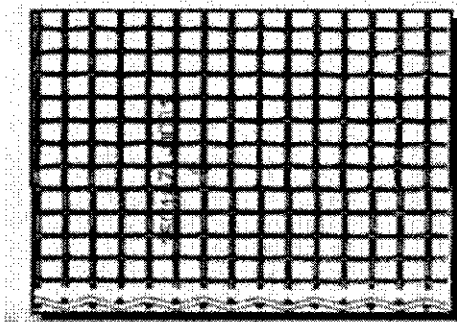
## 6. BUSINESS OVERVIEW (Cont'd)

### 6.1.6 Quarry grill

SCHWM is our Group's manufacturing outfit located in Balakong, Selangor Darul Ehsan, which principally manufactures quarry grill in various weaves as well as aperture sizes for different usage.



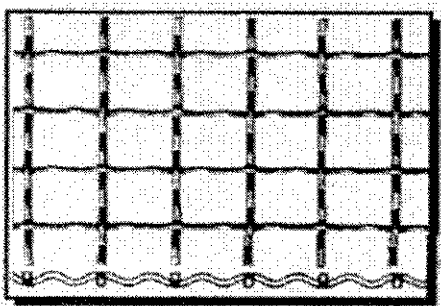
Flat top quarry grill



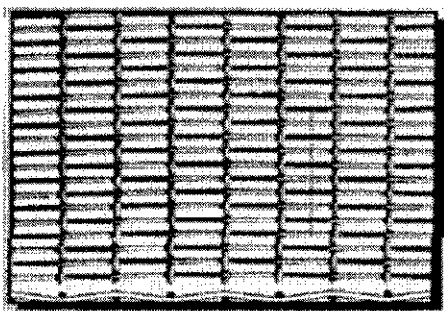
Intermediate crimp weave quarry grill



Diamond shape quarry grill



Double crimp weave quarry grill



Slot weave quarry grill

Aperture refers to the opening between adjacent parallel wires and quarry grill with different aperture levels are used in different stages of a quarry plant. Our quarry grill is also available in plain hooks or reinforced hooks, depending on our customers' applications and specifications. The normal quarry grill has a product lifespan of between one (1) to three (3) months, while our newly developed diamond shaped quarry grill is expected to have longer product lifespan of between three (3) to six (6) months, depending on the hours of usage.

The range of "Flat Top" quarry grills manufactured by SCHWM is of higher quality, which generally has 1½ times longer useful life as compared to the "Double Weave" quarry grills. In addition, our Group has submitted an application to patent our "Diamond Shape" quarry grill to the Intellectual Property Corporation of Malaysia ("MyIPO") on 3 August 2012. Currently, we are awaiting MyIPO's instruction and directive for our Group to file a substantive examination of this patent.

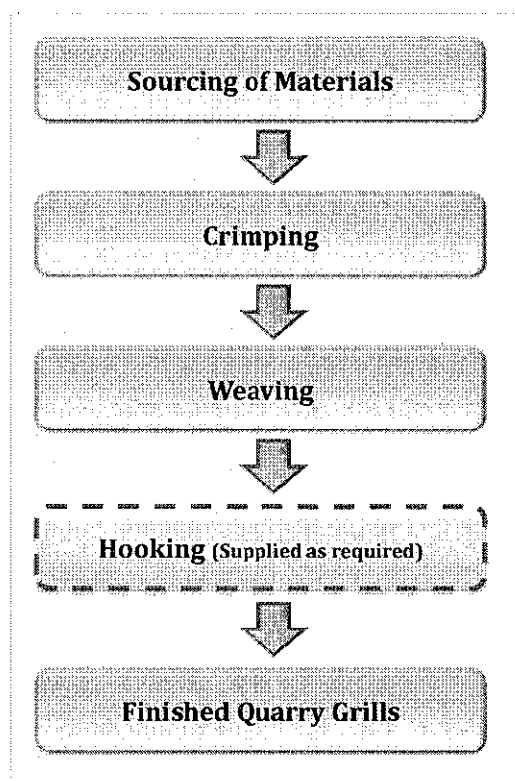
The types of quarry grill produced by us ranges from aperture sizes of 2 millimetres to 2 inches, with wire diameter of 2.5 millimetres to 12 millimetres.

The manufacturing process of our quarry grill is set out in Section 6.1.7 of this Prospectus.

## 6. BUSINESS OVERVIEW (Cont'd)

### 6.1.7 Operations Flowchart

#### Quarry grill manufacturing process



#### Sourcing of materials

High-carbon steel wire rods are the main material used to produce quarry grill which are sourced locally. These quarry grill are used in screening machines in quarry plants and available in sizes ranging from 2.5 millimetres to 12 millimetres. High carbon steel is selected due to its high resistance property, enabling it to be used for longer periods before being replaced.

#### Crimping

Crimping is a process in which the wire rods are formed into the required shapes and sizes with specific diameter. During this process, the wire is first crimped in precision machines that specifically define the spacing of the wires and ensure that the wires will be firmly locked together at the intersections. Extra crimps between the intersections are sometimes performed to provide a more stringent weaving. Crimping process often takes place before the weaving process as it allows the wire rods to have a stable and more rigid structure.

Difference sizes, shapes and crimped styles functioned to screen the crushed rock into various size categories in order to cater the diverse demand for construction works such as building and road foundation.

#### Weaving

Weaving process will be carried out after the wire rods have been crimped. The large diameter metal wire will be rolled into the required curve shape before weaving.

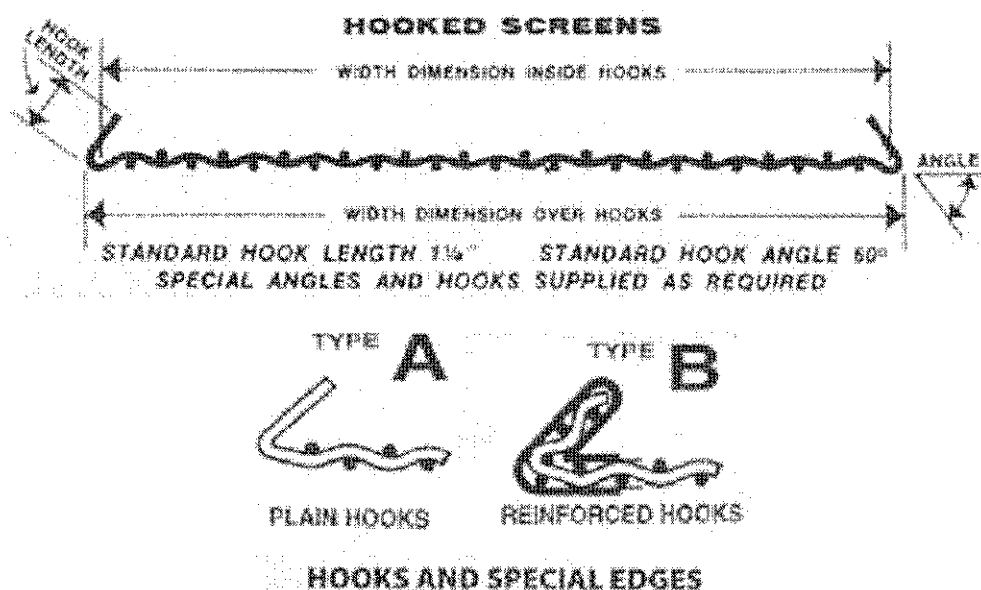
## 6. BUSINESS OVERVIEW (Cont'd)

We have the ability to produce different types of weave including flat top, double crimp weave, intermediate crimp weave as well as slot weave. Each wire screen panel is designed and manufactured to perform a specific function in effective aggregate screening and separation.

### Hooking

Screening for sizing and sieving are supported by clamping rails that apply tension across the screening surface. The tension is applied through edge treatments on the woven wire screen panel commonly referred to as hooks. The proper edge prepared to fit the screening desk is crucial for effective screening and longer service life. There are two (2) types of hooks offered by our Group, plain hooks and reinforced hooks.

The diagram below shows an example of a hooked section of a quarry grill and the types of hooks available:-



The standard hook length of a quarry grill produced is 1.25 inches and the standard angle is 60 degrees. However, the hooking process will only be carried out when requested by our customers.

### Finished quarry grill

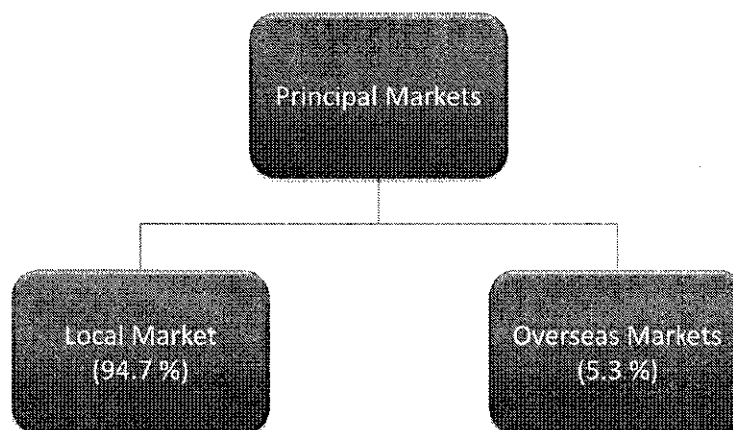
Finished quarry grill are then transferred to our quality control department where it is inspected by our Group's quality control personnel to ensure the quality of the quarry grill conformed to the requirement and specifications. Once approved, the qualified quarry grill is then transported to packing section where they are rolled and packed. The packed wire-mesh is then transported to the storage warehouse and is ready to be delivered to the customers.

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**6. BUSINESS OVERVIEW (Cont'd)****6.2 PRINCIPAL MARKETS**

Our domestic and overseas customers are suppliers and distributors of quarry products, contractors and quarry/mining operators.

It has been one of our sales strategies to focus on supplying directly to the end users in the quarry industry, complementing it with our strong after-sales services. Approximately 94.7% of our Group's revenue (based on the origin of purchase orders) for the FYE 2013 was generated from the local quarry market as depicted below:-



We are currently distributing and supplying our products to more than 500 domestic and 30 overseas customers involved in quarrying activities. Malaysia remained our largest market for FYE 2013, accounting 94.7% of our Group's total revenue. Our local revenue is segmented by states, as follows:-

States/ Countries	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	Revenue (RM'000)	%	Revenue (RM'000)	%	Revenue (RM'000)	%	Revenue (RM'000)	%
<b>Zone 1:</b> Klang Valley, Selangor, Negri Sembilan and Melaka	19,075	47.6	19,496	44.0	26,899	49.6	32,818	53.6
<b>Zone 2:</b> Penang, Kedah, Perlis and Perak	3,939	9.8	5,513	12.5	6,051	11.2	6,004	9.8
<b>Zone 3:</b> Pahang, Terengganu and Kelantan	4,885	12.2	6,206	14.0	7,699	14.2	8,375	13.7
<b>Zone 4:</b> Johor	2,968	7.4	2,987	6.7	3,976	7.3	4,416	7.2
<b>Zone 5:</b> Sabah	4,426	11.1	4,024	9.1	4,437	8.2	3,875	6.3
<b>Zone 6:</b> Sarawak	1,475	3.7	1,571	3.5	2,682	4.9	2,532	4.1
Singapore	1,845	4.6	2,901	6.6	1,604	3.0	1,763	2.9
Indonesia	419	1.0	1,221	2.8	793	1.5	1,283	2.1
Myanmar	69	0.2	1	*	5	*	-	-
Cambodia	943	2.4	347	0.8	80	0.1	185	0.3
Thailand	-	-	-	-	14	0.0	-	-
<b>Total</b>	<b>40,044</b>	<b>100.0</b>	<b>44,267</b>	<b>100.0</b>	<b>54,240</b>	<b>100.0</b>	<b>61,251</b>	<b>100.0</b>

**Note:-**

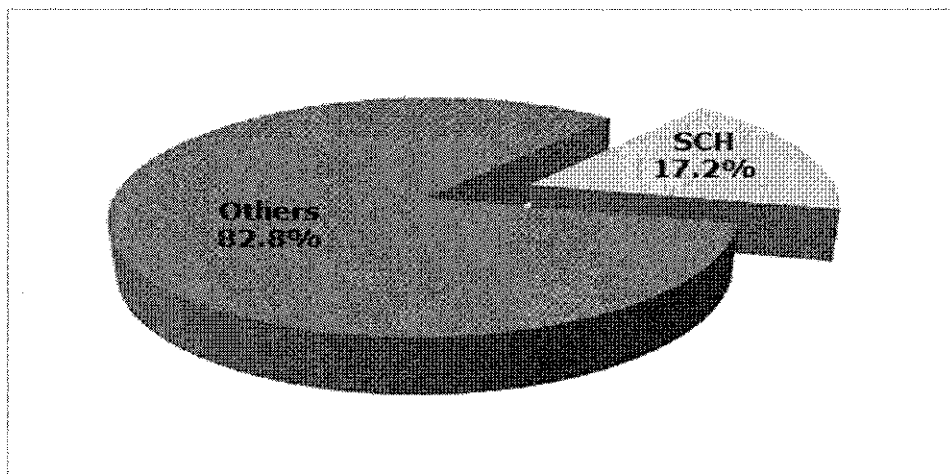
\* Less than 0.05%



## 6. BUSINESS OVERVIEW (Cont'd)

### 6.3 MARKET SHARE

For the FYE 2012, the SCH Group generated revenue of RM54.2 million, of which RM51.8 million was generated from the Malaysian market equivalent to an estimated of 17.2% share of the quarry equipment and machinery market during 2012, as illustrated in the figure below. This is based on our Group's revenue of RM51.8 million against the forecast market size of RM301.6 million in 2012.



**Note:**

*Based on the forecasted market size for 2012 and our Group's historical financial results for the same year. The forecasted market sizing consists of revenues generated from the supply of quarry machinery, peripheral equipment and spare parts and the provision of engineering services.*

*(Source: IMR Report)*

### 6.4 SALES AND MARKETING STRATEGIES AND DISTRIBUTION NETWORK

#### Sales and marketing strategies

The major thrust of our Group's marketing strategy is to position ourselves as the quarry specialist supplier by offering a wide range of products that are used in the quarry industry.

Our Group has been serving the quarry industry for over 25 years. The sales and marketing strategies employed by our Group include the following:

- Positioning our Group as a quarry specialist supplier with extensive array of products that can be used in various stages of a quarrying process. This is achieved through our continuous marketing efforts of a wide variety of quarry related products;
- Highlighting our extensive distribution network that covers the northern, central, southern and eastern region in peninsular Malaysia, both Sabah and Sarawak in east Malaysia as well as our presence in Singapore covering the regional markets; and
- Availability of an online presence through our corporate website, [www.schsb.com.my](http://www.schsb.com.my) that catalogues our products that we are able to supply to the quarry industry.

Our Group also undertakes a string of promotional and marketing activities that aims to inform and educate our customers with regards to our suppliers' new products and technologies. These include conducting frequent sales visits to potential customers, in some cases, providing demonstrations of new quarry machinery and quarry equipment to customers.

## 6. BUSINESS OVERVIEW (*Cont'd*)

In addition, we also provide our customers with value added after-sales service such as periodical maintenance services during the quarry machinery and quarry equipment's warranty period (12 months for brand new quarry machinery and quarry equipment), managed by our technical team which are strategically stationed in various states in Malaysia to cover each region in Malaysia, which ensures issues with the quarry machinery and quarry equipment supplied are solved promptly and on timely-manner.

### **Distribution network**

Our distribution network strategy is based on direct distribution method where we focus on marketing and selling our products directly to customers. Each of our branches consists of a sales person, supported by its team of administrative and support staffs, which supports the respective branch manager in carrying out the sales and marketing activities at their designated regions.

This strategy is made possible with the availability of our subsidiaries that are strategically located in various states in Malaysia and Singapore, with each subsidiary being responsible for its designated regions. This strategy has allowed our Group to work closely with our customers where we are able to evaluate and attain a better understanding of the local industry and customers' requirements, which also serves as a feedback mechanism for continuous improvement.

#### **6.4.1 After-sales services and support**

Currently, our Group's technical team is headed by Leong Mun Wah, SCHME's Business Development Manager. He is supported by a chief mechanic, technicians and apprentices (which are interns undergoing practical training at our Group). Our technical team's role is to provide value added after-sales services to our customers, through our two-level support system.

In essence, our Group's two-level technical support is described as follows:-

##### **(i) First level**

The first level support offers remote assistance where our technicians will provide the necessary response over the telephone, or electronic mail. They will require the customer to describe the issue that is currently occurring, and from there, our technicians will offer a set of solutions. The first level support is only applicable for minor quarry machinery and quarry equipment issues. The first level support allows our technician to have an understanding of the issue faced by the customer, and should the customer fail to rectify the problem, our technicians will have the necessary information required to perform a level two support.

##### **(ii) Second level**

Should a customer's internal team fail to rectify the quarry machinery and equipment problem, our Group's technical team will be despatched to our customer's site. Because information regarding the issue has been communicated to our technicians during the first level support, they will also transport the required as well as related parts necessary to the site. Currently, once a request by a customer has been made, our technical team will travel to site immediately within the same day if the customer's site is in Klang Valley. However, if the customer's site is located outside Klang Valley, our technical team will take approximately 24 hours to reach the site.

**6. BUSINESS OVERVIEW (Cont'd)****6.5 KEY ACHIEVEMENTS AND MILESTONES**

<b>Period</b>	<b>Achievement or Milestones</b>
1983	<ul style="list-style-type: none"> <li>Incorporated SCHSB</li> </ul>
1986	<ul style="list-style-type: none"> <li>First foray out of Klang Valley to penetrate the northern region of peninsular Malaysia with the acquisition of Engineering &amp; Quarry Equipment Sdn Bhd, which subsequently changed its name to Sin Chee Heng (Kedah) Sdn Bhd and later, SCH (Butterworth).</li> </ul>
1991	<ul style="list-style-type: none"> <li>Incorporated SCH (Sabah) to penetrate into Sabah.</li> </ul>
1992	<ul style="list-style-type: none"> <li>Incorporated SCH (Johore) to penetrate the southern region of peninsula Malaysia.</li> </ul>
1993	<ul style="list-style-type: none"> <li>Incorporated SCH Corporation as an investment holding company to hold its subsidiaries in different states within Malaysia.</li> <li>Incorporated SCH (Kuantan) to penetrate the eastern region of peninsula Malaysia.</li> </ul>
1997	<ul style="list-style-type: none"> <li>Incorporated SCH (Sarawak) to penetrate into Sarawak.</li> </ul>
1999	<ul style="list-style-type: none"> <li>Incorporated SCHWM to venture into the manufacturing and distribution of quarry grill.</li> </ul>
2000	<ul style="list-style-type: none"> <li>Incorporated Italiaworld in Singapore to tap into the South East Asia regional markets.</li> </ul>
2005	<ul style="list-style-type: none"> <li>SCHSB moved to our current premise located in Balakong, Selangor, with a built-up area of approximately 952 sq m.</li> </ul>
2006	<ul style="list-style-type: none"> <li>Incorporated SCHME to expand our range of products by incorporating the business of importing and distributing of quarry machinery and quarry equipment and its related spare parts.</li> </ul>
2008	<ul style="list-style-type: none"> <li>Commenced distribution of Nakayama brand of quarry machinery.</li> <li>Commenced distribution of Junjin CSM range of quarry equipment.</li> </ul>
2009	<ul style="list-style-type: none"> <li>Commenced the distribution of Mitsubishi brand of quarry industrial products.</li> </ul>
2010	<ul style="list-style-type: none"> <li>Received an appreciation award from Junjin CSM, our machinery supplier, for our outstanding contribution to the sales of Junjin CSM branded machinery in Malaysia.</li> <li>SCHME ventured into the supply and distribution of reconditioned quarry machinery branded under Junjin CSM.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Submitted the patent application for our "Diamond Shape" quarry grill.</li> </ul>
2013	<ul style="list-style-type: none"> <li>Completed the Acquisitions</li> </ul>

**6. BUSINESS OVERVIEW (Cont'd)****6.6 MACHINERY, EQUIPMENT AND WAREHOUSE SPACE**

Our subsidiary, SCHWM is involved in the manufacturing of quarry grill products for use in the quarry industry. Our manufacturing activities are conducted at our premise located at No. 5 & 7, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan. The table below lists the machinery and equipment that we currently possess for our quarry grill manufacturing activities:-

<b>Machinery and equipment</b>	<b>Description</b>	<b>Number of units</b>	<b>NBV as at 31 August 2013</b>
Crimping machinery	Used to crimp quarry grill's rails	8	RM223,000
Weaving loom machinery	Used to weave quarry grill	8	RM18,000
Hooking machinery	Bending the edges of quarry grill	1	RM1

Our quarry grill manufacturing operations run ten (10) hours per day and six (6) days a week. The production output, capacity and utilisation of our manufacturing facilities are as follows:-

<b>Product manufactured</b>	<b>Annual production capacity kg</b>	<b>Actual production output kg</b>	<b>Utilisation rate %</b>
Quarry grill	^900,000	826,920	91.88

**Note:-**

^ Based on the quarry manufacturing operations of 3,000 kg per day, for a total operation of 300 days per annum.

We currently opt to operate only one shift per day as our quarry grill are generally produced when orders are received and thus, our maximum annual and monthly production capacity would stand at 1,800,000 kg and 150,000 kg, respectively, should we implemented a two (2) shifts operation. Our manufacturing machinery capacity for the quarry grill is as follows:-

<b>Machinery</b>	<b>Production capacity (kg)<sup>#</sup></b>	<b>Utilisation rate (%)</b>			
		<b>FYE 2010</b>	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2013</b>
Crimping machine	900,000	^102.01	93.75	92.39	91.88
Weaving loom machine	900,000	^102.01	93.75	92.39	91.88
<b>Actual manufacturing output ('000 kg)</b>		<b>918</b>	<b>844</b>	<b>832</b>	<b>827</b>

**Notes:-**

# The total production capacity of 900,000 kg is based on one shift of ten (10) hours per day. This is based on the quarry manufacturing operations of 3,000 kg per day, for a total operation of 300 days per annum.

^ The utilisation rate in FYE 2010 is over 100% due to some overtime work being performed in FYE 2010. During FYE 2010, the overtime performed was approximately five (5) hours per month.

**6. BUSINESS OVERVIEW (Cont'd)**

Our warehouse storage space for the storage of our industrial quarry products, quarry machinery, quarry equipment and its related spare parts for the financial years under review is as follows:-

No.	Company	Warehouse	*Size (sq m)
1.	5CH (Johore)	No. 32, Jalan Perdagangan 4, Taman Universiti, B1300 Skudai, Johor Bahru, Johor Darul Takzim	222
2.	SCH (Johore)	No. 36, Jalan Perdagangan 4, Taman Universiti, B1300 Skudai, Johor Bahru, Johor Darul Takzim	200
3.	5CH5B	No. 3, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan	476
4.	5CH5B	No. 5 and No. 7, Jalan Teras 3, Kawasan Industri Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan	297
5.	5CH (Kuantan)	No. 3, Jalan Industri Tanah Putih Baru 5, Batu 3, Kawasan Perindustrian Perdana Jaya, Tanah Putih, Jalan Gambang, 25150 Kuantan, Pahang Darul Makmur	134
6.	5CH (Sabah)	Lot 6, Lorong Makat 3, Estate Perindustrian, Makat Kolombong, BB450 Kolombong, Sabah	376
7.	5CH (Butterworth)	No. 1, Lorong Nagasari 23, Taman Nagasari, Seberang Perai 13600 Pulau Pinang	116
B.	5CHSB	Lot 77B2-5, Batu 12½ Serdang Lama, 43300 Seri Kembangan, Selangor Darul Ehsan	1,561
9.	5CH (Sarawak)	Lot 2365, Block 233, Batu Kitang Light Industrial Park, 7½ Miles, Jalan Batu Kitang, 93250 Kuching, Sarawak	572
<b>Total storage space available</b>			<b>3,954</b>

**Note:**

- \* Based on the nature of our business, the current estimated storage rate for all our warehouses will be between 50% to 95% capacity. This is because movement of our inventories follow a just-in-time inventory system whereby we are continuously buying and moving out stock to customers.

**6.7 QUALITY ASSURANCE POLICY**

One of the key areas in our line of business involves the ability of our distributors to deliver quality quarry industrial products, quarry machinery and quarry equipment to our customers to meet their specified specifications and requirements for their quarrying process.

In order for us to achieve this, we have implemented a stringent internal quality policy that aims to undertake quality control testing with regards to the incoming stocks.

Our quality control approaches include the following:-

- Checking of incoming quarry industrial products, quarry machinery and quarry equipment, to ensure that they meet our orders and specifications. These mainly

## 6. BUSINESS OVERVIEW (Cont'd)

consist of visual checks where our staff verify the models received with the orders via model numbers;

- Random testing of each incoming batch of products and parts to identify defects. Products and parts with manufacturing defects or defects arising from delivery (such as scratches, dents and breakage), which will be returned to our supplier, or in some cases, we will notify our suppliers who will send replacement item; and
- In terms of quarry machinery and quarry equipment, our stock keeper and technicians will conduct visual checks (to detect for scratches, matching of part numbers with orders, correct placement of safety stickers on machine) and perform basic functionality test (such as movement and rotation checks) before storing them.

Our manufacturing division has also put in place an internal quality control process that aims to control the quality of our quarry grill.

Our quality assurance policy for our manufacturing activities can be broken down into three (3) stages as follows:-

### **Incoming quality assurance**

Raw materials such as high carbon steel are subjected to inspections when they are delivered to our premise. This is to ensure that incoming raw materials meet our specifications and requirements. Raw materials that fail to meet our specifications will be returned to the suppliers for replacement.

### **In-process quality assurance**

Our in process quality assurance measures are implemented in various stages of the manufacturing process. Random checks and inspection are carried out to ensure that the key areas of our quarry grill such as aperture size, weave finishing, hooking areas meet the specification and requirement. In addition, the checks and inspection will ensure that products that do not meet the specifications do not proceed to the next production stage.

### **Out-going quality assurance**

Our manufacturing personnel also perform quality checks on all finished products in respect of various key product properties such as finishing, aperture size, weave finishing and hooking finishing. Finished products that meet our specifications are then stored before being delivered to our customers.

## 6.8 PRODUCT DEVELOPMENT AND ENHANCEMENT

Our Group, through our subsidiary SCHWM, is involved in the product development of quarry grill. Our product development activities involve the development of new quarry grill and also the enhancement of performance of our existing quarry grill products. The development of new quarry grill is a result of gathering feedbacks from our customers, where they will inform us on the performance of our products, and ways in which we can enhance them.

Our production team is led by Wong Sang @ Wong Hock Lim and has been instrumental in developing new quarry grill products for our customers. He is supported by four (4) team members and our Managing Director, Lau Mong Ling whom is the advisor of our product development team. Our product development activities range from research to design to test production and real-world use before we offer our product to our customers.

**6. BUSINESS OVERVIEW (Cont'd)**

The table below describes our product development activities in relation to the development of new quarry grill:-

Stage	Description
Research	We gather information from our customers regarding areas to enhance and work closely with our customers in the design to provide them with the products that meet their needs. At this stage, we aim to gather information regarding the current performance of our quarry grill such as its screening efficiency and durability.
Design	Final designs will contain a set of specification which include the type of material to be used, shapes and aperture sizes and will have to be approved by our management before moving to the next stage.
Prototype	Once designs are approved, our team will proceed with creating a prototype from the specification sheet.
Testing	The prototype will then be tested at our customers' site to determine its efficiency as well as durability. The feedbacks gathered are then used to modify and/or improve the design before producing an improved prototype. Prototypes that are approved are then put into production.

We have also successfully developed a new type of quarry grill known as "*Diamond Shape*", which has double the life span of the "Double Weave" quarry grill. We have submitted the application for this quarry grill patent to the MyIPO on 3 August 2012 and the same is being processed by the Registrar of Patents.

**6.9 INTERRUPTIONS IN BUSINESS**

We have not experienced any interruption to our business, which has had significant effects on our operations for the past twelve (12) months preceding the LPD.

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**6. BUSINESS OVERVIEW (Cont'd)****6.10 MAJOR CUSTOMERS**

Our Group's top ten (10) customers for each business segment for the past four (4) FYEs 2010 to 2013 are as follows:-

Rank	Customer	Country of Origin	FYE 2010		FYE 2011		FYE 2012		FYE 2013		Length of relationship
			Revenue contribution		Revenue contribution		Revenue contribution		Revenue contribution		
Quarry industrial products			RM'000	%	RM'000	%	RM'000	%	RM'000	%	Years
1.	Honest Sam Development Sdn Bhd	Malaysia	794	1.98	1,664	3.76	1,741	3.21	1,990	3.25	17
2.	Aras Kuasa Sdn Bhd	Malaysia	485	1.21	718	1.62	1,079	1.99	1,520	2.48	6
3.	Hap Seng Building Material Sdn Bhd	Malaysia	595	1.49	719	1.62	813	1.50	671	1.10	12
4.	Goltra Sdn Bhd	Malaysia	427	1.07	392	0.89	247	0.46	242	0.40	15
5.	Weng Lee Granite Quarry Sdn Bhd	Malaysia	166	0.41	182	0.41	357	0.66	134	0.22	10
6.	Toong Yoon Engineering Works Sdn Bhd	Malaysia	215	0.54	228	0.52	196	0.36	195	0.32	16
7.	LCS Enterprise Sdn Bhd	Malaysia	604	1.51	145	0.33	-	-	71	0.12	4
8.	STM Maju (M) Sdn Bhd	Malaysia	52	0.13	219	0.49	357	0.66	309	0.50	5
9.	YY Engineering Sdn Bhd	Malaysia	7	0.02	479	1.08	152	0.28	498	0.81	7
10.	Batu Tiga Quarry Sdn Bhd	Malaysia	288	0.72	3	0.01	63	0.12	38	0.06	7
Total			3,633	9.07	4,749	10.73	5,005	9.24	5,668	9.26	

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**6. BUSINESS OVERVIEW (Cont'd)**

Rank	Customer	Country of origin	FYE 2010		FYE 2011		FYE 2012		FYE 2013		Length of relationship
			Revenue contribution		Revenue contribution		Revenue contribution		Revenue contribution		
Quarry machinery and quarry equipment and its related spare parts			RM'000	%	RM'000	%	RM'000	%	RM'000	%	Years
1.	Ronseng Enterprise	Malaysia	1,483	3.70	950	2.15	229	0.42	58	0.09	3
2.	Advancecon Machinery Sdn Bhd	Malaysia	-	-	-	-	3,069	5.66	31	0.05	4
3.	Gasing Rock Blasting Sdn Bhd	Malaysia	-	-	1,540	3.48	36	0.07	10	0.02	4
4.	Jeram Land Sdn Bhd	Malaysia	-	-	1,026	2.32	128	0.24	30	0.05	4
5.	Zhan Chang Granite Quarry Pte Ltd	Singapore	-	-	1,098	2.48	-	-	195	0.32	3
6.	Lufoong Construction Sdn Bhd	Malaysia	10	0.02	1,021	2.31	2,033	3.75	215	0.35	4
7.	LY Chhuong Construction & Import Export Co. Ltd.	Cambodia	943	2.35	-	-	-	-	185	0.30	3
8.	LC5 Enterprise Sdn Bhd	Malaysia	868	2.17	-	-	-	-	27	0.04	2
9.	ACME Engineering & Construction Sdn Bhd	Malaysia	799	2.00	57	0.13	-	-	129	0.21	2
10.	Harapan Ramai Sdn Bhd	Malaysia	780	1.95	46	0.1	-	-	2	~	2
Total			4,883	12.19	5,738	12.96	5,495	10.14	882	1.43	

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**6. BUSINESS OVERVIEW (Cont'd)**

Rank	Customer	Country of origin	FYE 2010		FYE 2011		FYE 2012		FYE 2013		Length of relationship
			Revenue contribution	%	Revenue contribution	%	Revenue contribution	%	Revenue contribution	%	
Quarry grill			RM'000		RM'000		RM'000		RM'000		Years
1.	Weng Lee Granite Quarry	Malaysia	120	0.30	125	0.28	99	0.18	-	-	10
2.	Kuad 5dn Bhd	Malaysia	328	0.82	112	0.25	122	0.22	-	-	14
3.	Dayalam Venture Sdn Bhd	Malaysia	288	0.72	173	0.39	127	0.23	102	0.17	9
4.	FYS Marketing 5dn Bhd	Malaysia	106	0.26	76	0.17	85	0.16	-	-	11
5.	Priscojaya 5dn Bhd	Malaysia	99	0.25	109	0.25	7	0.01	-	-	7
6.	PT Mitra Investindo TBK SGD	Indonesia	8	0.02	249	0.56	144	0.27	98	0.16	5
7.	PT Harap Panjang	Indonesia	-	-	127	0.29	39	0.07	64	0.10	6
8.	Linnhoff Technologies Pte Ltd	Singapore	16	0.04	121	0.27	45	0.08	75	0.12	6
9.	PT Kawasan Dinamilka Harmonitama	Indonesia	-	-	119	0.27	190	0.35	252	0.41	5
10.	Aras Kuasa 5dn Bhd	Malaysia	62	0.15	78	0.18	145	0.27	132	0.22	5
Total			1,027	2.56	1,289	2.91	1,003	1.84	723	1.18	

Our Group is not dependent on any single customer as none of our customers contribute more than 10% of our total revenue for the period under review. Many of our customers, which include suppliers and distributors of quarry products, contractors and quarry/mining operators, are repeat customers who have been with our Group for a number of years. However, the fluctuation in revenue contribution from our customers varies from year to year depending on various factors, such as the number/nature of the projects undertaken (for customers who are contractors) and the level of quarrying activity and quarrying operations in the quarry and mining industry in Malaysia (for customers who are quarry/mining operators).

It should be noted that the demand for our quarry industrial products is relatively constant and repetitive in nature by our customers, as these consumable quarry industrial products generally have a relatively short product life of approximately three (3) to six (6) months; depending on the hours of usage (approximately 10 hours per day, 6 days per week) due to the extensive wear and tear caused by the continuous usage during a quarrying process. Thus, our customers are required to replace these quarry industrial products for use in their quarrying operations on a timely manner upon the exhaustion and torn of the industrial products used to have minimum downtime and minimise disruptions in their quarrying operations.

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**6. BUSINESS OVERVIEW (Cont'd)**

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Based on the table above, most of our top ten (10) customers generally show a recurring or increasing purchasing trend for quarry industrial products for the period under review. The demand and supply of our quarry machinery and quarry equipment depends on the requirement of our customers in their usage at different levels of the quarrying operations. Once purchased, our customers are not required to frequently replace its quarry machinery and quarry equipment as the quarry machinery and quarry equipment that we distribute has an estimated product lifespan of between three (3) years to six (6) years, with regular interval maintenance. However, our customers would purchase additional units of quarry machinery and quarry equipment if their quarrying operations required additional support at different stages of the quarrying process, such as additional usage of jaw crushers in the primary crushing stage, hydraulic crawler drill for use in the drilling, blasting and crushing stages. The regular interval maintenance requires the purchase of the spare parts used in the quarry machinery, quarry equipment and reconditioned quarry machinery, which has an estimated product lifespan of between three (3) months to six (6) months.

The demand for our quarry grills are mostly produced according to the orders of the quarry operators, thus the volume of production depends on the order quantity made by our customers.

Our quarry based-products are essentially items which are designed or built specifically to be used in various stages of a quarrying process and operations. Malaysia has been our largest market for FYE 2012 and FYE 2013, accounting 95.6% and 94.7% of our Group's total revenue, respectively. Whilst Malaysia has been our Group's largest source of revenue contribution, our Group has been expanding and growing our presence in both domestic and overseas markets particularly Indonesia, Thailand, Myanmar and Cambodia. We have also successfully penetrated our products into the mining industry since 2011. We are currently supplying our quarry industrial products and quarry machinery to an iron ore mining company, Honest Sam Development Sdn Bhd which is located in Kuantan, Pahang.

Nevertheless, we have maintained good business relationship with our customers in the quarrying industry, some of which have more than fifteen (15) years relationship with our Group. In addition, our Group has a wide customer base which amounts to more than 500 domestic and 30 overseas customers involved in quarrying activities.

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**6. BUSINESS OVERVIEW (Cont'd)****6.11 MAJOR SUPPLIERS**

The value of the quarry machinery, quarry equipment and reconditioned quarry machinery purchased by our Group is typically higher, as shown in the table below:-

Activities	Suppliers	Country of origin	FYE 2013 RM'000
Supply of quarry industrial products	2 Rivers Enterprises Development Co., Ltd	China	2,968
	Tiantai Yongli Import & Export Co., Ltd	China	2,484
	Contitech (Tianjin) Conveyor Belt Ltd	China	1,181
Supply of quarry machinery, quarry equipment, and reconditioned quarry machinery	Junjin CSM	Korea	13,237
	Seishin Corporation*	Japan	1,685
	Dyteco Co., Ltd	Korea	1,330
Supply of spare parts for quarry machinery and quarry equipment	Seishin Corporation*	Japan	S,998
	Junjin CSM	Korea	735
	C & Oh Corporation	Korea	157
Raw materials associated with manufacturing of quarry grill	North Malaya Engineers Trading Company Sdn Bhd	Malaysia	1,673
	RCI Wire Sdn Bhd	Malaysia	174
	Light Metals Industries Sdn Bhd	Malaysia	633

**Notes:-**

- \* Seishin Corporation is a Japanese trading company based in Kobe, Japan which distributes the quarry machinery and quarry equipment manufactured by Nakayama and Mitsubishi Materials Corporation to SCHME. As such, all billings are billed to Seishin Corporation for the quarry machinery and quarry equipment supplied to our Group. It should be noted that the Nakayama brand of crushers and Mitsubishi rock tools are all sourced and supplied to our Group via Seishin Corporation as they are able to provide longer and flexible credit terms of up to 180 days for the financing terms of our purchase of these quarry machinery and quarry equipment.
- @ Nakayama Crushing Pte Ltd is a company based in Singapore that distributes China-made quarry machinery and quarry equipment spare parts used in Nakayama quarry machinery and quarry equipment.

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**6. BUSINESS OVERVIEW (Cont'd)**

Our Group's top ten (10) suppliers for each of the past four (4) FYEs 2010 to 2013 are as follows:-

Rank	Supplier	Country	FYE 2010		FYE 2011		FYE 2012		FYE 2013		Length of relationship Years	Products Sourced
			Purchase value RM'000	%	Purchase value RM'000	%	Purchase value RM'000	%	Purchase value RM'000	%		
1.	Junjin CSM	Korea	2,544	9.76	5,838	21.19	11,104	33.43	13,972	38.90	7	Quarry machinery, quarry equipment and reconditioned machinery and its related spare parts
2.	Seishin Corporation	Japan	3,894	14.74	7,964	28.91	8,199	24.68	7,683	19.97	10	Quarry industrial products, quarry machinery, quarry equipment and its related spare parts
3.	2 Rivers Enterprise	China	-	-	2,079	7.55	3,390	10.21	2,968	7.71	3	Quarry industrial products
4.	Tiantai Yongli Import & Export	China	760	2.92	2,466	8.95	3,119	9.39	2,484	6.46	9	Quarry industrial products
5.	C & Oh Corporation	Korea	549	2.11	1,134	4.12	1,274	3.84	1,102	2.86	6	Quarry machinery, quarry equipment and its related spare parts
6.	Sumitomo Corporation	Japan	840	3.22	-	-	1,086	3.27	325	0.84	7	Quarry industrial products
7.	Enfico Enterprise Sdn Bhd	Malaysia	1,722	6.60	782	2.84	-	-	-	-	7	Raw materials for manufacturing of quarry grill
8.	Light Metal Industries (M) Sdn Bhd	Malaysia	568	2.18	801	2.91	-	-	634	1.65	6	Raw materials for manufacturing of quarry grill
9.	Qingdao Chow Wansheng	China	705	2.70	-	-	742	2.23	-	-	6	Quarry industrial products
10.	North Malaya Engineers Trading Co Sdn Bhd	Malaysia	-	-	63	0.23	1,241	3.74	1,673	4.35	3	Quarry industrial products
<b>Total</b>			<b>11,582</b>	<b>44.43</b>	<b>21,127</b>	<b>76.70</b>	<b>30,155</b>	<b>90.79</b>	<b>30,841</b>	<b>82.74</b>		

## **6. BUSINESS OVERVIEW (Cont'd)**

For the FYEs 2010, 2011, 2012 and 2013, our top two (2) suppliers are Seishin Corporation and Junjin CSM, which accounted approximately S8.11%, 50.10%, 24.70% and S8.87%, respectively, of our total purchases. Our Group relies on our suppliers and partners who we work closely with to support our business activities, and our Principals, who provide us the non-exclusive distributorship rights to distribute and supply their quarry machinery and quarry equipment. Most of our products are imported from Japan, Korea, China, USA and Australia. Our Group usually make purchases from our approved list of suppliers and prefers to maintain long-term business relationships with our suppliers based upon their trustworthiness and reliability in the supply of quality quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts and raw materials for the manufacturing of quarry grill. We have been dealing with our major suppliers, partners and Principals for at least one (1) year.

As an authorised distributor, we are able to distribute and supply the range of quarry industrial products, quarry machinery and quarry equipment of reputable brands such as Nakayama, Junjin CSM and Mitsubishi. However, we do not have any supply agreements with any of our Principals. The fluctuation in purchases from our suppliers was a result of varying quarry project requirements of our customers. Accordingly, we may not procure similar purchases in terms of quantity with the same supplier for subsequent years.

Our Directors are of the view that our Group is not dependent on any single major supplier due to the availability of a large pool of overseas suppliers in the market coupled with the abundant supply of quality quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts and raw materials for the manufacturing of quarry grill. In addition, we have a wide network of contacts for suppliers, both foreign and local to meet our customer's requirements.

### **6.12 TYPES, SOURCES AND AVAILABILITY OF MATERIALS**

The majority of our products are sourced from our overseas suppliers and manufacturers (from countries such as Japan, Korea, China, USA and Australia). In general, we have not experienced any significant price fluctuations from our major suppliers over the past four (4) FYEs 2010 to 2013.

Our raw materials such as high carbon steels are used for the manufacturing of our quarry grill and are sourced from local our suppliers based in Malaysia. As these raw materials are easily available locally, we have not experienced, nor do we foresee any supply problems that would adversely affect our manufacturing, assembly and testing operations.

Over the years, we have built strong working relationships with our suppliers and manufacturers as we have established good track record for our purchases and payment commitments. We are constantly sourcing for more suppliers who are able to provide us with competitive pricing, timely delivery and quality products.

To-date, we have not faced any difficulties in the sourcing of our supplies from our suppliers, located locally or overseas.

### **6.13 OUTLOOK OF THE QUARRY MACHINERY AND EQUIPMENT MARKET IN MALAYSIA**

The analysis of the quarry machinery and equipment market in Malaysia including the market dynamism, competitive analysis, barriers to entry and outlook is set out in Section 7 of this Prospectus.

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## **6. BUSINESS OVERVIEW (Cont'd)**

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### **6.14 COMPETITIVE STRENGTHS**

#### **6.14.1 Wide range of integrated quarry services**

Our Group offers a comprehensive range of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts, and quarry grill. Our extensive range of quarry products are currently being used in almost all stages of a quarrying process.

We have also successfully penetrated our products into the mining industry. We are currently supplying our quarry industrial products and quarry machinery to an iron ore mining company, Honest Sam Development Sdn Bhd which is located in Kuantan, Pahang. In the FYE 2012, we began a project together with an engineering firm whereby we supplied our quarry machinery to its client, which is involved in gold mining activities.

Our Group's success comes from our ability to provide our customers with fast turnaround time that is supported by our Group's experienced sales and technical team.

Our Promoters and key management personnel have more than 25 of years of experience in the quarry industry and this has provided us with the knowledge to provide our customers with the initial pre-sales advice associated with the products we carry, user briefings as well as after-sales support, giving customers what they require.

Our technical team consist of experienced individuals who work closely with customers to ensure customers' downtime are minimised. By offering such integrated services, our Group is able to put ourselves in a favourable position to assist customers in terms of time savings, effort and cost.

#### **6.14.2 Established player**

Our Group is an established player in the quarry equipment and machinery market with more than 25 years of experience, capabilities and knowledge of the quarry industry, as we are able to supply our products and services to the whole quarrying process chain of a quarry.

The range and extent of products that we supply to our customers in the quarry industry complements their quarrying needs and requirements. Our sales team will conduct continuous site visit to the quarry operation sites to determine the suitable products to be used, to ensure that our customers get the right performing quarry industrial products, quarry machinery or quarry equipment for their quarrying process.

Over these years, we have been maintaining our favourable reputation as the supplier and distributor of quarry products and have established long working relationships with some of our customers. Our customers have since referred and recommended us to some of their customers that have enabled us to widen our customer base. In addition, the referral and recommendation by our customers also serve as a testament of our experience and abilities in the industry.

As an authorised distributor we are able to distribute and supply the range of quarry industrial products, quarry machinery and quarry equipment of reputable brands such as Nakayama, Junjin CSM and Mitsubishi.

In terms of the hydraulic crawler drill machinery from Junjin CSM, we currently supply both brand new (four (4) types of models) as well as reconditioned models (one (1) model) to the market. Both brand new and used machinery are imported from Korea. All the hydraulic crawler drill machinery are priced according to their specifications and features, and thus,

## 6. BUSINESS OVERVIEW (*Cont'd*)

we are able to target quarry operators of various sizes with the brand new and reconditioned quarry machinery.

To further complement our sales of quarry machinery and quarry equipment, we also sell its related consumable spare parts.

In terms of convenience and accessibility, our Group focuses on the delivery time to help the customers' mitigate the risk of delay and ensure the smooth conduct of the latter's projects. The positive feedback received from our customers has enabled us to strengthen our customers' confidence in our business model, thereby increasing our credibility and image as a reputable quarry specialist supplier as well as enhancing our long-term competitiveness in the marketplace.

### 6.14.3 Qualified and experienced management team

Our Group's past success have been influenced by the presence and leadership qualities of our key management personnel within our organisation. Our unique combination forms the sustainable competitive strengths over our competitors.

Our Group is led by Lau Mong Ling, Yeen Yoon Hin and Wong Sin Chin, who has over 25 years of accumulated knowledge and experiences in the quarry industry. Since our Group's inception, our Directors have maintained close working relationship with both local and overseas suppliers and customers. Their contributions to our Group have formed our Group to its present status and will also drive our Group's growth moving forward.

Our Group also takes a proactive and continuous effort towards addressing succession planning to ensure continued success of our Group. Various steps have been implemented to address this, such as the grooming of new management staff to gradually assume responsibilities of senior management. In addition, we have also adopted a competitive remuneration package and employee benefits coupled with continuous training in order to attract, retain and develop new and current key management personnel.

### 6.14.4 Strong customer and supplier relationship

Our Group believes in building and maintaining sustainable working relationships with our customers. Our consistency in delivering high quality products and services that meet our customers' expectations and satisfactions, leading to establishment of strong and long standing relationship with customers has been one of our key strengths.

In addition, our Group has the ability to source, import and/or procure the products based on the requirements made by our customers from a pool of suppliers. We have established and maintained close business relationships with our suppliers over the years and believe that continuous supply and availability of products to cater the industry's needs is one of the key essential factors that have allowed us to excel in the industry.

Our efforts and hard work was been recognised by one of our suppliers, Junjin CSM which awarded us the appreciation award for our excellent performance and contribution in the sales of Junjin CSM branded quarry machinery in the Malaysian quarry machinery and equipment market.

### 6.14.5 Wide geographical coverage

Our Group has established a distribution network that covers the major regions in Malaysia and has strategically located subsidiaries in Selangor, Penang, Pahang, Sabah, Johor, Sarawak and Singapore where each subsidiary is responsible for their assigned geographical coverage. Our Group has established subsidiaries located in different parts of Malaysia in



## 6. BUSINESS OVERVIEW (*Cont'd*)

order to better serve strategically and cover the major regions in Malaysia, where the major quarry operators, end-users, quarry sites and quarry plants are located at. Our branch offices are equipped to maintain, repair and overhaul various types of quarry industrial products, quarry machinery and quarry equipment, quarry grill and spare parts for machinery supplied by us or by third parties.

Our wide geographical coverage enables us to market our supplied products efficiently and effectively, with deeper understanding of the local market conditions in each region. In addition, our operations that are strategically located in various regions allow us to provide timely deliveries to our customers in the quarry industry, leading to higher levels of customer satisfaction.

Our network of branches and sales office (established under our subsidiaries) allows us to provide maintenance, repair and sales services to a large base of quarry operators located all over Malaysia. As we have experienced technical personnel based in our branch offices, we are better positioned to dispatch our technical personnel to our customer's site in a timely manner to respond to quarry machinery and quarry equipment breakdown or for maintenance services.

Each subsidiary is managed by a branch manager/business development manager and sales team who shall supervise and oversee the overall operations, sales and maintenance services provided to our customers in the respective geographical coverage areas. Each subsidiary is responsible for their assigned geographical coverage, where the subsidiaries are well-equipped to maintain, repair and overhaul various types of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery, quarry grills and the supply of spare parts used as replacement parts for quarry machinery, quarry equipment and reconditioned quarry machinery supplied by our Group or by third parties. This also allows them to provide maintenance, repair and sales services to a large base of quarry operators located all over of Malaysia.

In addition, our subsidiary, Italiaworld located in Singapore allows us to service and serve our customers in Singapore and Indonesia. Italiaworld's customers consist of quarry operators that operate quarry plants in Indonesia and orders are placed from Italiaworld's sales offices in Singapore. This has enabled our Group to be able to penetrate into the quarry industry in Singapore and Indonesia, and enabling us to better serve our customers located in Singapore and Indonesia, which consist of quarry operators that operate quarry plants in Indonesia.

In view of the above, the key rationale for establishing various subsidiaries with similar activities segregated on a regional basis are as follows:-

- (a) To facilitate the localisation of our Group's operations in order to increase the efficiency and effectiveness in responding to the local market conditions; and
- (b) Providing a mechanism to measure the performance of each regional operation of our subsidiaries.

### 6.14.6 Focus on customer service

We have an extensive distribution and sales network that spans across Malaysia, with our subsidiaries located in key economic regions around Malaysia, comprising of our sales and technical team at each of our subsidiaries, with nationwide reach, covering major quarry sites and operations in Malaysia.

## **6. BUSINESS OVERVIEW (Cont'd)**

Our Group believes that one of the key fundamental elements of our business is to meet our customers' needs, by providing them with products that are required in a timely manner. Our Group's focus on raising the awareness of each sales personnel to recognise the value of providing excellent service to the customers has been one of the key strengths. In order to enhance the sense of cooperation between our customers and our sales and marketing department, our Group will provide product trainings to our customers as part of our effort to differentiate ourselves from our competitors. In addition, these product trainings provide the platform for our Group to understand the needs of our customer better.

In addition, we have a team of technical personnel that attends to customers' service requests (brand new machinery sold are provided with a twelve (12) months warranty while our reconditioned hydraulic crawler drilling machinery are provided with one (1) month warranty). Leveraging on our technical team, we are able to increase the value of our service, while at the same time, providing us with a platform to cross sell our other products.

In addition, we provide our customers with a two (2)-level value added after-sales support where our technical team is despatched to our customers' quarrying site within the same day for quarrying sites located within Klang Valley area, and within twenty-four (24) hours for quarrying sites located outside the Klang Valley.

### **6.15 FUTURE PLANS AND PROSPECTS OF OUR GROUP**

#### **Increase domestic and regional market share**

As part of our future plans, our Group aims to grow our presence in both domestic and overseas markets particularly Indonesia, Thailand, Vietnam, Myanmar and Cambodia.

This can be achieved by leveraging on our existing customers which have foreign quarry operations and business operations in these geographical regions and leveraging on our reputation as a quarry specialist supplier in Malaysia to work closely with the local quarry suppliers and distributors in the targeted countries in which we wish to expand our presence. Possible working arrangements include establishing joint venture companies with these companies in the identified countries to supply the various types of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as quarry grills to the quarrying operators and plants in the countries.

For the domestic market, our Group plans to increase our market share by increasing our range of products that we distribute and supply to further strengthen and bolster our products portfolio. This includes increasing the type of models of our quarry machinery, quarry equipment and reconditioned quarry machinery.

We have identified that there exists a large market and demand for reconditioned quarry machinery as there are a large number of small quarries in east Malaysia and South East Asia, where newer and more powerful machinery are not required for their quarrying process as it is costly and more technological advanced for their quarrying operations. The demand and requirements for our reconditioned quarry machinery has encouraged us to provide additional range of reconditioned quarry machinery for these smaller quarry operators and quarry plants. We will leverage on our subsidiaries' (SCH Sabah and SCH Sarawak) presence in east Malaysia to penetrate into the reconditioned quarry machinery segment. We aim to implement this future plan within the next twelve (12) months after our Listing.

**6. BUSINESS OVERVIEW (Cont'd)****Expanding our range of services provided**

As part of our Group's strategy to further increase our penetration and involvement into the quarrying industry domestically and regionally, we intend to venture into the provision of quarry engineering services, aimed directly at serving quarry operators. The range of quarry engineering services that we intend to provide includes the provision of designing, fabrication, installation and commissioning of quarry plants.

Our Group plans to engage with our engineering partners (via joint venture agreements with suitable engineering partners) which has the necessary resources and expertise in the engineering services to develop the design, fabrication, installation and commissioning of quarry plants. These engineering companies has more than ten (10) years of expertise and experience in the design, fabrication, manufacturing, installations and commissioning of quarry plants. This would allow our Group to be involved in the designing and fabrication stages of the design, fabrication, installation and commissioning of quarry plants which uses our Group's quarry machinery, quarry equipment and reconditioned quarry machinery.

We aim to collaborate with the type of aforementioned companies to bid for quarrying projects and to leverage on their expertise and experience to develop the design, fabrication, installation and commissioning of quarry plants.

Our Group will not be setting up our own engineering services division internally for such expansion plans. Instead, our Group plans to expand our revenue stream by diversifying into quarry project based revenue, by forming a group of experts, which includes engineering partners, construction partners and other parties whom have the expertise and technical know-how in the quarry industry, to bid and tender for quarry development projects around the region.

Our Group shall provide our advice, feedbacks and inputs to the engineering service providers and supply our range of products which is required and suitable for the design, fabrication, installation and commissioning of the quarry plants.

While there is no suitable partners being identified at this stage, our Directors do not expect any substantial cost to be incurred arising from a joint venture arrangement with a suitable engineering company. Under this joint venture arrangement, the management expects to provide our experience and knowledge on quarry machinery to the engineers during the design and fabrication stages and our Group will provide the full range of products for the quarry operation. The entire process from design and fabrication (which includes quarry machinery) will be offered as a single package to operators which intend to set up a new quarry site.

Nevertheless, this plan is still in its initial stages of planning and has not been finalised at this juncture. Our Group may also consider acquiring a small suitable company for this purpose. Our Group's management has envisaged that our plans to venture into the provision of quarry engineering service in two (2) forms:-

- (a) acquisition of a small engineering player; or
- (b) Via collaboration with our engineering partners/third party engineering firm. Under this arrangement, our Group's management does not expect to incur any substantial investment cost.

## 6. BUSINESS OVERVIEW (*Cont'd*)

The provision of such engineering services will allow us to cater to a larger market. It will not only increase our product portfolio while providing us with a new marketing avenue, but will also bolster our position as a quarry specialist supplier. The provision of quarry engineering services is part of our Group's aim where it allows us to be a one-stop quarry solutions provider that provide customers with products and services that ranges from designs to commissioning of quarry plants to supplying and distributing various types of quarry industrial products, quarry machinery and quarry equipment to quarry grill. The expansion of our range of services is expected to commence immediately after our Listing.

### **Manpower expansion**

In order to support our Group's continuous expansion and to continuously create added value for our customers, we intend to increase our workforce within twelve (12) months after our Listing. This is in line with our increased sales volume in terms of the range of machinery that we carry, which would lead to shortage of manpower as well as longer time needed to respond to the service requests from our customers.

We intend to increase the current headcount in our technical team by another 50% (particularly for our technicians and engineers), which would allow us the capacity to cope with the additional service requests, and maintaining our service response time within 24 hours if our customer is located outside of the Klang Valley.

In addition, the positive response of the availability of reconditioned quarry machinery will also lead to increase in imports of used machinery, where our technicians are required to carry out reconditioning works.

### **Establishing quarry machinery and quarry equipment showroom and service centre**

We have acquired a leasehold vacant industrial land located in Cheras, Selangor, with a total land area of approximately 8,510 sq m. Part of our IPO proceeds will be utilised to construct our new operation facility to cater for our business growth in the quarry machinery and quarry equipment segments.

Our new operation facility shall house our new corporate office, warehouse, showroom cum service centre for quarry machinery and quarry equipment and reconditioning works space.

Our new showroom will also act as a platform to facilitate any pre-sales enquiries and activities associated with our range of quarry machinery and quarry equipment that we supply. We will be able to provide our potential customers with product demonstrations and highlighting the key features and capabilities of various models of quarry-based products. The building of our new operation facility will begin immediately upon our Listing and overall construction is estimated to be completed within thirty six (36) months from the date of our Listing.

### **Prospect of our Group**

The negative growth rate recorded for the quarry machinery and equipment market of -19.2% and -8.8% during 2008 and 2009, respectively, was due to recessionary economic conditions around the world and sluggish performance recorded in the construction industry, which led to the decrease in setups of new quarries and slower wear and tear in quarry machinery and quarry equipment. This has resulted in slower and declining capital expenditure made in the overall quarry machinery and equipment market. The quarry machinery and equipment market is also largely cyclical in nature, which is dependent on the replacement cycles of the major quarry machinery and equipment.

**6. BUSINESS OVERVIEW (Cont'd)**

The quarry machinery and equipment market grew by 9.4% and 9.8% during 2012 and 2013. This was in tandem with the growth in the construction industry performance, which mainly contributed to the higher and stronger growth in the quarry operations market which grew by 14.3% and 13.4% during 2012 and 2013, respectively. The growth was due to higher demand for capital expenditure investment (especially for replacement of quarry machinery and equipment by the quarry industry) and government commitment and initiatives towards catalyzing growth for the quarrying industry through projects outlined by the 10MP and ETP.

Our Group has taken a cautionary commercial view to pursue a prudent growth strategy whilst it assesses whether this high growth rate is sustainable. Our management also takes note at that time, there are other external factors and global events, such as the financial crisis faced in Europe, political uprisings in the Middle East and the great earthquake in Japan during 2011, which may potentially affect the future growth of the quarry machinery and equipment market. Our management is well aware that any aggressive growth strategy for our Group to match this market growth may potentially expose our Group to debtors' collection risk subsequently should the high market growth rate is not sustainable.

The IMR has estimated that the forecasted CAGR for the quarry machinery and equipment market is at 9.1% between 2012 and 2017, Our Group's revenue recorded an increase of 12.9%, from RM54.24 million in FYE 2012 to RM61.25 million in FYE 2013, which is above the said forecasted CAGR.

In 2014, the Malaysian economy faced an uncertain period of cautious and uncertain growth outlook. However, domestic demand remained in steady momentum, and private investment broadly increased as a direct result of the Economic Transformation Programme ("ETP") measures. As forecasted, the economy remained fairly resilient despite the uncertain economic outlook globally. However, Malaysia has increased its cooperation with rising economies within the Association of South East Asian Nations ("ASEAN") as well as China to bolster its external demand due to uncertainties arising from Western advanced economies.

Moving into 2013, the projects and initiatives launched by the ETP (initiated 26 October 2010) are expected to continue taking effect. Strong capital inflows encouraged through the ETP, which seeks to propel Malaysia towards becoming a high-income developed nation with a RM1.7 trillion gross nation income ("GNI") economy by 2020, are expected to materialise and now have more visible and pronounced effects on the local economy and consumer income. Under the ETP, private-sector driven projects with an investment value of RM1.3 trillion are to be undertaken to spearhead Malaysia's economic growth over the next ten (10) years.

*(Source: IMR Report)*

In view of this, for the FYE 2013, our Group has pursued a more aggressive growth strategy to capture these opportunities. For the FYE 2013, our Group has achieved revenue growth of 12.9% or RM7.01 million.

Our Directors are of the view that the prospects of our Group are favourable. Furthermore, our competitive strengths and advantages are expected to contribute to the profitability of our business.

Our competitive strengths and advantages are expected to ensure our business sustainability as well as providing a sound platform for business growth.

Moving forward, we have in place a series of business plans that are focused in expanding our presence and market share both in the domestic and regional markets, expanding our manpower to better service our customers as well as expanding the range of products and

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**6. BUSINESS OVERVIEW (*Cont'd*)**

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services. These future plans will help us to sustain our business, provide growth opportunities and at the same time adopt a prudent approach in expanding our business.

Our future plans set out in the above paragraphs are expected to be implemented within three (3) years from the date of our Listing.

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## 7. EXECUTIVE SUMMARY

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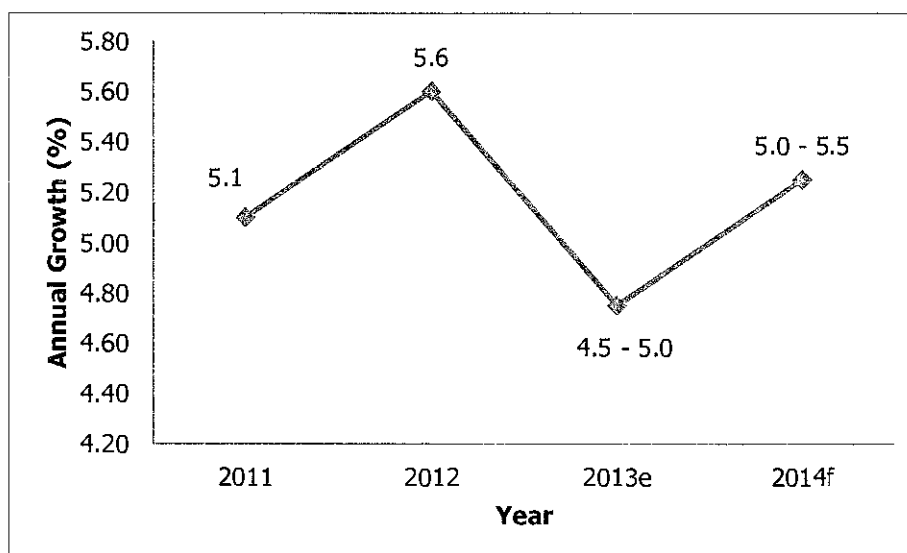
Dear Sirs,

**Executive Summary of the Independent Market Research Report for the Strategic Analysis of the Quarrying Industry focusing on the Quarry Machinery and Equipment in Malaysia**

This Executive Summary of the Independent Market Research Report for the Strategic Analysis of the Quarrying Industry focusing on Quarry Machinery and Equipment in Malaysia is prepared by Protégé Associates Sdn. Bhd. ("Protégé Associates") for inclusion in the Prospectus of SCH Group Berhad ("SCH" or "the Company") in relation to the proposed listing of SCH on the ACE Market of Bursa Malaysia Securities Berhad.

## MALAYSIAN ECONOMIC OVERVIEW

The Malaysian economy performed well in 2012 against the backdrop of a challenging international economic environment by recording an annual expansion of 5.6 percent or a real Gross Domestic Product ("GDP") at 2005 prices of RM751.47 billion. A higher growth in domestic demand has been credited as the main factor driving its growth ascension. Real aggregate domestic demand (excluding stocks) (note: stocks refer to the supply of goods kept in inventories for future use, and hence it is not a direct expenditure today) increased by 10.6 percent in 2012 as compared to 8.2 percent in 2011 spurred by higher investment spending and consumption.

**7. EXECUTIVE SUMMARY (Cont'd)****Figure 1: Malaysia's Real GDP, 2011-2014**

Notes:

- 1) *e* denotes estimate; *f* denotes forecast
- 2) Beginning 2012, real GDP has been rebased to 2005 prices from 2000 prices previously

Source: IMR Report

The overall labour market condition in Malaysia was stable in 2012. The unemployment rate declined to 3.0 percent of labour force for the year. In addition, the average nominal salary in the private sector rose by 5.0 percent in the same year according to a survey conducted by Bank Negara Malaysia ("BNM").

Headline inflation (as measured by the annual percentage change in the Consumer Price Index ("CPI")) was lower at 1.6 percent in 2012 as compared to 3.2 percent in 2011 mainly due to better-than-expected domestic food supply conditions and lower-than-expected inflation in the transport category.

In terms of growth percentage, the construction sector stood out as a star performer by registering an increase of 18.1 percent in 2012. Growth in the sector was supported by large amount of civil engineering projects in improving road and rail accessibility, increasing oil and gas output as well as enhancing electricity generation capacity. The services sector was the next best performing sector in terms of growth, expanding by 6.4 percent in 2012. The sector was boosted by strong consumer spending and the higher growth in the finance and insurance sub-sector.

The manufacturing sector grew moderately by 4.8 percent in 2012. Better growth in both the export- and domestic-oriented industries helped to drive the expansion in the manufacturing



**7. EXECUTIVE SUMMARY (Cont'd)**

sector. The mining and quarrying sector recovered from contraction in 2011 to register a 1.4 percent growth in 2012 on the back of recovery in the production of crude oil and condensates. As for the agriculture, forestry and fishery sector, it expanded by 1.0 percent in 2012 as strong growth in key food commodities such as livestock, paddy and vegetables helped to offset poorer crude palm oil output in the first half of 2012 due to unfavourable weather conditions.

Despite the positive results revealed in most of Malaysia's key economic indicators for 2012, the Malaysian Government is mindful of the challenging external environment that may affect the growth in the local economy. In the near future, the growth in the Malaysian economy is expected to be anchored again by domestic demand.

The Malaysian economy expanded by 4.1, 4.4 and 5.0 percent in the first, second and third quarter of 2013 respectively on the back of a robust domestic demand and accommodative monetary policy. The Malaysian economy is estimated to grow 4.5 to 5.0 percent in 2013.

In the latest development, the Malaysian Government has reiterated its intention to continue focusing on accelerating the national transformation process and supporting growth while improving public finance and ensuring fiscal sustainability. The Malaysian Government has also allocated RM1.6 billion under Budget 2014 for development in the five regional corridors. The Malaysian economy is expected to grow by between 5.0 to 5.5 percent in 2014 on the back of expected improving external environment and favourable domestic demand. The private sector is expected to drive the growth momentum in domestic demand. All the key economic sectors in Malaysia are projected to continue expanding in 2014.

## OVERVIEW OF THE CONSTRUCTION INDUSTRY

Latest figure from the Department of Statistics, Malaysia ("DOS") and the Ministry of Finance, Malaysia ("MOF") indicates impressive growth in 2012 at 18.1 percent, driven by large amount of civil engineering projects in improving road and rail accessibility, increasing oil and gas output as well as enhancing electricity generation capacity. Moving forward, the industry is expected to grow 10.6 percent this year (2013), supported by various Economic Transformation Programme ("ETP") projects specifically the Klang Valley Mass Rail Transit ("MRT") project and other Entry Point Projects ("EPPs"). The industry is also expected to be boosted by the further developments in Iskandar Malaysia and the Pengerang Integrated Petroleum Complex ("PIPC") in Johor.

**7. EXECUTIVE SUMMARY (Cont'd)****Figure 2: Construction Industry in Malaysia, 2012-2014**

Sector	Change (%)		
	2012	2013e	2014f
Construction	18.1	10.6	9.6

Notes:

- 1) % change is based on real GDP at 2005 prices
- 2) e denotes estimate
- 3) f denotes forecast

Source: IMR Report

In supporting the industry's growth, the Government had unleashed a massive roll-out of transportation infrastructure upgrading in line with the Tenth Malaysia Plan ("10MP"). This includes the building of the first Mass Rapid Transit ("MRT") Sungai Buloh - Kajang line, which began in July 2011 and is expected to complete in 2017. On the same note, according to the Land Public Transport Commission ("SPAD"), the feasibility studies for two additional lines, namely MRT 2 (Circle Line) and MRT 3 are completed. It is currently awaiting agreement for the execution of the final implementation plan from the relevant stakeholders with the tendering for works being expected to take place in 2014. According to the SPAD, all three MRT lines should be operational by 2020.

Within Greater Kuala Lumpur, one the twelve National Key Economic Areas ("NKEAs"), six new highway projects have been proposed in 2012, some of which are still under feasibility studies. These comprise of the West Coast Expressway, the Sungai Besi – Ulu Klang Expressway ("SUKE"), the Damansara – Shah Alam Highway ("DASH"), the Kinrara – Damansara Expressway ("KIDEX"), new interchange at Maju Expressway ("MEX") and the High-Speed Rail linking Kuala Lumpur to Singapore.

Under the ETP, a few new projects involving the industry have been announced in 2012, among which include a RM12.5 billion Sepang International City and RM4.1 billion Pengerang Liquefied Natural Gas Terminal Project. Many projects are expected to be approved and commenced under the ETP, boosting the domestic economy amid sluggish global economies.

In 2012, construction activities within the residential sub-sector moderated following the completion of several high-end properties, particularly condominiums and apartments. Construction activities in the residential sub-sector increased in completions by 12.0 percent while construction starts and new planned supply increased by 19.8 and 21.2 percent respectively.

**7. EXECUTIVE SUMMARY (Cont'd)**

Meanwhile, the non-residential sub-sector recorded a mixed performance in 2012. Construction activities in purpose-built offices sub-sector were sluggish; registering 21.3 percent decrease in construction completions to 472,785 square metres ("s.m.") from 600,975 s.m. in 2011. Construction starts and new planned supply also decreased by 60.7 and 87.2 percent respectively in the same year. Nonetheless, occupancy rate remained high at 82.3 percent, reflecting sustained business sentiment.

Construction activities in the shop sub-sector were encouraging. The shop sub-sector recorded an expansion in construction starts and new planned supply by 30.0 and 21.8 percent respectively. Completions were also higher at 7,855 units in the same year (2011: 6,286 units). Meanwhile, the shopping complexes sub-sector saw a 20.2 percent decrease in completions in 2012. 29 shopping complexes were completed in the same year, adding 479,246 s.m. of new retail space into the market. Accordingly, the completion of new shopping complexes has led to the softening of new planned supply to 147,692 s.m. On the other hand, retailers' confidence remained high as demand for retail space in shopping complexes persisted at around 79.1 percent.

The industrial property sub-sector registered higher completions in 2012. Completions in particular increased by 11.2 percent to 714 (2011: 642). In addition, construction starts activities surged by 61.5 percent from 919 to 1,484 units while new planned supply expanded by 40.9 percent.

The Malaysian Government has already indicated that there is a possibility that major government projects with low multiplier effect may be rescheduled which can slow construction activities if materialised. Nevertheless, projects with a high positive impact on the citizen and low import value are expected to be implemented.

The Malaysian Government has already announced the implementation of various infrastructure projects such as the 316-kilometre West Coast Expressway from Banting to Taiping, the double-tracking projects from Ipoh to Padang Besar and later, from Gemas to Johor Bahru and the upgrading of airports in Kota Kinabalu, Sandakan, Miri, Sibul and Mukah. RM2.9 billion was allocated under the Budget 2014 to upgrade rail tracks nationwide. The projected upcoming infrastructure projects such as the MRT 2 and MRT 3 projects as well as continuing expansion of the existing light rail transit ("LRT") line are also expected to be a growth catalyst for the industry.

In another development, the Malaysian Government has announced a few measures that can be seen as efforts to curb speculative buying in the property market. These measures include

**7. EXECUTIVE SUMMARY (Cont'd)**

raising the real property gain tax ("RPGT") to 30 percent for gains on properties disposed of within three years, 20 percent for four years and 15 percent for 5 years, imposing 30 percent RPGT for properties disposed of by non-citizens within five years and 5 percent for disposals after five years, prohibiting the Developer Interest Bearing Scheme ("DIBS") and increasing the minimum price of property that can be purchased by foreigners from RM500,000 to RM1 million. Affordable housing has continued to receive close attention from the Malaysian Government. Measures related to affordable housing announced in the Budget 2014 included the allocation of RM1 billion to PR1MA Corporation Malaysia ("PR1MA") to provide 80,000 housing units at 20 percent below market prices as well as the introduction of the Private Affordable Ownership Housing Scheme ("MyHome").

## THE QUARRYING INDUSTRY IN MALAYSIA

Mining and quarrying is classified as one of the major economic sectors in Malaysia. It involves the activities relating to the extraction and processing of metallic and non-metallic minerals. The sector contracted 5.5 percent in 2011. The negative growth was largely attributed to falling output level from mature oil fields, shutdown of several production facilities for maintenance, and new fields production that are lower than forecast level.

The performance in the mining and quarrying sector rebounded into positive growth territory in 2012 with a growth of 1.4 percent recorded for 2012 on the back of recovery in crude oil and condensates production. Oil fields located in offshore Peninsular Malaysia and Sabah produced higher level of output in 2012 while several marginal and new oil fields had also began production in the same year. The sector is expected to expand by 2.2 percent in 2013 and 3.1 percent in 2014, supported by the continued improvement in the oil and gas sector.

**Figure 3: The Performance of the Mining and Quarrying Sector in Malaysia, 2011-2014**

Sector	Change (%)			
	2011	2012	2013e	2014f
Mining and quarrying	-5.5	1.4	2.2	3.1

Notes:

- 1) % change is based on real GDP at 2005 prices
- 2) e denotes estimate
- 3) f denotes forecast

Source: IMR Report

**7. EXECUTIVE SUMMARY (Cont'd)****OVERVIEW OF QUARRYING IN MALAYSIA**

Non-metallic minerals, also known as rock materials, extracted by quarrying industry forms the basis of construction materials which are essential to the building of houses, roads, bridges, factories and many others. Imperatively, quarrying industry became an important industry to the construction and development of Malaysia. There are over 300 quarry sites operating in Malaysia with majority of it located in the Peninsula.

**Figure 4: Number of Quarry Sites in the Various States of Malaysia, 2011**

State	Number of Quarries
Johor	44
Kedah	18
Kelantan	11
Melaka	8
Negeri Sembilan	17
Pahang	27
Perak	54
Perlis	2
Pulau Pinang	14
Sabah	17
Sarawak	43
Selangor	32
Terengganu	15
<b>Total</b>	<b>302</b>

*Source: IMR Report*

There are different types of rock materials extracted from quarries. Most common types of rock material quarried in Malaysia are limestone and granite, sandstone, clay and others. Figure 5 depicts a general overview of selected non-metallic minerals reserves in Malaysia. Figure 6 depicts the annual output of selected minerals in Malaysia from 2006-2011.

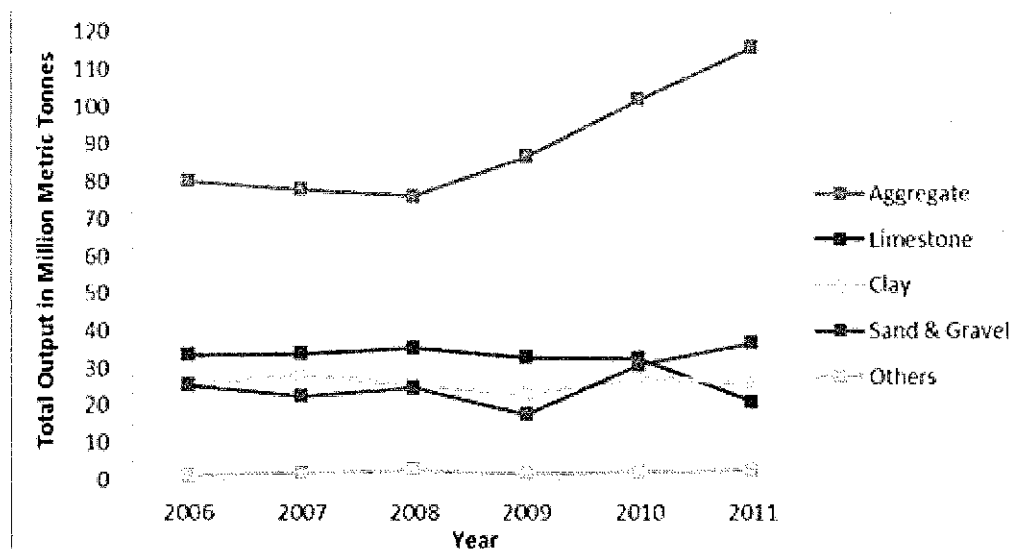
**7. EXECUTIVE SUMMARY (Cont'd)****Figure 5: Estimate of the Reserves and Value of Selected Minerals in Various States of Malaysia, 2011**

State	Aggregate		Limestone		Clay		Kaolin		Silica Sand		Feldspar	
	Reserve (Million Metric Tonnes ("mt"))	Value (RM million)	Reserve (Million mt)	Value (RM million)	Reserve (Million mt)	Value (RM million)	Reserve (Million mt)	Value (RM million)	Reserve (Million mt)	Value (RM million)	Reserve (Million mt)	Value (RM million)
Johor	1,579.0	5,684	40	96	82.7	232	24.6	344	-	-	-	-
Kedah	334.0	1,202	1,220.0	2,928	4.1	12	-	-	1.1	17	-	-
Kelantan	138.0	497	1,308.0	3,128	29.7	83	-	-	45.7	740	6,700.0	100,500
Melaka	69.1	249	-	-	-	-	-	-	-	-	-	-
Negeri Sembilan	1,869.0	6,728	600.0	1,440	3.7	10	-	-	-	-	-	-
Pulau Pinang	-	-	-	-	8.0	22	-	-	29.9	484	-	-
Pahang	565.0	2,034	1,720.0	4,128	88.0	246	4.5	64	-	-	2,007.0	30,105
Perak	443.0	1,595	2,599.0	6,238	3.6	10	59.0	826	-	-	-	-
Perlis	-	-	540.0	1,296	-	-	-	-	-	-	-	-
Sabah	466.0	1,678	5,625.7	13,502	-	-	0.6	8	-	-	-	-
Sarawak	336.4	1,211	15,894.0	38,145	2.6	7	23.2	324	10.9	176	-	-
Selangor/ Kuala Lumpur	672.0	2,419	530.0	1,272	38.9	109	-	-	-	-	-	-
Terengganu	620.0	2,232	70.0	168	94.4	264	5.3	74	45.6	740	-	-
Total	7091.5	25,529	30,146.7	72,341	355.6	995	117.2	1,640	133.2	2,157	8,707.0	130,605

Source: IMR Report

## 7. EXECUTIVE SUMMARY (Cont'd)

**Figure 6: Total Output of Non-Metallic Minerals in Million metric Tonnes, 2006-2011**

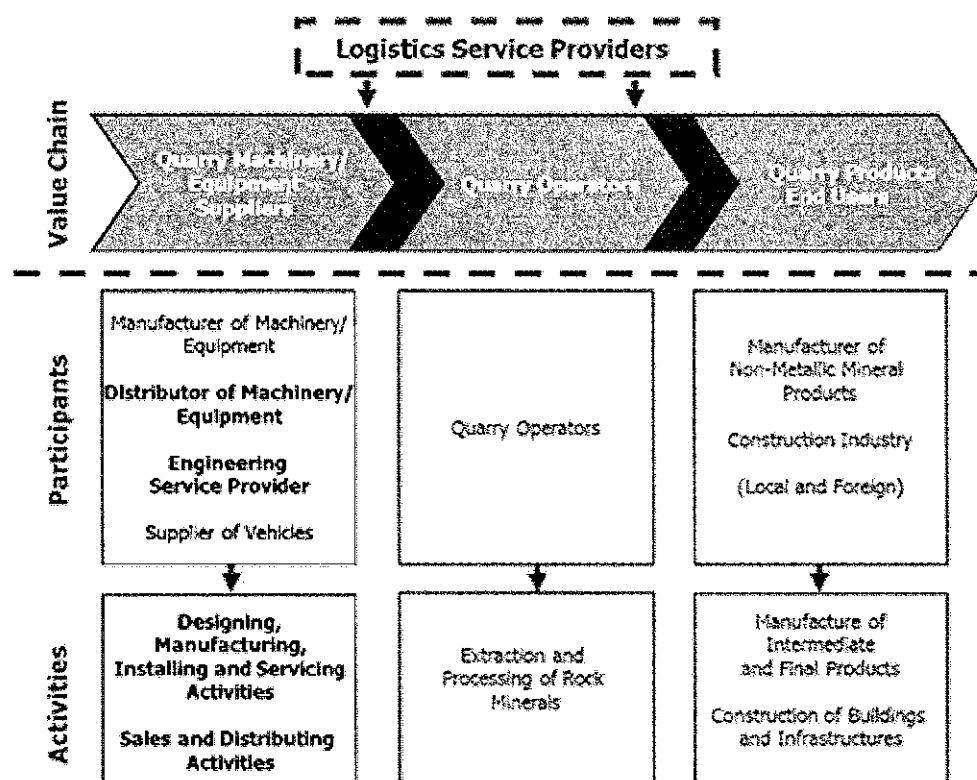


Note: Others include silica sand, kaolin and feldspart

Source: IMR Report

### Industry Value Chain

**Figure 7: Quarrying Industry Value Chain**



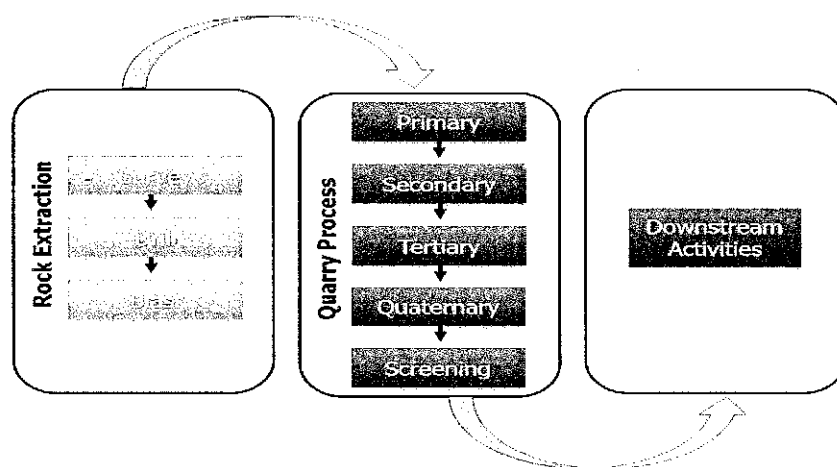
Source: IMR Report

## 7. EXECUTIVE SUMMARY (Cont'd)

### **Quarrying Operations**

Quarrying methods used for quarrying rock materials vary according to the type of rock and purpose of the rock is being quarried for. Methods employed are highly reliant on the use of machinery and equipment due to the bulk and size of rock materials handled. Figure 8 depicts the flowchart of the quarrying operations. It consists of multistage process categorised into rock extraction and quarrying process whilst highlighting other downstream activities.

**Figure 8: Quarrying Operations Flowchart**



*Source: IMR Report*

Quarrying operations requires different machineries and equipment that are unique to the activities of each process. The machineries and equipment includes drilling machine, jaw crusher, cone crusher, impact crusher, screening equipment amongst others.

**SCH Group is principally involved in the Malaysian quarrying industry as a supplier of quarrying equipment and machineries to Malaysia's quarry operators. They are an important market player that supplies supporting products and services vital for quarrying operations especially for rock extraction and quarry processes.**

### **Quarry Products**

Malaysia's industrial non-metallic mineral production includes aggregates, clays, earth materials, feldspar, kaolin, limestone, mica, sand and gravel and silica. However, the quarrying industry is mainly dominated by the quarrying of aggregates, limestone, sand and gravel and clay; therefore, this report will focus on the following major quarry products to reflect the quarrying industry.



## 7. EXECUTIVE SUMMARY (Cont'd)



Aggregate, is a broad category of rock materials that have been crushed and screened. It is commonly quarried from rocks such as limestone, sandstone, granite and others. It is primarily used for road building and construction. Aggregates derive from three sources namely primary aggregates, secondary aggregates and recycled aggregates.

Limestone is generally quarried for use in the manufacture of clinker, production of calcined, road construction, chemicals, dimensional stone and others. Limestone in this subsection consists of raw materials used mainly for cement manufacturing.

Sand and gravel are raw materials used in the construction sector. It is sourced as fine aggregate in dry concrete products, cement bricks, road construction and as a filtering material.

Clay is commonly used in making bricks, pottery, ceramics and cement while earth materials are used in landfill.

## ANALYSIS OF THE QUARRY MACHINERY & EQUIPMENT MARKET MARKETS

The quarry equipment and machinery market is a support industry to quarry operations; therefore its performance, trends and outlook correlates with that of quarry operations, and the quarrying industry at large. In this case, demand for quarry products, and increased quarrying activity will likely result in establishment of new quarry sites, expansion of quarry sites or increased quarrying production; all of which would increase the demand of maintenance and repair services, replacement for the wear and tear parts and new or upgraded machineries. ***As such, Protégé Associates' IMR report will henceforth analyse the quarrying industry in Malaysia, exploring the dynamics of Malaysia's quarry operations to provide a broad perspective of pertinent trends affecting SCH Group, while highlighting the performance and trends of the quarry machinery and equipment market to provide a more detailed look at the market SCH Group is most directly involved in.***

**7. EXECUTIVE SUMMARY (Cont'd)****Market Dynamics Scorecard****Figure 9: Market Dynamics Scorecard for the Quarrying Industry**

Market Dynamics Indicators	Quarrying Operations	Quarry Machinery & Equipment Market
2012 Market Size	RM3.64 billion	RM301.6 million
2012 Market Growth Rate (%)	14.3%	9.4%
2017 Forecast Market Size	RM6.47 billion	RM467.0 million
Forecast Period Market CAGR (2012–2017)	12.2%	9.1%
Types of Market Players	Approximately 200 to 250 market players	Approximately 60 to 70 market players including 10 to 15 active players
2013 Demand Conditions	Driving the market, sustained high positive impact throughout forecast period	
2013 Supply Conditions	Restraining the market, reducing negative impact throughout forecast period	
Threat of Substitution	-	
Reliance on Imports	Low	Moderate
Government Policy and Regulatory Stance	Pro-Industry	

*Source: IMR Report***Historical Market Performance and Growth Forecast**

- Quarry Operations**

The size of the quarry operations industry in Malaysia had expanded to RM3.19 billion and RM3.64 billion in 2011 and 2012 respectively on the back of strong performance in the construction sector particularly with the implementation of mega projects under the 10MP and the ETP. The industry was boosted by the kick-start of mega projects such as the Klang Valley MRT project in 2011 that led to a surge in demand for quarry products.

**7. EXECUTIVE SUMMARY (Cont'd)**

**Figure 10: Market Size and Growth Forecast for the Malaysian Quarry Operations Industry, 2011-2017**

Year	Market Size (RM billion)	Growth Rate (%)
2011	3.19	-
2012	3.64	14.3
2013	4.13	13.4
2014	4.66	12.8
2015	5.24	12.5
2016	5.83	11.2
2017	6.47	11.0

*CAGR (2012 – 2017): 12.2 percent*

*Note: All figures are rounded; the base year is 2012.*

*Source: IMR Report*

The quarry operations industry is characterised by high entry barriers; it is highly controlled by both the federal and state government. It is difficult for new entrants to penetrate the industry as large capital is required for initial start-up as well as to maintain quarry operations. Hence, the number of quarry operators in Malaysia is moderate in numbers. Quarry operators can be divided into two tiers namely Tier-1 and Tier-2 market players.

Tier-1 market players consist of quarry operators that are already well-capitalised with one or more quarry sites. They are generally a corporation which are involved in quarrying business and have also ventured into downstream activities such as manufacturing of building materials or construction through its subsidiaries. Quarry products are mainly supplied as raw materials to the group's in-house business and the rest sold to other customers. Examples of Tier-1 market player are YTL Cement Bhd, Hanson Malaysia, Hap Seng Consolidated Bhd, Lafarge Malayan Cement Bhd, Sunway Holdings Bhd, Bina Puri Holdings Bhd and Rock Chemical Industries (M) Bhd.

Tier-2 market players consist of quarry operators that are smaller in size in terms of number of quarry sites, workforce and capital resources. The quarry products are generally supplied to their associated companies involving in downstream activities or to other manufacturers of non-metallic mineral products. Unlike Tier-1 market players, Tier-2 market players have less diversified activities comparatively with quarry operations being their core business. Examples of Tier-2 are Thang Kiang Nam Group of Companies, Kajang Rocks Group of Companies, Holly Stone Quarry Sdn Bhd and Chua Teong Chai & Sons Quarry Sdn Bhd.

**7. EXECUTIVE SUMMARY (Cont'd)**

- **Quarry Machinery and Equipment Market**

The size of the quarry machinery and equipment market stood at RM275.7 million in 2011. Demand for quarry products increased significantly in the year due to the recovery of the economy, various development projects implemented by the government and sizeable export growth of quarry products. One of the most notable efforts of the government in 2011 was to kick-start the construction of the estimated RM40 billion Klang Valley MRT project. This led to the increase in the opening of new quarries and refurbishment of machineries. In tandem with the on-going government-led development projects, the quarry machinery and equipment market continued its expansion in 2012 with an estimated growth of 9.4 percent for the year. On another note, the increase in the prices of steel products in 2011 and 2012 had also led to higher prices for quarry machinery and equipment.

**Figure 11: Market Size and Growth Forecast for the Quarry Machinery and Equipment Market in Malaysia, 2011-2017**

Year	Market Size (RM million)	Growth Rate (%)
2011	275.7	-
2012	301.6	9.4
2013	331.0	9.8
2014	360.9	9.0
2015	392.6	8.8
2016	428.2	9.1
2017	467.0	9.1

*CAGR (2012 – 2017): 9.1 percent*

*Note: All figures are rounded; the base year is 2012.*

*Source: IMR Report*

**Competitive Analysis of the Quarry Machinery & Equipment Market**

Suppliers of quarry machinery and equipment consist of manufacturers, distributors, engineering service provider and other suppliers of quarry related machinery, equipment and vehicles. They are market players who supplies products and supporting services to the quarry operations industry. There are a small number of active players (10-15) in the quarry machinery and equipment market.

The quarry machinery and equipment market players can be segmented into two main categories according to the nature of their business. The first is the suppliers of quarry machinery and equipment. These players focus mainly on the trading of heavy-duty

**7. EXECUTIVE SUMMARY (Cont'd)**

machinery, trading and/or manufacturing of spare parts and quarry related equipment for the quarry operators.

The second category is the engineering service provider. These players are mainly involved in the activities of consultancy, designing, manufacturing and installing of quarry plants. Other supporting services include maintenance and repair.

It is a market norm for suppliers of quarry machinery and equipment and engineering service providers to establish ad hoc partnerships in order to deliver a more comprehensive value proposition for the customers. However, there is also an increasing trend towards diversification of activities among these two types of market player-types; a number of these market players are diversifying their product/ service offering in order to become fully capable of providing *end-to-end machinery and equipment supply and engineering services*. These market players are typically equipment machinery manufacturers/ distributors who have matured and developed engineering expertise to provide value added engineering and technical services, or engineering service providers who have vital access to machinery and equipment supply networks, or tie-ups with certain equipment suppliers.

The result is a competitive landscape where there is an increasing overlap between the functions of market players and the rise of capable end-to-end providers capable of fulfilling all quarry operator's machinery and equipment needs.

**Figure 12: Product/ Service Offering of Selected Key Market Players**

Company	Supply of Quarry Machinery	Supply of Peripheral Equipment & Spare Parts	Provision of Engineering Services
SCH Group	✓✓	✓✓	-
Jaques (International) Sdn Bhd ("Jaques International")	✓✓	✓✓	✓
Sunway Enterprise (19BB) Sdn Bhd ("Sunway Enterprise")	✓✓	✓✓	-
Sandvik Malaysia Sdn Bhd ("Sandvik Malaysia")	✓✓	✓✓	-
SLS Bearings (Malaysia) Sdn Bhd ("SLS Bearings")		✓✓	✓
UMS Holdings Bhd ("UMS")		✓✓	✓
Jururaya Sdn Bhd ("Jururaya")	✓	✓✓	-

**7. EXECUTIVE SUMMARY (Cont'd)**

Company	Supply of Quarry Machinery	Supply of Peripheral Equipment & Spare Parts	Provision of Engineering Services
YY Engineering Sdn Bhd ("YY Engineering")	✓	✓	✓✓
Master Rock Sdn Bhd ("Master Rock")	-	-	✓✓
Globeford Sdn Bhd ("Globeford")	-	-	✓✓

Notes:

- ✓✓ Denotes Flagship Product/ Service  
 ✓ Denotes Secondary or Value-Added Product/Service

Source: IMR Report

**Figure 13: Key Quarry Machinery & Equipment Market Players**

Market Players	Description
<b>Machinery Suppliers</b>	
<b>SCH Group</b>	<ul style="list-style-type: none"> <li>SCH was incorporated in Malaysia as a holding company, whilst its subsidiaries are SCH Corporation, Italiaworld, SCHWM and SCHME.</li> <li>SCH Group supplies quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry in Malaysia and South East Asia.</li> <li>SCH Group is also involved in the manufacturing of quarry grills for the quarrying industry.</li> <li>Has begun involvement in the acquisition and reconditioning of used quarry machinery and equipment for resale in 2010.</li> <li>Revenue for its financial year ended 31 August 2012 was RM54.2 million, of which RM51.8 was generated from the Malaysian market</li> <li>Recorded a profit after tax ("PAT") of RM7.5 million for the same financial year.</li> </ul>
<b>Jaques (International) Sdn Bhd ("Jaques International")</b>	<ul style="list-style-type: none"> <li>Jaques International was registered on 19 February 1975.</li> <li>It is involved in the selling of heavy industrial machinery, construction of rock crushing plants, fabrication of spare parts for existing line and manufacturing and trading of wire mesh.</li> <li>For its financial year ended 31 December 2012, its revenue was RM119.4 million.</li> </ul>
<b>Sunway Enterprise (1988) Sdn Bhd ("Sunway Enterprise")</b>	<ul style="list-style-type: none"> <li>Sunway Enterprise (formerly known as Sungei Way Enterprise (1988) Sdn Bhd) was registered on 25 September 1980.</li> <li>It is involved in the trading and hiring of heavy machinery and spares.</li> <li>For its financial year ended 31 December 2012, its revenue was</li> </ul>

**7. EXECUTIVE SUMMARY (Cont'd)**

Market Players	Description
	RM88.5 million.
<b>Sandvik Malaysia Sdn Bhd</b> ("Sandvik Malaysia")	<ul style="list-style-type: none"> <li>Sandvik Malaysia was registered on 24 September 1966.</li> <li>It is involved in the trading of stainless and special steels, cemented carbide tools for metal working, wood working and other mechanical tools for the engineering and electronics industries.</li> <li>For its financial year ended 31 December 2012, its revenue was RM15.5 million.</li> </ul>
<b>Peripheral Equipment &amp; Spare Part Suppliers</b>	
<b>SLS Bearings (Malaysia) Sdn Bhd</b> ("SLS Bearings")	<ul style="list-style-type: none"> <li>SLS Bearings (formerly known as SLS (Malaysia) Sdn Bhd) was registered on 20 November 1970.</li> <li>It is an importer, exporter, retailer and wholesaler of balls and roller bearings and bearing casings.</li> <li>For its financial year ended 31 December 2012, its revenue was RM107.0 million.</li> </ul>
<b>UMS Holdings Bhd ("UMS")</b>	<ul style="list-style-type: none"> <li>UMS is currently listed on the Main Market of Bursa Malaysia Securities Bhd.</li> <li>Through its subsidiaries, UMS is engaged in the distribution of mechanical power transmission and material handling products and systems and industrial spare parts.</li> <li>For its financial year ended 30 September 2012, its revenue was RM81.8 million.</li> </ul>
<b>Jururaya Sdn Bhd ("Jururaya")</b>	<ul style="list-style-type: none"> <li>Jururaya was registered on 4 January 1979.</li> <li>It is involved in the trading of mechanical, electrical and industrial products.</li> <li>For its financial year ended 31 December 2012, its revenue was RM10.5 million.</li> </ul>
<b>Engineering Service Providers</b>	
<b>YY Engineering Sdn Bhd</b> ("YY Engineering")	<ul style="list-style-type: none"> <li>YY Engineering was registered on 26 May 1987.</li> <li>Its nature of business include being a contractor in civil, mechanical and electrical engineering works, engineering services and general trading.</li> <li>For its financial year ended 30 June 2012, its revenue was RM9.7 million.</li> </ul>
<b>Master Rock Sdn Bhd ("Master Rock")</b>	<ul style="list-style-type: none"> <li>Master Rock was registered on 7 May 1981.</li> <li>It is involved in mechanical and engineering works.</li> <li>For its financial year ended 31 May 2012 its revenue was RM6.0 million.</li> </ul>
<b>Globeford Sdn Bhd ("Globeford")</b>	<ul style="list-style-type: none"> <li>Globeford was registered on 15 September 1994.</li> <li>It is involved in quarry engineering works, sale of quarry machinery, spares and the provision of services related to the</li> </ul>

**7. EXECUTIVE SUMMARY (Cont'd)**

Market Players	Description
	<p>industry.</p> <ul style="list-style-type: none"> <li>For its financial year ended 31 August 2011, its revenue was RM3.4 million.</li> </ul>

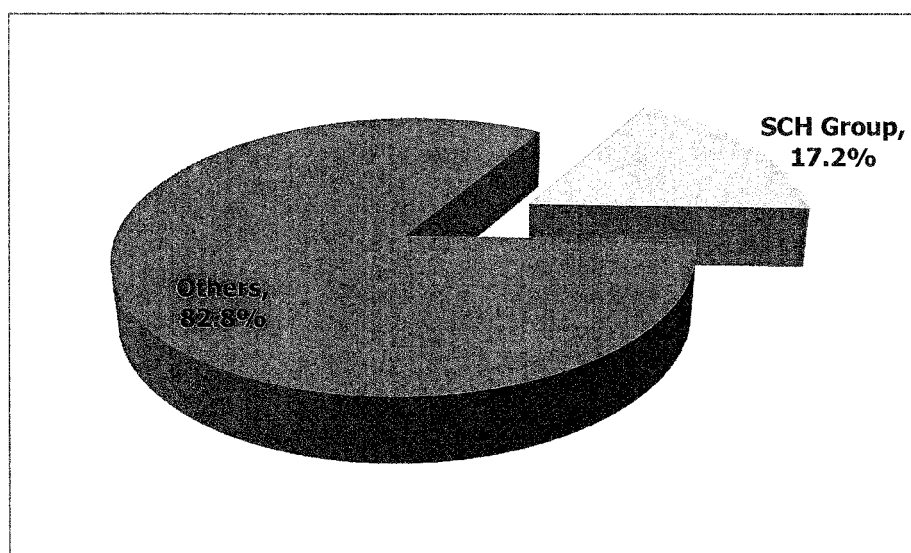
*Source: IMR Report*

**SCH Group's Market Share Analysis**

SCH Group is principally involved as a supplier and integrator of quarry equipment and machinery for quarry operators in Malaysia. As a Group, SCH Group is able to provide quarry operators with full quarry equipment and machinery supply, ranging from the procurement and supply of various machines to maintenance/ replacement works.

For FYE 2012, SCH Group generated revenues of RM51.8 million from the Malaysian market equivalent to an estimate of 17.2 percent share of the quarry equipment and machinery market during the year. This is based on SCH Group's revenue of RM51.8 million against forecast market size of RM301.6 million in 2012.

**Figure 14: SCH Group's Estimated Share within the Quarry Equipment and Machinery Market, 2012**



*Note: Based on estimated market size for 2012 and SCH historical financial results for the same year. The estimated market sizing consists of revenues generated from the supply of quarry machinery, peripheral equipment and spare parts.*

*Source: IMR Report*



## 7. EXECUTIVE SUMMARY (Cont'd)

**Demand and Supply Conditions****Figure 15: Demand and Supply Conditions Affecting the Quarrying Industry in Malaysia, 2012***Source: IMR Report***Demand Conditions**

The following factors represent key trends, developments and events influencing market demand:-

## 1) Government Infrastructure Development Activities

The 10MP (2011-2015) is one of the many government initiatives highlighted by major projects with total investments estimated at approximately RM62 billion. This budgeted amount is aimed at boosting the nation's economy through its various initiatives such as the ETP. The ETP was officially launched on 26 October 2010 in an effort to propel Malaysia towards becoming a high-income developed nation with an output of RM1.7 trillion in Gross National Income ("GNI") by 2020. Under the 10MP and ETP, the many projects especially the construction and infrastructure activities are expected to greatly enhance the demand for quarry products and accordingly expand the quarry industry in the near future. In tandem with that, the Government's annual budget released in the past few years have been focusing on a number of major property developments and infrastructure projects that support the growth of the economy and indirectly, the quarrying industry too.

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**7. EXECUTIVE SUMMARY (Cont'd)**

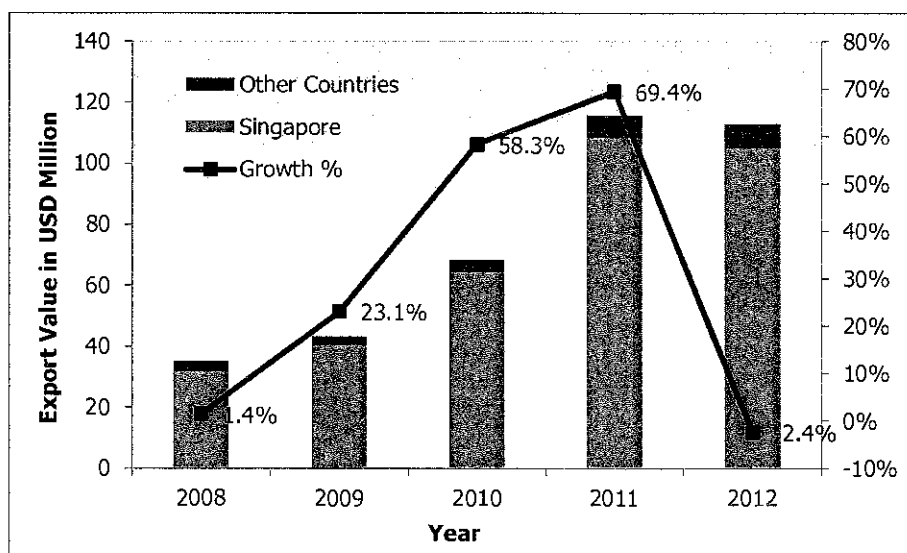
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**2) Expanding Construction Industry**

In 2012, the construction industry in Malaysia was worth approximately RM26.53 billion. The construction sector is vital to the quarrying industry as it is highly dependent on the building materials such as aggregates, asphalts, bricks and sands produced by the industry. At present, the construction sector is expected to be on a steady rise resulting in possible growth of demand for building materials from the quarrying industry. With the government development plans under the 10MP and ETP, the support for the construction industry will have a spill over effect for the quarrying industry and is deemed positive in the near future. As an essential provider of building materials, the quarrying industry is expected to garner better results with an expected increase in construction activities.

**3) Sustained Export Performance**

Malaysia has richer source of natural resources as compare to its neighbouring countries like Singapore, Indonesia and Brunei and therefore exports primary products such as quarry products to these countries as construction materials. Malaysia's export of quarry products has experienced significant growth in recent years save for 2012. In 2012, Malaysia's export of quarry products decreased 2.4 percent due to weaker demand from Singapore. Since 2007, Singapore has been the major importer of Malaysia's quarry products; they take up more than 90 percent of Malaysia's total export. Despite a minor shortfall in overall export and to Singapore in 2012, it is expected that Singapore will remain the main importer of quarry products from Malaysia in medium and long term. The Building & Construction Authority of Singapore projected that average construction demand for 2014 and 2015 will range between SGD22 billion and SGD30 billion per annum and these could continue to support the export of Malaysia's quarry products.

**7. EXECUTIVE SUMMARY (Cont'd)****Figure 16: Malaysia's Export Value of Quarry Products, 2008-2012**

*Note: Quarry products only include pebbles, gravel, broken and crushed stone for aggregates*

*Source: IMR Report*

**Supply Conditions**

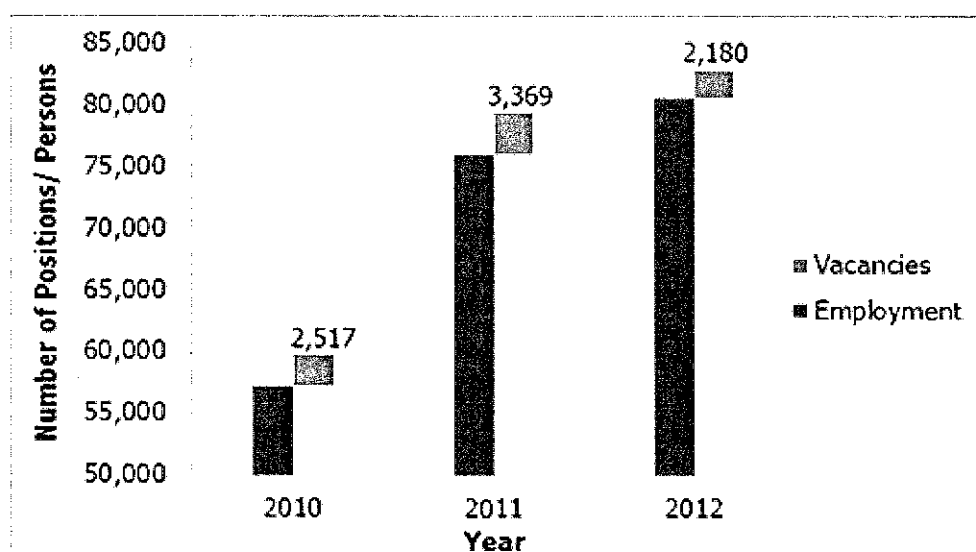
The following factors represent key trends, developments and events influencing market supply:-

**1) Improving Quarrying Technology and Practices**

Technology advancement is continuously improving the quarrying practices in terms of the machineries employed. Due to the intensity and bulk of the rock materials handled, the use of machineries is vital to the quarrying industry. The advancement of technology has enabled the refinement of quarrying machineries to process greater quantity of rock materials and garner greater and better quality output at a faster speed and/or low operating costs. Despite needing high capital, replacement and maintenance costs in machineries, many quarrying operators are constantly upgrading the machineries, systems and relevant equipment to maintain its competitiveness within the industry. In addition, government agency like MGDM has been encouraging research and development in quarrying practices to ensure the mineral resources in the country is developed in an optimal, efficient and sustainable way with minimal impacts to the environment and to assist in the diversification of local mineral usage.

**7. EXECUTIVE SUMMARY (Cont'd)****2) Increasing demand for Skilled Workers**

The quarrying is an industry that deals with specific quarrying activities and machineries; therefore, the industry demands that workers are trained in the knowledge and skill of quarrying such as drilling, blasting, explosive handling, machine maintenance and so forth. There is an increasing demand for skilled workers in the mining and quarrying sector as shown in Figure 17. The number of employment and vacancies within the sector grew around 33 percent in 2011. The number of people employed increased at a slower pace of 6.05 percent in 2012. This shows that the industry is experiencing a lack of competent workers to satisfy its growing industry. This market restraint is projected to remain high in the near future and medium throughout the rest of the forecast period. The industry would need to constantly nurture new personnel as well as upgrade existing workforce with cutting-edge knowledge to stay competitive and efficient in the industry.

**Figure 17: Labour Market in Mining and Quarrying Sector, 2010-2012****Notes:**

- 1) Vacancies figures reported by employers through the JobsMalaysia portal (formerly known as Electronic Labour Exchange, ELX)
- 2) Employment figures are estimates by Economic Planning Unit and Ministry of Human Resource
- 3) Beginning 2010, employment data was based on new population estimates and cannot be directly compared to previous years' data

Source: IMR Report

**7. EXECUTIVE SUMMARY (Cont'd)****3) Depleting Supply of Natural Resources**

The ever increasing demand for building materials churned out by the quarrying industry has resulted in quarry operators seeking new sources of non-metallic minerals. Alongside the continuous extraction of finite resources is a depletion of natural resources of the country. In view of this, the government is emphasising on the preservation of the environment, implementing policies that ensures mineral resources development activities are undertaken in a sustainable manner as well as encouraging the industry to concentrate on recycling aggregates.

**Substitute Products or Services**

- **Quarry Operations Industry**

There are no substitution for the quarry operations industry; the extraction and processing of rock materials into usable materials for the manufacturing and construction industry are activities unique only the quarry operators.

- **Quarry Machinery & Equipment Market**

There are no substitution for the product and services offered by the quarry machinery and equipment market. The market plays a supporting role to the quarry operations industry; they function as the supplier for all machinery and equipment and services pertaining to quarrying activities.

**Reliance and Vulnerabilities to Imports**

- **Quarry Operations Industry**

Malaysia has very low level of import for quarry products because firstly its rich natural resources of non-metallic minerals and accompanying quarrying operations have the ability to support national demand of quarry products as well as export some. Secondly, it is not viable for the country to rely on the import stone, aggregate and related building materials as it incurs high cost and lengthy time for import logistics. As a result, quarrying industry in Malaysia does not have reliance or vulnerability to imports.

- **Quarry Machinery & Equipment Market**

The quarry machinery and equipment market is fairly dependent on imports for high quality heavy-duty machinery and equipment. Heavy-duty machineries such as crushers and drillers are mainly imported from countries such as Japan, Korea, USA and Australia. It is highly

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**7. EXECUTIVE SUMMARY (Cont'd)**

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common for heavy-duty machineries to be imported from overseas due to the advanced cutting edge technology lacking in Malaysia.

However, most supporting equipment and spare parts can be source locally. Raw materials for steel structures are sourced and integrated locally for Malaysian quarry sites. It is less costly when equipment such as feeders, wire mesh, conveyor belts and other spare parts are manufactured and sourced locally. Nevertheless, some quarry operators may have leaning preference for imported equipment due to its perceived higher quality.

**Barriers to Entry****Quarry Operations Industry**

The quarry operations industry has very high entry barriers. These entry barriers include:

- *Limited Access to Land Concessions* – Quarrying activities can only be conducted on specially designated areas, with the proper concessions. As a primary resource, quarried minerals are finite and non-renewable, and concessions for quarries are thus also limited. Additionally, quarrying activities are strictly controlled by the government as a means to preserve national primary resource reserves, as well as to prevent over-mining from imposing negative externalities such as pollution to neighbouring parties. The finite nature of quarried minerals, and the scarcity of new quarry concessions forms the foremost entry barrier for new quarry operations in the country
- *High Capital Investment* – Starting costs for quarries are very high, due to necessary capital investments in highly specialised and expensive quarrying equipment, as well as other industrial machinery, logistical equipment, vehicles and manpower necessary. This forms a strong deterrent for new market players hoping to enter the industry, especially those without existing deep financial pockets.

## 7. EXECUTIVE SUMMARY (Cont'd)



### Quarry Machinery & Equipment Market

The quarry machinery and equipment trading market has relatively medium entry barriers, compared to both quarry machinery manufacturing, and quarry operations. Barriers to entry include:

1. *Established Market Player Reputation* – Quarry equipment are highly specialised and expensive equipment. With the risk of machinery/ equipment failure likely to pose significant financial losses to operators, quarry operators often retain reputable suppliers, and engage only market-renowned suppliers of machineries, equipment and related spare parts. The expensive cost of high-end equipment and spare parts also lend to the wariness of operators in switching to new machinery brands, or suppliers.
2. *Strong Relationships between Operators and Existing Suppliers* – Given the specialised nature of equipment, switching costs are quite high for operators. Therefore, unless operators have good reason to sever existing relationships with machinery suppliers (e.g. long standing unsatisfactory service, costly errors), operators seldom change machinery/ spare part suppliers. They are often wary about the risk of getting less-than-satisfactory service levels from new suppliers.
3. *Timely and Efficient Delivery to Operators* – Quarrying activities involve the operations of highly specialised machinery and equipment that are carefully integrated into a single system. Any malfunction in the quarrying machinery/ equipment could potentially disrupt the entire quarrying operation. Therefore, operators would often engaged suppliers who are able to deliver product and services in a timely and efficient manner. The ability to deliver such services would require suppliers to possess wide networks preferably located at the vicinity of quarries.

### Key Issues and Trends

#### Government Regulatory Agency

- 1) Mining and quarrying activities comes under the purview of the *Ministry of Natural Resources and Environment ("MNRE")*; industry players need to adhere to the strict standards of environmental performance set by the government and its planning services.
- 2) *Minerals and Geoscience Department Malaysia ("MGDM")* is a government agency established under the MNRE. Its role is to provide latest information and expertise to meet the national needs in the field of mineral and geoscience of which includes the quarrying industry.

## 7. EXECUTIVE SUMMARY (Cont'd)



- 3) *The Mine & Quarry Development Unit ("MQDU")* was set up to oversee the mining, quarrying and other mineral related activities as well as safeguard the workers' safety, property and the wellbeing of the environment

### Policy and Legislation

- 1) *The National Mineral Policy 2* was revised with a second version and launched in January 2009. The policy aims to enhance the contribution of the mineral sector to the socio-economic development of the nation through the efficient, responsible and sustainable development as well as the optimum utilisation of mineral resources.
- 2) *The Mineral Development Act, 1994* defines the power of the Federal Government for the inspection and regulation of the exploration and mining of minerals and mineral ores and for other matters connected therewith.
- 3) *The State Mining and Mineral Enactment* provides the States with the powers and rights to issue mineral prospecting and exploration licenses and mining leases and other related matters; it is adopted by the respective State Government at various stages. All States, except Perlis and Sabah, have adopted the State Mineral Enactment. States that adopted the Enactment also developed their own State Mineral Regulations to set out detailed guidelines for mineral exploration and mining operations.
- 4) *State Quarry Rules* comes under Section 14 of the *National Land Code 1965* which only governs activities relating to rock mineral in Peninsular Malaysia. The states of Kelantan, Pahang, Perak, Sabah, Selangor, Negeri Sembilan and Terengganu have adopted and implemented the State Quarry Rules.
- 5) *Explosives Act, 1957* relates to the manufacture, use, sale, storage, transport, import and export of explosives, including those used for rock extraction.

### Taxation

Quarry operators are required to pay corporate tax to the Federal Government as well as value-based royalties to the State where the quarry operation is located. Royalty rates are dependent on the mineral commodity and on the assessment of each of the individual States.

### Safety and Health Issues

The Department of Occupational Safety and Health ("DOSH") comes under the purview of the Ministry of Human Resources. This government agency is responsible for the administration and enforcement of legislations related to occupational safety and health.



**7. EXECUTIVE SUMMARY (Cont'd)**

*The Occupational Safety And Health Act 1994* make further provisions for securing the safety, health and welfare of persons at work, for protecting others against risks to safety or health in connection with activities of persons at work, to establish the National Council for Occupational Safety and Health, and for matters connected therewith. This Act covers the mining and quarrying sector.

**Environmental Concerns**

The activities involving the extractions of rocks from the earth have brought about concerns about the impacts on the environment. The common areas of concerns are visual intrusion, damage to landscape, noise, dust, loss of land and pollution of water courses. Therefore, under the National Mineral Policy ("NMP"), mining lease application must include an environmental protection plan approved by the Department of Environment of the MNRE. *Environmental Quality Act 1974* is an act relating to the prevention, abatement, control of pollution and enhancement of the environment, and for purposes connected therewith.

**Outlook of the Quarry Machineries and Equipment Market**

Malaysia's quarrying industry faces a positive outlook throughout the forecast period. Growth in the said industry is likely to be mainly underpinned by the government's initiatives such as 10MP and the ETP which feature a number of major property development and infrastructure projects which would give rise to the construction industry. Projects such as the RM40 billion Klang Valley MRT projects, RM26 billion Tun Razak Exchange (formerly known as Kuala Lumpur International Financial District) development, RM5 billion 118-storey Warisan Merdeka tower, government initiated affordable housing projects, construction of new highways and other infrastructures are expected to boost the demand for quarry products which bodes well for the quarry operator industry. These trends have a flow over effect on the quarry machinery and equipment market. As more quarrying activities would be needed to meet the higher demand of quarry products; the supporting products and services of the quarry machinery and equipment market would also be in higher demand. Engineering service providers would be engaged to help set up new quarry sites while more production activities would encourage frequent wear and tears, hence, an increase market for equipment and spare parts.

On the supply side, technology advancement is expected to enhance quarrying operations and production. MGDM is consistently encouraging continuous research and development in quarrying practices so that the depleting mineral resources of the country are developed in as optimal, efficient and sustainable way. Furthermore, quarry operators see the value of

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**7. EXECUTIVE SUMMARY (Cont'd)**

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upgrading technology as it helps to garner greater output and/or lessen operating costs. In view of this, the quarry machinery and equipment market has an important role to play by introducing enhanced products.

Despite the industry's obvious potential growth, there is a major trend that could limit this development – a shortage of available workers for the industry. The industry would need to constantly nurture new personnel as well as upgrade existing workforce with cutting-edge knowledge to ensure supply of competent workers for the industry.

The quarrying industry is highly controlled by the Malaysian government as it involves the extraction of the country's natural resources. Government agencies are formed to oversee the activities involving in the quarry industry, various policy and legislations outlines strict guidelines pertaining to the quarrying operations that industry players need to adhere to. One of the key concerns of the government is the environmental impact arising from quarrying activities such as noise, air and sound pollution. Hence, government are taking steps to protect and sustain the environment; industry players are also expected to conduct self-regulatory management measure.

The quarrying operations industry in Malaysia was valued at RM3.64 billion in 2012 and is expected to grow at a CAGR of 12.2 percent for the 2012-2017 period to RM6.47 billion in 2017. The quarry machinery and equipment market in Malaysia was valued at RM301.6 million in 2012 and is expected to grow at a CAGR of 9.1 percent for the 2012-2017 period to RM467.0 million in 2017.

**7. EXECUTIVE SUMMARY (Cont'd)****OVERVIEW OF THE IRON ORE INDUSTRY IN MALAYSIA**

Iron ore is one of the metallic minerals found and mined Malaysia. As a foundation to an advanced and industrialised economy, iron ore is an important raw material to many sectors of the economy such as the construction industry, electrical and electronic industry, automotive industry, furniture industry, machinery industry and engineering fabrication industry. Figure 18 depicts the estimated iron ore reserve and its value in various states in Malaysia.

**Figure 18: Estimated Reserves and Value of Iron Ore in Selected States of Malaysia, 2011**

States	Reserve (Million mt)	Value (RM million)
Pahang	23.8	1,166
Terengganu	8.0	392
Kelantan	7.3	355
Perak	6.0	294
Johor	5.0	245
<b>Total</b>	<b>50.1</b>	<b>2,452</b>

*Source: IMR Report*

The Malaysian iron ore industry has been performing well with production reaching record levels during the past five-years. Despite the global crisis in 2008 that affected the national economy alongside many other sectors, the iron ore production remained robust. During the recession's peak in 2009, the industry crossed the one million mt threshold and recorded iron ore production of 1.5 million mt, a growth of 49.7 percent from 2008. The production level increased in 2010 where 142.0 percent of growth was recorded due to increasing demand of iron ore from China. The strong growth continued in the following year, leading to a 116.6 percent growth in production level where 7.7 million mt of iron ore production were produced. The figure below depicts the production levels of iron ore in Malaysia.

**Figure 19: Production of Iron Ore in Malaysia in Metric Tonnes, 2007-2011**

Year	Metric Tonnes	Growth (%)
2007	802,030	20.2
2008	981,932	22.4
2009	1,470,186	49.7
2010	3,557,813	142.0

**7. EXECUTIVE SUMMARY (Cont'd)**

Year	Metric Tonnes	Growth (%)
2011	7,707,013	116.6

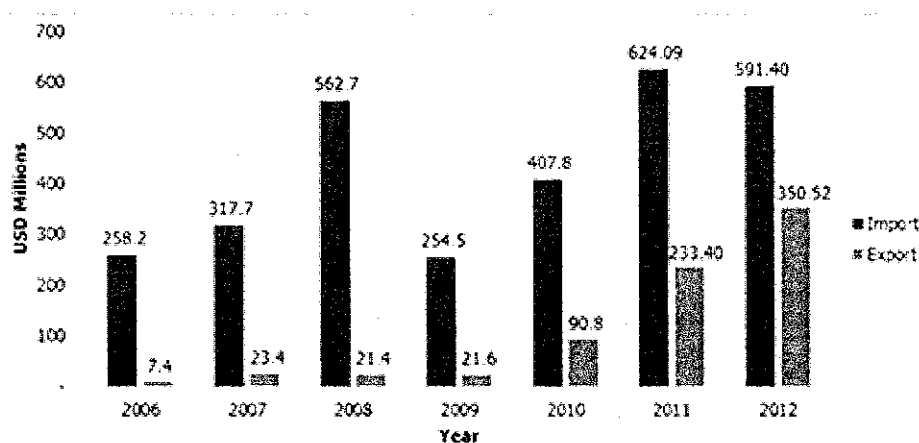
*Source: IMR Report*

Nevertheless, the iron ore industry is still considered a small sub-segment of the mining and quarrying sector which is dominated by major minerals such as oil and gas and quarried rocks. Most of the iron ore mines in Malaysia are concentrated on small reserves that produce low graded iron ore; produce is mainly consumed as raw materials by the local cement and iron and steel plants. As an essential raw material to the production of steel, iron ore is most notably sourced by the steel industry. Steel is a type of basic metal alloy that is primarily made up of iron along with the presence of small amounts of carbon and other alloying materials. It is relatively harder and stronger than iron making steel a more preferred material over iron.

Despite the presence of local mines, Malaysia's iron ore production is considerably low and unable to meet the domestic demand of iron ore, especially by the steel industry. This resulted in high import of iron ore mainly from Brazil, Chile and Bahrain.

Year-on-year, Malaysian iron ore production has exhibited exponential growth. In tandem, there were also apparent increases in iron ore exports with more than 300 percent and 157 percent growth in export value recorded in 2010 and 2011 respectively. The export value increased by more than half in 2012 to USD350.52 million. Approximately 99 percent of iron ore exports from 2007 to 2012 were destined for China. The figure hereafter depicts the value of Malaysian import and export of iron ore from 2006 to 2012.

**Figure 20: Value of Iron Ore's Import and Export, 2006-2012**



**7. EXECUTIVE SUMMARY (Cont'd)**

*Note: Only includes iron ores and concentrates, roasted iron pyrites*

*Source: IMR Report*

The iron ore industry is expected to grow in the near future underpinned by a continuous demand for iron ore by various growing sectors especially the steel industry. Government initiatives through the 10MP and ETP, which boast of several construction and infrastructure developments, will most likely result in higher demand for construction materials – hence a spill over effect to the iron ore industry.

With continuous mining, the iron ore industry will be challenged by the inevitable – depleting ore resources. Nevertheless, this risk of depleting natural resources is expected to have minimal effects on the supply of iron ore in the short term as ore resource is not expected to run out overnight but take effect gradually. Meanwhile, iron ore production is still expected to grow in tandem with the recent award of iron ore mine concessions at Bukit Besi, Terengganu to Eastern Steel Sdn Bhd and Perwaja Holding Bhd in 2012 by the Terengganu state government. These developments are expected to boost the Malaysian iron ore production in the near future.

On the forefront of industry news, Brazil's Vale International ("Vale"), one of the largest mining companies in the world, is investing in an iron ore distribution centre in Malaysia. Vale is planning to build a jetty and an iron ore processing plant on a 450-acre site in Teluk Rubiah, Perak which aims to shorten distribution distance between core iron ore mines in Brazil and the growing demand for iron ore in Asia. The jetty is expected to dock Vale's ships carrying iron ore from Brazil while the iron ore plant is expected to be operational by 2015. The plant is expected to be able to process blended iron ore and pellets which are then distributed to steel manufacturers around the Asia-Pacific region. However, The Coalition of Concerned Citizens of Perak is strongly protesting against this development and is urging the state government to review its agreements with the Brazilian company. Vale will need to sort out on-going protestations before their plan can fully commence.

The operations of iron ore mining and stone quarrying are relatively similar to each other. Raw iron ores are extracted using similar drilling equipment, then transported to the pulverising plant consisting of various crushers to reduce the iron ore into smaller sizes, vibrating screens to distribute iron ores into different piles according to its size range and conveyor belts to transport iron ore through different processes. The similarities between iron ore mining and stone quarrying enable the same suppliers of machinery and equipment to provide supporting products and services to both the mining and quarrying sector.

## 7. EXECUTIVE SUMMARY (Cont'd)



Due to the hardness of iron, wear and tear of equipment and machinery used for iron mining would occur at a much higher rate than in quarry operations. This results in greater replacement demand for machinery and equipment parts over the long run. Due to the above developments and potential growth in the iron ore mining industry, the SCH Group has begun marketing its quarry-based products to companies in the iron ore mining industry in Malaysia.

Protégé Associates has prepared this report in an independent and objective manner and has 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

Protégé Associates Sdn Bhd

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL

### 8.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

The details of our substantial shareholders, Promoters and their respective shareholdings in our Company before and after our IPO are set out below.

#### 8.1.1 Shareholdings

Name	Nationality	<----- Before IPO <sup>(1)</sup> ----->				<----- After IPO <sup>(2)</sup> ----->			
		<--- Direct --->		<--- Indirect --->		<--- Direct --->		<--- Indirect --->	
		No. of Shares held	%	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%
Lau Mong Ling	Malaysian	106,035,224	32.98	-	-	<sup>(3)</sup> 95,039,224	23.05	-	-
Wong Sin Chin	Malaysian	106,035,083	32.98	-	-	<sup>(3)</sup> 95,043,083	23.06	-	-
Yeen Yoon Hin	Malaysian	106,034,903	32.98	-	-	<sup>(3)</sup> 95,042,903	23.06	-	-

**Notes:-**

(1) Based on the issued and paid-up share capital of 321,542,020 Shares before our IPO.

(2) Based on the enlarged issued and paid-up share capital of 412,234,020 Shares after our IPO.

(3) After our Offer for Sale.

#### 8.1.2 Profiles of Promoters

The profiles of our Promoters are as follows:-

- (i) **Lau Mong Ling**, a Promoter and substantial shareholder, is also our Managing Director and Deputy Chairman. His profile is disclosed in Section 8.2 of this Prospectus.
- (ii) **Wong Sin Chin**, a Promoter and substantial shareholder, is also our Executive Director. His profile is disclosed in Section 8.2 of this Prospectus.
- (iii) **Yeen Yoon Hin**, a Promoter and substantial shareholder, is also our Executive Director. His profile is disclosed in Section 8.2 of this Prospectus.

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**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)****8.1.3 Changes in the Promoters and substantial shareholders' shareholdings in our Company since our incorporation**

The changes in our Promoters and substantial shareholders' respective shareholdings since our Company's incorporation are as follows:-

Promoters/Substantial Shareholders/Vendors	<----- Before Acquisitions ----->									
	Shareholdings in									
	SCH Corporation		SCHWM		SCHME		Italiaworld		Purchase Consideration (RM)	
	No. of shares	%	No. of shares	%	No. of shares	%	No. of shares	%		
Lau Mong Ling	2,626,668	33.34	161,667	32.34	126,667	31.67	33,334	33.34	10,603,520	
Wong Sin Chin	2,626,667	33.33	161,667	32.33	126,667	31.67	33,333	33.33	10,603,508	
Yeen Yoon Hin	2,626,667	33.33	161,666	32.33	126,666	31.66	33,333	33.33	10,603,490	
Au Yong Sau Kuen	-	-	5,000	1.00	-	-	-	-	20,702	
Wong Sang@Wong Hock Lim	-	-	10,000	2.00	-	-	-	-	41,404	
Lim Lee Pooi	-	-	-	-	20,000	5.00	-	-	281,575	
<b>Total</b>	<b>7,880,002</b>	<b>100.00</b>	<b>500,000</b>	<b>100</b>	<b>400,000</b>	<b>100.00</b>	<b>100,000</b>	<b>100.0</b>	<b>32,154,199</b>	

Promoters/Substantial Shareholders/Vendors	<----- After Acquisitions ----->											
	<----- As at incorporation ----->				<----- As at LPD ----->				<----- After Acquisitions ----->			
	<--- Direct --->		<--- Indirect --->		<--- Direct --->		<--- Indirect --->		<--- Direct --->		<--- Indirect --->	
	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%
Lau Mong Ling	-	-	-	-	-	-	-	-	106,035,224	32.98	-	-
Wong Sin Chin	-	-	-	-	-	-	-	-	106,035,083	32.98	-	-
Yeen Yoon Hin	-	-	-	-	-	-	-	-	106,034,903	32.98	-	-
Au Yong Sau Kuen	-	-	-	-	-	-	-	-	207,020	0.06	-	-
Wong Sang @ Wong Hock Lim	-	-	-	-	-	-	-	-	414,040	0.13	-	-
Lim Lee Pooi	-	-	-	-	-	-	-	-	2,815,750	0.88	-	-
Zaharah binti Md Radzi	10	50	-	-	10	50	-	-	^	-	-	-
Rawani binti Ahmad	10	50	-	-	10	50	-	-	^	-	-	-



## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### Notes:-

\* Less than 0.01%.

^ The subscribers' shares held by Zaharah binti Md Radzi and Rawani binti Ahmad has been transferred to Lau Mong Ling on 11 November 2013.

### 8.1.4 Directors Shareholdings

The profiles of our Directors are set out in Section 8.2 of this Prospectus and their respective shareholdings in our Company before and after our IPO are set out below:-

Name	Designation/ Nationality	<----- Before IPO ----->				<----- After IPO ----->			
		<--- Direct --->		<--- Indirect --->		<--- Direct --->		<--- Indirect --->	
		No. of Shares held	%	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%
Chan Wan Choon	Independent Non-Executive Chairman/ Malaysian	-	-	-	-	^420,000	0.10	-	-
Lau Mong Ling	Managing Director and Deputy Chairman/ Malaysian	106,035,224	32.98	-	-	#95,039,224	23.05	-	-
Wong 5in Chin	Executive Director/ Malaysian	106,035,083	32.98	-	-	#95,043,083	23.06	-	-
Yeen Yoon Hin	Executive Director/ Malaysian	106,034,903	32.98	-	-	#95,042,903	23.06	-	-
Gan Khong Aik	Independent Non-Executive Director/ Malaysian	-	-	-	-	^420,000	0.10	-	-
Sim Yee Fuan	Independent Non-Executive Director/ Malaysian	-	-	-	-	^420,000	0.10	-	-
Rahimi bin Ramli	Independent Non-Executive Director/ Malaysian	-	-	-	-	^420,000	0.10	-	-

### Notes:-

^ Assuming that our eligible Directors fully subscribe to all of the Issue Shares offered to them under the Pink Form Allocations.

# After our Offer for Sale.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

### 8.1.5 Persons Exercising Control over the Corporation

Save for our Promoters, namely Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin, we are not aware of any other person who are able to, directly or indirectly, jointly or severally, exercise control over our Company.

### 8.2 PROFILES OF OUR DIRECTORS

The profiles of our Directors are as follows:-

- (a) **Chan Wan Choon**, a Malaysian, aged 76, is our Independent Non-Executive Chairman. He was appointed to our Board on 13 March 2012.

He has served as the Honorary Fellow of the Institute of Materials, Minerals and Mining, UK, since 1988 and has served as the Overseas Council Member for Malaysia from 1977 to 1988. He is also a Fellow of the Institute of Mineral Engineering, Malaysia since 1981, a registered Chartered Engineer ("CEng") with the Council of Engineering Institutions, UK since 1969 and a registered Professional Engineer under the Malaysian Engineer's Act since 1974. In addition, he was a council member of the Malayan Mining Employers Association ("MMEA") since 1973. He subsequently served as the President of MMEA from 1977 to 1978, and again from 1980 to 1982. He was the Member of the Malaysian Council of Employers Organisations since 1982 and has served on the Employers' Panel of the Industrial Court. In addition, he has also served on various technical committees of the Standard and Industrial Research Institute of Malaysia ("SIRIM") from 1971 to 1980 and was appointed Chairman of the Technical Committee on Mining from 1980 to 1985.

After completing his Sijil Pelajaran Malaysia in 1955 at Sultan Yusoff School at Batu Gajah, Perak Darul Ridzuan, Chan Wan Choon then went on to pursue his Sijil Tinggi Persekolahan Malaysia at Sekolah King Edward VII, Taiping, Perak Darul Ridzuan, which he then completed it in 1957. He graduated from Camborne School of Mines ("ACSM"), United Kingdom in 1960 and is awarded with the qualified Associateship, which is conferred to graduates from accredited United Kingdom universities or Board of examination degree/masters programs, since 1960.

Upon his graduation in 1960, he joined Malayan Tin Dredging Ltd as a Mining Engineer until 1964 and then joined Anglo Oriental (M) Sdn Bhd as the Chief of the District Planning Department from 1964 to 1966 when the companies amalgamated. He then left the company to work as an Assistant Superintendent at Selangor Dredging Bhd in 1966 and subsequently assumed the post of Superintendent from 1967 to 1979. He retired from the company as its General Manager in 2000.

- (b) **Lau Mong Ling**, a Malaysian, aged 59, is our Managing Director and Deputy Chairman. He was appointed to our Board on 13 March 2012. He pursued his secondary education until Form Three (3) in 1970 at Sekolah Menengah Kebangsaan St. Paul in Seremban, Negeri Sembilan. He is responsible for overseeing the business development, finance and corporate strategic functions of our Group.

Lau Mong Ling started his career with UMS Holdings Berhad ("UMS") in 1970, a company listed on Bursa Securities, as an apprentice where he was exposed to various areas of the company's operations, which included marketing, management as well as trading and distribution. He then left UMS in 1977 and established Chee Heng Motor Supply ("Chee Heng") with Yeen Yoon Hin and three (3) other partners, being Wong Sin Chin, Tan Ah Soon and Tan Soon Seng in 1978. Chee Heng was a company that focuses on the supply of machinery parts.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

His tenure with Chee Heng further exposed him to various aspects of the industrial spare parts business, and more importantly, widening his business network with various parties which included quarry engineers and bankers. He left Chee Heng to establish SCHSB together with Wong Sin Chin and Yeen Yoon Hin in 1983.

- (c) **Wong Sin Chin**, a Malaysian, aged 73, is our Executive Director. He pursued his secondary education until Form Three (3) in 1956 at Seremban Chung Hua High School, Negeri Sembilan. He was appointed to our Board on 13 March 2012. He is primarily responsible for our Group's purchases and inventory systems.

Prior to setting up of SCHSB in 1983, he was attached with UMS as an apprentice from 1970 to 1982. During his tenure in UMS, he was in charge of stock keeping and over the counter sales. Wong Sin Chin was also the partner of Chee Heng, however he was not involved in the operations and decision matters of Chee Heng as he was still the employee of UMS. He then left UMS and joined Lau Mong Ling and Yeen Yoon Hin to establish SCHSB in 1983, where he was responsible for the company's inventory system and over the counter sales. The experience he gained from the years spent in UMS has enabled Wong Sin Chin to play a vital role in our Group and has since, managed our inventory system as well as over the counter sales.

- (d) **Yeen Yoon Hin**, a Malaysian, aged 60, is our Executive Director. He was appointed to our Board on 13 March 2012. He pursued his secondary education until Form Three (3) in 1970 at Sekolah Menengah Kebangsaan St Paul in Seremban, Negeri Sembilan. He is responsible for our marketing functions, collections and customer relationship, as well as managing the operations of our distribution centres.

Yeen Yoon Hin joined UMS as an apprentice in 1973, where he was exposed to the company's store keeping operations. He left UMS in 1977 to establish Chee Heng with Lau Mong Ling and three (3) other partners, being Wong Sin Chin and Tan Ah Soon, Tan Soon Seng in 1978. He was in charge of sales and marketing functions of Chee Heng. In 1983, he left Chee Heng to establish SCHSB together with Lau Mong Ling and Wong Sin Chin. His years of experience in past companies enabled him to provide much needed support in the early years of the company's establishment, where he was responsible for sales in the east Coast of Malaysia, before handling all of the sales and distribution centres of our Group outside Klang Valley.

- (e) **Gan Khong Aik**, a Malaysian, aged 45, is our Independent Non-Executive Director. He was appointed to our Board on 13 March 2012.

After completing his Sijil Pelajaran Malaysia from St. Francis Institution, Malacca in 1987, Gan Khong Aik went on to pursue his Sijil Tinggi Persekolahan Malaysia at Malacca High School in 1989. He graduated from University of Malaya, Malaysia with a Second Class Honours (Upper Division) in Bachelor of Law in 1994 and was admitted and enrolled as an advocate and solicitor of the High Court of Malaya in 1995.

He commenced his legal career with Lee Hishammuddin Allen Gledhill in 1994 and in 2001 he became a partner of Lee Hishammuddin Allen Gledhill until 2008 where he set up his own law practice, Gan Partnership in the same year.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

- (f) **Sim Yee Fuan**, a Malaysian, aged 47, is our Independent Non-Executive Director. He was appointed to our Board on 13 March 2012.

After completing his Sijil Pelajaran Malaysia in 1984 from Sekolah Menengah Simpang Empat, Seberang Perai Selatan, Penang, Sim Yee Fuan then pursued his Sijil Tinggi Persekolahan Malaysia at Sekolah Menengah Kebangsaan Tinggi Bukit Mertajam, Penang, in which he then completed it in 1986. He then graduated with a Bachelor of Accounting (Hons) from Universiti Malaya in 1991. He then obtained his Professional Public Account Certificate from the Malaysian Institute of Certified Public Accountants ("MICPA") in 1992 and Master Degree in Business Administration from Universiti Utara Malaysia in 2000. He is a Chartered Accountant registered with the Malaysia Institute of Accountants ("MIA") since 1994.

He began his career with Bank Negara Malaysia ("BNM") as its Administrative Officer from 1991 to 1995. During his engagement with BNM, he worked at the Balance of Payment Department and Bank Examination I Department. He then left BNM to join Eurospan Holdings Berhad ("Eurospan"), a listed company on Bursa Securities as its Group Accountant in 1995 and was subsequently appointed as Eurospan's Executive Director in 2001. He left Eurospan in 2002 and joined another listed company, AE Multi Holdings Berhad ("AEM") as the Group Financial Controller in the same year. His main functions during his tenure in Eurospan and AEM were in the areas of accounting, finance, treasury, taxation and corporate management. In 2006, he joined Unimech Group Berhad, a company listed on Bursa Securities as Group Accountant and was subsequently promoted to its Group General Manager.

Currently, he is also an Executive Director of Unimech Group Berhad and an Independent Non-Executive Director of Sinaria Corporation Berhad and Eurospan. He also holds directorships in several private limited companies. He is also the Commissioner of PT Arita Prima Indonesia Tbk, a company listed on Indonesia Stock Exchange. The Board of Directors of Unimech Group Berhad has approved his appointment as the Independent Non-Executive Director of SCH on 11 March 2013.

- (g) **Rahimi bin Ramli**

Rahimi bin Ramli, aged 43, a Malaysian, is our Independent Non-Executive Director. He was appointed to our Board on 3 December 2013.

He completed his Sijil Pelajaran Malaysia at the Malay College Kuala Kangsar, Perak in 1987. He obtained a Diploma in Accountancy from Universiti Institut Teknologi Mara in 1991. He also holds a Bachelor's Degree (Hons) in Accounting and Finance from Middlesex University, United Kingdom in 1993. He has been a fellow member of the Association of Chartered Certified Accountants (FCCA) since 2000 and is a registered Chartered Accountant with Malaysian Institute of Accountants since 2001. He is also a member of the Chartered Institute of Taxation, Malaysia since 2002. In addition, he is also a Professional Member of Institute of Internal Auditors, Malaysia (IIAM) since 2010 and was previously its Chartered Member since 2004.

He began his career with KPMG in Malaysia in 1996 as a Senior Associate where he was responsible for providing tax compliance and tax planning for various individuals and corporate clients. He was also involved in assurance and statutory assignments for various clients in various industries during his tenure with KPMG. He then left in 1999 to join UTSB Management Sdn Bhd as a Group Executive Consultant where he was responsible for, amongst others, provision of corporate services on compliance review for management accounts reporting and audited accounts. He was also involved in the provision of tax planning, financial analysis and general business compliance advisory.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

In 2001, he joined KHR Business Advisory Sdn Bhd as its Chief Executive Officer, where he played a leading role in the establishment and development of new business venture under the company's corporate advisory services and tax planning unit. He also played a major role in leading the strategic business improvement and operation enhancement consulting assignments for both private and public companies in the areas of mergers and acquisition, internal controls and risk management, process review, transaction review and special audits.

In 2006, he joined the Al Emadi Group and Middle East Development LLC as its Financial Management Consultant for the group's Corporate Finance and Treasury department. During his tenure there, he was responsible for amongst others, assessing the group's real estate development and construction and property management activities in the Middle East. He then left the company in 2007 to join Binary Group of Companies as its Chief Financial Officer and was responsible for several of the group's restructuring and fund raising activities. He subsequently left in 2008 to join Sapura Secured Technology Sdn Bhd as its General Manager where he led the finance, accounting treasury and commercial planning department. He was also responsible for overseeing the company's commercial planning activities and played a major role in the company's merger and acquisition exercise both locally and abroad.

In 2009, he joined Prokhas Sdn Bhd, a wholly owned company by the Ministry of Finance, Malaysia as a Senior Manager responsible for business and commercial operation management as well as the finance, investment, audit, accounting and taxation matters. He was responsible for overseeing projects covering real estate, property consultancy services as well as real estate, project and property management matters for clients. He was subsequently appointed as the Associate Director of Corporate Advisory and was then transferred to the property and special projects division undertaking the role of managing the company's finance, investment and audit roles.

Currently, he is also a Director with KHR Tax Services (Utara) Sdn Bhd, a company involved in the provision of business advisory, tax compliance and planning services.

### 8.3 PRINCIPAL DIRECTORSHIP AND PRINCIPAL BUSINESS ACTIVITIES PERFORMED IN OTHER CORPORATIONS OUTSIDE OUR GROUP FOR THE PAST FIVE (5) YEARS

Save as disclosed below, none of our Directors has any other principal directorship and/or principal business activities performed outside our Group at present and in the past five (5) years up to the LPD.

#### (a) Lau Mong Ling

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Edisi Kiara Sdn Bhd (647691-P)	Property investment holding company	-	Director and Shareholder

**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Speed Volta Belt Sdn Bhd <sup>^</sup> (SS7010-H)	Inactive	-	Director and Shareholder
SCH Chemicals Sdn Bhd <sup>(1)</sup> (38198S-K)	Dealer in aquarium equipment & fish food products	-	Director and Shareholder
Asphalt Chemicals Sdn Bhd <sup>(2)</sup> (1058079-D)	Export and import of basic organic chemicals	-	Director and shareholder
Asphalt Industries Sdn Bhd <sup>(2)</sup> (95242-H)	Manufacture and sale of asphalt emulsion premix and trading in road construction equipment	-	Director and shareholder

**Notes:-**

<sup>^</sup> Speed Volta Belt Sdn Bhd has been inactive since 31 July 2011. Speed Volta Belt Sdn Bhd is involved in the trading of all types of belts for industrial, commercial and general use. Speed Volta Belt Sdn Bhd has been inactive as its business operations has been transferred to SCHSB since 31 July 2011 and has ceased its business operations since then. The company will be wound-up in due course. Further details of Speed Volta Belt Sdn Bhd are further elaborated under Section 10.1 of this Prospectus.

(1) SCH Chemicals Sdn Bhd was dissolved on 1 July 2010.

(2) Lau Mong Ling is not involved in both companies' daily operations.

**(b) Wong Sin Chin**

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Speed Volta Belt Sdn Bhd <sup>^</sup> (SS7010-H)	Inactive	-	Director and Shareholder
SCH Engineering Sdn Bhd <sup>#</sup> (322299-X)	Inactive	-	Director and Shareholder
SCH Chemicals Sdn Bhd <sup>(1)</sup> (38198S-K)	Dealer in aquarium equipment & fish food products	-	Director and Shareholder

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### Notes:-

- ^ Speed Volta Belt Sdn Bhd has been inactive since 31 July 2011. Speed Volta Belt Sdn Bhd is involved in the trading of all types of belts for industrial, commercial and general use. Speed Volta Belt Sdn Bhd has been inactive as its business operations has been transferred to SCHSB since 31 July 2011 and has ceased its business operations since then. The company will be wound-up in due course. Further details of Speed Volta Belt Sdn Bhd are further elaborated under Section 10.1 of this Prospectus.
- # SCH Engineering Sdn Bhd was established on 3 November 1994 and it's intended principal activities is in the provision of engineering works and services. However, SCH Engineering Sdn Bhd intended principal activities did not take off since its incorporation. An application for the striking off of SCH Engineering Sdn Bhd has been submitted to the Companies Commission of Malaysia on 20 October 2011 and is currently pending the decision of Companies Commission of Malaysia.
- (1) SCH Chemicals Sdn Bhd was dissolved on 1 July 2010.

### (c) Yeen Yoon Hin

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Speed Volta Belt Sdn Bhd <sup>^</sup> (557010-H)	Inactive	-	Director and Shareholder
SCH Engineering Sdn Bhd <sup>#</sup> (322299-X)	Inactive	-	Director and Shareholder
Speed Wire-Mesh Sdn Bhd <sup>(1)</sup> (556969-M)	Traders, importers, exporters and dealers of wire mesh and related products for quarry, mining and other related industries use	-	Director and Shareholder
SCH Chemicals Sdn Bhd <sup>(1)</sup> (381985-K)	Dealer in aquarium equipment & fish food products	-	Director and Shareholder

### Notes:-

- ^ Speed Volta Belt Sdn Bhd has been inactive since 31 July 2011. Speed Volta Belt Sdn Bhd is involved in the trading of all types of belts for industrial, commercial and general use. Speed Volta Belt Sdn Bhd has been inactive as its business operations has been transferred to SCHSB since 31 July 2011 and has ceased its business operations since then. The company will be wound-up in due course. Further details of Speed Volta Belt Sdn Bhd are further elaborated under Section 10.1 of this Prospectus.
- # SCH Engineering Sdn Bhd was established on 3 November 1994 and it's intended principal activities is in the provision of engineering works and services. However, SCH Engineering Sdn Bhd intended principal activities did not take off since its incorporation. An application for the striking off of SCH Engineering Sdn Bhd has been submitted to the Companies Commission of Malaysia on 20 October 2011 and is currently pending the decision of Companies Commission of Malaysia.
- (1) SCH Chemicals Sdn Bhd was dissolved on 1 July 2010.

**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**
**(d) Chan Wan Choon**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement other than as a Director and/or shareholder (either past or present)</b>	<b>Position held</b>
Maywan Holdings Sdn Bhd (58970-T)	Investment holding company in properties	Manager	Director
Nilai Metro Sdn Bhd (344331-P)	Property investment	-	Shareholder

**(e) Sim Yee Fuan**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement other than as a Director and/or shareholder (either past or present)</b>	<b>Position held</b>
Unimech Group Berhad (407580-X)	Investment holding company with subsidiaries involved in supplying of valves, fittings and instruments, as well as management services	Group General Manager	Director
Unimech Flow System Sdn Bhd (730495-W)^	Trading of valves piping systems, engineering equipment, installation and maintenance of boilers and other related products	-	Director
Unimech International Sdn Bhd (468391-M)^	System design, fabrication, installation, maintenance of boilers, combustion equipment and piping systems, heat and steam engineering	-	Director
Unimech Marine Equipment Sdn Bhd (217227-T)^	Trading, installing, testing and commissioning of marine and sanitary equipment and other engineering components	-	Director



**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement other than as a Director and/or shareholder (either past or present)</b>	<b>Position held</b>
Unimech Engineering (Vietnam) Sdn Bhd (361995-U)^	Dormant since March 2007 as its business operations in Vietnam has been discontinued <sup>(2)</sup>	-	Director
Unimech Capital Sdn Bhd (787932-V)%	Investment holding company for subsidiaries and associate companies <sup>(1)</sup> of Unimech Group Berhad, which are mainly involved in the supplying of valves, fittings and instruments	-	Director
Bells Marketing Sdn Bhd (6S742 -T)*	Supply and install insulation materials, valves and other engineering component	-	Director
Bells Saga Sdn Bhd (906975-T)*	System design, fabrication, assembly and distribution of all kinds of pumps and provision of related services	-	Director
Unimech FPC Sdn Bhd (879382-D)*	Research and development, manufacturing and marketing of flexible print circuit ("FPC") and sub-contracting work in relation to the FPC job	-	Director
Tri Axis Technology (M) Sdn Bhd (884S09-X)*	Supplies of automation solution, pneumatic and industrial components	-	Director
Icontronic Sdn Bhd (60S297-T)*	Design, fabricate and manufacture industrial electronic automation control systems	-	Director

**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Unimech Bersatu Malaysia Sdn Bhd (931SS6-K) <sup>(1)</sup>	System design, fabrication, installation, combustion equipment and piping system for water, steam, petrochemical, and oil and gas industries	-	Director
MKT Marketing Sdn Bhd (786018-U) <sup>(1)</sup>	Trading in screws, bolts, nuts, fasteners and building related products for industrial and commercial purposes	-	Director
Unimech ABS Sdn Bhd (968444-W) <sup>#</sup>	Servicing and trading of burners, boilers, spare parts and related products	-	Director
Unimech Polymer Engineering Sdn Bhd (636713-T) <sup>#</sup>	Dormant since December 2012 as the manager of the Company has been transferred to another subsidiary of Unimech Group Berhad	-	Director
Arita Engineering Sdn Bhd (316418-H) <sup>%</sup>	System design, fabrication, installation, maintenance of boilers, combustion equipment and piping systems	-	Director
Arita System Sdn Bhd (78S829-M) <sup>#</sup>	System design, fabrication, installation, combustion equipment and piping systems or palm oil mill, ole-chemical, water, steam, petrochemical, oil and gas industries	-	Director
M.E.T. Motion Holding Sdn Bhd (48S337-H) <sup>@</sup>	Investment holding company <sup>(3)</sup>	-	Director

**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement other than as a Director and/or shareholder (either past or present)</b>	<b>Position held</b>
M.E.T. Motion Engineering and Trading Sdn Bhd (299311-A) <sup>@</sup>	System design, fabrication, assembly and distribution of all kinds of pumps and provision of related services <sup>(3)</sup>	-	Director
M.E.T. Motion (Alor Star) Sdn Bhd (S72311-V) <sup>@</sup>	System design, fabrication, assembly and distribution of all kinds of pumps and provision of related services <sup>(3)</sup>	-	Director
M.E.T. Motion (Ipoh) Sdn Bhd (549940-A) <sup>@</sup>	System design, fabrication, assembly and distribution of all kinds of pumps and provision of related services <sup>(3)</sup>	-	Director
Unimech Venture Sdn Bhd (918479-W) <sup>%</sup>	Investment holding company for companies involved in the trading, designing, fabricating, installing, restoring and commissioning of industrial valves, pipelines and equipment, engineering hardware and components for water, oil and gas application and industries <sup>+</sup>	-	Director
Arita Valve MFG (M) Sdn Bhd (171411-A) <sup>%</sup>	Design and manufacture of valves, strainers, pipe fittings and chemical pumps for boilers	-	Director
Icontronic Technology Sdn Bhd (307523-P) <sup>%</sup>	Design, fabricate and manufacture industrial electronic automation control systems	-	Director
Premium Heights Sdn Bhd (420580-D) <sup>%</sup>	Property development investment holding company	-	Director

**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement other than as a Director and/or shareholder (either past or present)</b>	<b>Position held</b>
Sinaria Corporation Berhad (838172-P)	Investment holding with subsidiaries involved in following core activities:- (i) wholesalers and dealers of fresh and frozen foods; (ii) manufacture and sale of processed poultry, beef products, frozen foods and bakery products; and (iii) manufacturing and trading of vegetarian food products	-	Director
Polypalm Wood Products Sdn Bhd (7S0421-H)	Manufacture and sale of wood flooring materials	-	Director
Gold Success Plantation Sdn Bhd (94932S-T)	Dormant since incorporation in June 2006 as the company's intended investment did not materialise <sup>(2)</sup>	Liquidator	-
Max Success Plantation Sdn Bhd (949321-A)	Dormant since incorporation in June 2006 as the company's intended investment did not materialise <sup>(2)</sup>	Liquidator	-
SL Avenue Plantation Sdn Bhd (949319-P)	Dormant since incorporation in June 2006 as the company's intended investment did not materialise <sup>(2)</sup>	Liquidator	-

**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

<b>Company</b>	<b>Principal activities</b>	<b>Involvement other than as a Director and/or shareholder (either past or present)</b>	<b>Position held</b>
Unimech Indonesia Holdings Sdn Bhd (1013528-V) <sup>%</sup>	Investment and dealing in land and property and general trading. Its subsidiaries are involved in the business of system design, fabrication, and installation, maintenance of boilers, combustion, equipment, engineering equipment, and piping systems in Indonesia.	-	Director
Luxurious Construction Sdn Bhd (628173-H) <sup>#</sup>	Dormant since March 2010 as the company's construction operations has ceased <sup>(2)</sup>	-	Director
Eurospan Holdings Berhad (351927-M)	Investment holding company with its subsidiaries involved in manufacturing and trading of furniture and wood based products.	-	Director
Agbio Tech Sdn Bhd (478732-X)	Dormant since March 2012 as the company has ceased operations due to operational issues <sup>(2)</sup>	-	Shareholder
Puremech Coating Sdn Bhd (1018877-P) <sup>#</sup>	Spraying, coating, powder coating, silk screening, hot stamping, general engineering in all kinds of metal, plastic, chemicals, minerals, substance and products.	-	Director
Unimech Management Sdn Bhd (606892-U) <sup>%</sup>	Provision of management services	-	Director
Unimech Capital (AUST) Sdn Bhd (1058691-W) <sup>%</sup>	Investment holding	-	Director

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### Notes:-

- + Companies involved in the holding of equity interest in companies of various industries.  
 % Subsidiaries/associate companies of Unimech Group Berhad.  
 ^ These companies are subsidiaries of Unimech Engineering (M) Sdn Bhd. Unimech Engineering (M) Sdn Bhd is a wholly-owned subsidiary of Unimech Group Berhad.  
 # These companies are subsidiaries of Unimech Capital Sdn Bhd.  
 @ Unimech Group Berhad owns 51% equity interest in M.E.T. Motion Holding Sdn Bhd, M.E.T. Motion Engineering & Trading Sdn Bhd, M.E.T. Motion (Alor Star) Sdn Bhd, M.E.T. Motion (Ipoh) Sdn Bhd and M.E.T. Resources Pte Ltd, which are subsidiaries of M.E.T. Motion Holding Sdn Bhd.  
 (1) These companies are associate companies of Unimech Capital Sdn Bhd.  
 (2) These companies are dormant as it has not commenced any operations or has discontinued its operations.  
 (3) M.E.T. Motion Holding Sdn Bhd is the holding company of MET Motion Engineering and Trading Sdn Bhd, MET Motion (Alor Setar) Sdn Bhd, MET Motion (Ipoh) Sdn Bhd and M.E.T. Resources Pte. Ltd. These companies are principally involved in the system design, fabrication, assembly and distribution of all kinds of pumps and provision of related services.

### (f) Gan Khong Aik

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Petro-Invent Management Company Sdn Bhd (543238-X)	Provision of management, technical, commercial and consulting services	-	Director <sup>@</sup>
Gan Partnership	Law firm	Lawyer	Partner
Ganpartnership Sdn Bhd (1001588-D)	Property investment holding company	-	Director and Shareholder

### Notes:-

@ Resigned since 15 June 2009.

### (g) Rahimi bin Ramli

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
KHR Tax Services (Utara) Sdn Bhd (617767-P)	Business consultancy, tax compliance and planning services	-	Director
Prokhas Sdn Bhd (471243-M)	Asset management company, consultancy and advisory services	Senior Manager	

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

Involvement in other business activities outside our Group by our Directors does not give rise to any conflict of interest situation with our business. On matters or transactions requiring the approval of our Board, our Directors who are deemed interested or conflicted in such matters or transactions shall be required to declare their interests and abstain from deliberations and voting on the resolutions relating to these matters or transactions. Their involvement in other business activities is not expected to affect their contributions and responsibilities to our Group.

### 8.4 INVOLVEMENT OF EXECUTIVE DIRECTORS AND KEY MANAGEMENT PERSONNEL

The involvement of our Executive Directors in other principal directorship and/or principal business activities is set out above in Section 8.3 of this Prospectus. Save as disclosed below, none of our other key management personnel are involved in any other principal business activities:-

#### (a) Wong Kin Seng

Company	Principal activities	Involvement other than as a Director and/or shareholder (either past or present)	Position held
Teamwork Success Sdn Bhd (31S6S6-H)	Dormant*	-	Director and shareholder

**Note:-**

\* The company (which was originally set-up to undertake commercial trading activities) was dormant since its incorporation as it did not commenced its business operations since its incorporation in year 2000. As at the LPD, the company has been struck-off.

### 8.5 RELEVANT COMMITTEES

#### 8.5.1 Audit Committee

The main functions of the Audit Committee include the following:-

- (a) To review with the auditors the nature and scope of the audit plans, their audit reports, major findings and their evaluations of our accounting system and internal controls;
- (b) To review our quarterly and annual financial statements before submission to our Board, focusing in particular on any change in or implementation of major accounting policies and practices, significant and unusual events, significant adjustments arising from the audit, the going concern assumption and compliance with accounting standards and other regulatory or legal requirements;
- (c) To consider the appointment and reappointment of the external auditors and matters relating to their resignation;
- (d) To review any related party transactions entered into by our Group and any conflict of interest situations that may arise within our Group;

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

- (e) To review the assistance given by us or our employees to the auditors; and
- (f) To perform such other functions as may be requested by our Board.

Our Board will review the composition, term of office, performance and effectiveness of our Audit Committee annually.

The members of our Audit Committee are as follows:-

Name	Designation	Directorship
Sim Yee Fuan	Chairman	Independent Non-Executive Director
Chan Wan Choon	Member	Independent Non-Executive Chairman
Gan Khong Aik	Member	Independent Non-Executive Director
Rahimi bin Ramli	Member	Independent Non-Executive Director

### 8.5.2 Remuneration Committee

The main functions of the Remuneration Committee include the following:-

- (a) Providing assistance to our Board in determining the policy and framework for the remuneration of Directors and certain senior management personnel;
- (b) Providing assistance to our Board in discharging responsibilities relating to, amongst others, compensation strategy, management development and other compensation arrangements; and
- (c) Ensuring corporate accountability and governance in respect of our Board remuneration and compensation functions.

The members of our Remuneration Committee are as follows:-

Name	Designation	Directorship
Lau Mong Ling	Chairman	Managing Director and Deputy Chairman
Chan Wan Choon	Member	Independent Non-Executive Chairman
Sim Yee Fuan	Member	Independent Non-Executive Director

### 8.5.3 Nomination Committee

The main functions of the Nomination Committee include the following:-

- (a) Identifying and recommending to our Board, candidates for directorships of our Company and Directors as members of the relevant Board committees;
- (b) Evaluating the effectiveness of our Board and the relevant Board committees; and
- (c) Ensuring an appropriate framework and succession planning for our Board.

The recommendations of our Nomination Committee are subject to the approval of our Board.



## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

The members of our Nomination Committee are as follows:-

Name	Designation	Directorship
Gan Khong Aik	Chairman	Independent Non-Executive Director
Chan Wan Choon	Member	Independent Non-Executive Chairman
Sim Yee Fuan	Member	Independent Non-Executive Director

### 8.5.4 Directors' Remuneration and Benefits

The aggregate remuneration and material benefits-in-kind paid and proposed to be paid to our Directors for services rendered in all capacities to our Group for the FYE 2013 and proposed for the FYE 2014 are as follows:-

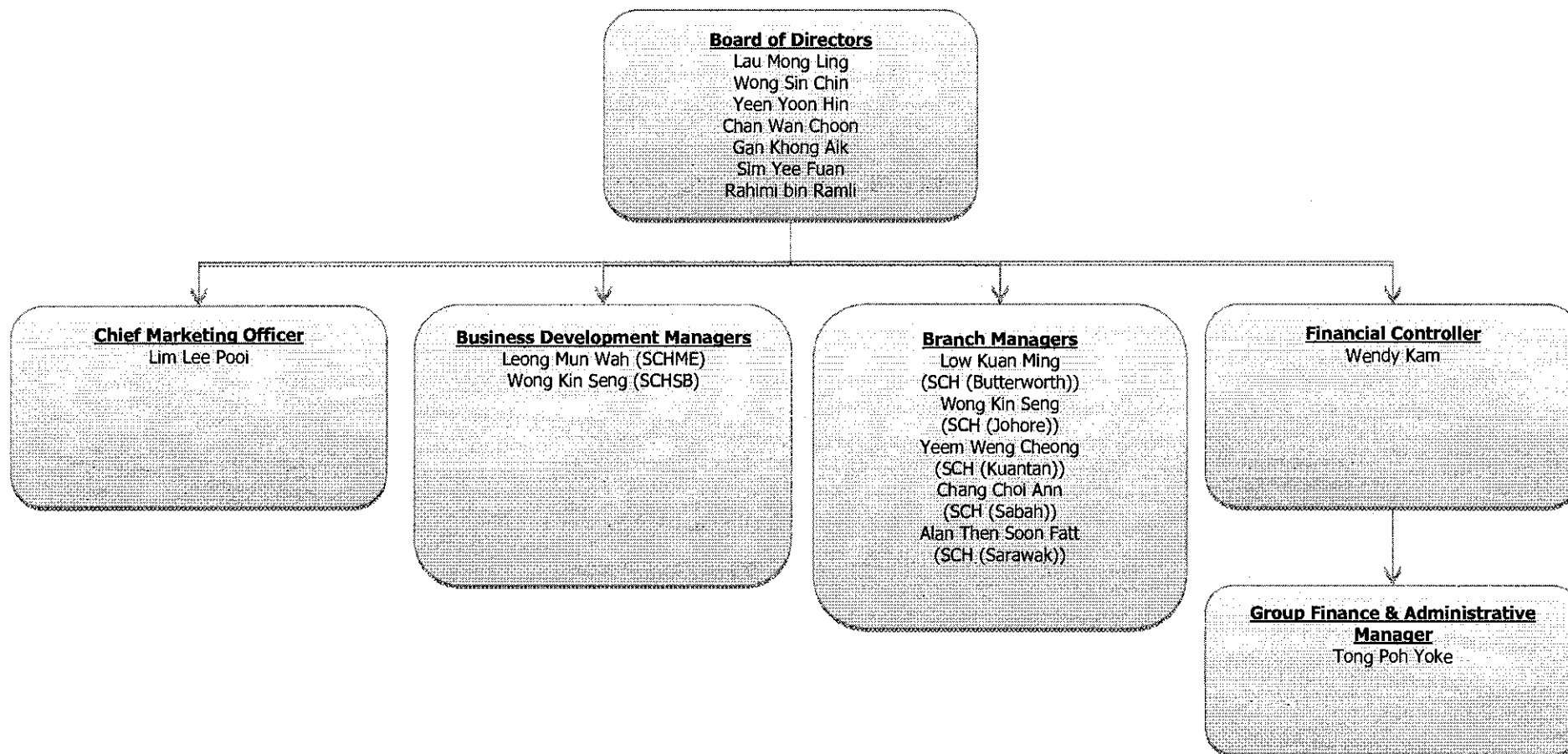
Director	FYE 2013 RM	FYE 2014 RM
Lau Mong Ling	200,000-300,000	200,000-300,000
Wong Sin Chin	200,000-300,000	200,000-300,000
Yeen Yoon Hin	200,000-300,000	200,000-300,000
Chan Wan Choon	-	0-S0,000
Gan Khong Aik	-	0-S0,000
Sim Yee Fuan	-	0-50,000
Rahimi bin Ramli	-	0-S0,000

The remuneration which includes our Directors' salaries, bonus, fees and allowances as well as other benefits of our Directors, must be considered and recommended by our Remuneration Committee and subsequently, be approved by our Board. Any change in Director's fees as set out in our Memorandum and Articles must be approved by shareholders of our Company pursuant to an ordinary resolution passed at a general meeting where appropriate notice of any increase proposed should be given. Please refer to Section 1S of this Prospectus for further details.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### 8.6 KEY MANAGEMENT PERSONNEL

#### 8.6.1 Management Structure



**Note:-**

\* Lau Mong Ling is currently overseeing the entire operations, sales and marketing functions of Italiaworld and SCHWM.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### 8.6.2 Shareholdings

The direct and indirect interests of our key management personnel (save for our Directors which is disclosed in Section 8.1.4 of this Prospectus) in our Company before and after our IPO are as follows:-

Name	Designation/ Nationality	<----- Before IPO ----->				<----- After IPO ----->			
		<--- Direct --->		<--- Indirect --->		<--- Direct --->		<--- Indirect --->	
		No. of Shares held	%	No. of Shares held	%	No. of Shares held	%	No. of Shares held	%
Lim Lee Pooi	Chief Marketing Officer/ Malaysian	2,815,750	0.88	-	-	3,215,750	0.78	-	-
Wendy Kam	Group Accountant/ Malaysian	-	-	-	-	-	-	-	-
Tong Poh Yoke	Group Finance and Administrative Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-
Leong Mun Wah	Business Development Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-
Wong Kin Seng	Business Development Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-
Low Kuan Ming	Branch Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-
Yeem Weng Cheong	Branch Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-
Chang Choi Ann	Branch Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-
Alan Then Soon Fatt	Branch Manager/ Malaysian	-	-	-	-	400,000	0.10	-	-

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

### **Note:-**

^ Assuming all of the Pink Form Allocations are fully subscribed by our eligible employees.

### **8.6.3 Key Management Profiles**

Save for the profiles of our Directors, which are disclosed in Section 8.2 of this Prospectus, the profiles of the other key management personnel of our Group are as follows:-

**Lim Lee Pooli**, a Malaysian, aged 56, is currently our Chief Marketing Officer.

After completing his secondary school education at St John's Institution in 1973, he pursued his A-Levels at Tunku Abdul Rahman College ("TARC") in 1975. Upon completion of his A-Levels, he joined UMS as Product Manager in 1976, where he was mainly responsible for promoting the industrial products and spare parts to the local quarry industry. He then left UMS in March 1993 to join SCH (Johore) in April 1993 as our Branch Manager, where he was responsible for SCH (Johore)'s overall operations. He was then promoted to the position of Marketing Manager in 1998, where he was primarily responsible for overall sales and marketing activities, comprising strategies to increase the market coverage as well as managing our sales team. The said position was re-designated to Chief Marketing Officer in 2013.

**Wendy Kam**, a Malaysian, aged 43, was appointed as our Group's Financial Controller in December 2013. She is primarily responsible for overseeing and monitoring our Group's financial accounting and taxation matters, as well as involved in the planning and coordination of financial reporting activities.

She holds a professional qualification from the Association of Chartered Certified Accountants and also holds a Master's Degree in Business Administration, majoring in Accountancy from Universiti Malaya in 2003. She is also a member with the Malaysian Institute of Accountants since 1999.

She is an experienced individual with more than twenty (20) years of working experiences in the accountancy and finance field. She began her working career with Diong T.P. & Tan as an Audit Assistant in January 1993, where she was responsible for covering various audit functions, which include small and medium sized companies. She then joined NEC Sales (Malaysia) Sdn Bhd in March 1994 as its Assistant Accounts Officer, where she was responsible for preparing reports, financial and accounts related statements. She then left NEC Sales (Malaysia) Sdn Bhd in July 1995 to join WTK Holdings Berhad in August 1995 as its Accountant, where she was involved in managing the company's treasury matters and reviewing its monthly management accounts. She then left in September 2001 and joined TARC in May 2002 as a lecturer, where she was responsible for providing lectures and tutorials to business accounting students. She left TARC in May 2003 and joined Syed Mokhsain Holdings Sdn Bhd as its Head of Accounting Division, where she was responsible for the company's overall financial and management accounts.

In July 2006, she joined Volt Asia Enterprises (M) Sdn Bhd as a Senior Accountant, where she was responsible for its day-to-day accounting operations as well as coordinating the accounting responsibilities with its corporate office located in the United States of America. She was subsequently promoted as its Operations Manager. She left Volt Asia Enterprises (M) Sdn Bhd in March 2009 and took a sabbatical leave to attend to personal matters. She went back to employment after the said sabbatical leave by joining Masterskill (M) Sdn Bhd in August 2010, as its Finance Manager, where she was responsible for managing the company's cash flow and monthly management reports. In April 2011, she was promoted as Masterskill Education Group Berhad's Head of Internal Audit and was responsible for

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

managing its audit matters. She then left in November 2012 and joined Stamford College (PJ) Sdn Bhd as its Financial Controller. In addition, she was also responsible for Stamford College (Malacca) Sdn Bhd's finance and accounting matters. She was involved in various corporate finance matters of both Stamford College (PJ) Sdn Bhd and Stamford College (Malacca) Sdn Bhd, which include the managing of its financial and funding requirements.

**Tong Poh Yoke**, a Malaysian, aged 37, is currently our Group's Finance and Administrative Manager. She is primarily responsible for supervising our accounts department, managing our Group's banking facilities, handling imports and exports shipment as well as overseeing all matters pertaining to human resource.

After completing her Sijil Pelajaran Malaysia at Kuan Cheng Girl High School in 2001, she went on to pursue her Diploma in Financial Accounting from Systematic Business Training Centre, and an London Chamber of Commerce and Industry (LCCI) Diploma in Accounting and Certificate of Second Level Book-Keeping and Accounting, which she graduated in 1995. Upon her graduation, she was attached with KP Jurumurni Sdn Bhd as its Account Executive. During her attachment with the company, she handled company's full set accounts such as preparing the financial statements as well as liaising with the company's auditor for audit journals. She then left the company in 2000 to join our Group as our Accounts Executive.

**Leong Mun Wah**, a Malaysian, aged 65, is currently the Business Development Manager of SCHME. He is primarily responsible for SCHME's overall operations and business development activities. He is also responsible for providing sales and technical support to our sales personnel and customers directly.

He pursued his secondary education until Form Two (2) in 1961 at Sekolah Menengah St Anthony in Ipoh, Perak. He has approximately 27 years of working experience in the quarry machinery and equipment market in Malaysia. He has worked in several companies between 1962 to 1984 in the sales profession, where he was responsible for its sales functions and marketing activities, especially in the quarry machinery and equipment market. He joined Atlas Copco (Malaysia) Sdn Bhd, a company that is principally involved in the trading of industrial spare parts as the Sales Engineer in 1984. He was responsible for the company's sales and marketing activities as well as providing technical support to their customers. His tenure with Atlas Copco (Malaysia) Sdn Bhd has allowed him to gain valuable experience and knowledge in the operations and business network of the quarry industrial products business. He then joined our Group in 2007.

**Wong Kin Seng**, a Malaysian, aged 42, is currently the Business Development Manager of SCHSB and the acting Branch Manager of SCH (Johore). He is mainly responsible for attending and handling customers' queries as well as leading our sales team and is also responsible of SCH (Johore)'s overall operations.

He pursued his secondary education until Form Four (4) in 1987 at Confucian Secondary School in Kuala Lumpur. He began his career with our Group in 1988 where he joined us as a general worker cum lorry driver. In 1993, he was promoted to be a Sales representative where he was responsible for the sales activities within the central and Malacca region. Over the years, he has accumulated valuable hands-on experiences within different areas of quarry machinery and equipment market in Malaysia including sales and marketing activities, managing customer relationship as well as providing customer service to the customers. With his 14 years of extensive experience and knowledge he gained in the operations of our Group, he was then promoted to Business Development Manager in 1998. In 2013, he assumed the role as the acting Branch Manager of SCH (Johore).

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL *(Cont'd)*

**Low Kuan Ming**, a Malaysian, aged 45, is currently the Branch Manager of SCH (Butterworth). He is primarily responsible for the branch's marketing function as well as day-to-day operations.

He completed his secondary education until Form Two in 1979 at Chin Wah Secondary School in Seremban, Negeri Sembilan. He commenced his career at Cheong Chan Kilang Kicap as a salesman in 1981. He then left the company to join our Group as a general worker-cum-lorry driver in 1989 where he was exposed to the quarry machinery and equipment market in Malaysia. Subsequently, he was promoted to be the Sales Representative in 1994 where he was exposed to the sales and marketing activities of SCH (Butterworth). He was then promoted to his current position in 2000. He brings with him approximately 23 years of extensive experience and knowledge in the quarry machinery and equipment market in Malaysia to our Group.

**Yeem Weng Cheong**, a Malaysian, aged 50, is currently the Branch Manager of SCH (Kuantan). He is primarily responsible for overseeing the branch's marketing function as well as day-to-day operations.

He pursued his secondary education until Removed Form in 1975 at Sekolah Menengah Kebangsaan St Paul in Seremban, Negeri Sembilan. He commenced his career as a mechanic in 1975. He then joined our Group in 1984 as a lorry driver. He was then promoted to be a Sales Representative in 1989 where he was responsible for the marketing operations in the central region of Malaysia and Ipoh. Over the years, he has gained experience in various areas which include industrial spare parts trading, channel sales as well as maintaining good customer relationships. He was then promoted to his current position in 1994.

**Chang Choi Ann**, a Malaysian, aged 30, is currently the Branch Manager of SCH (Sabah). He is primarily responsible for the branch's marketing function as well as day-to-day operations.

After completing the Sijil Pelajaran Malaysia from Sekolah Menengah Thsung Tsin, Kota Kinabalu in 2000, he went on to pursue his Diploma in Accounting from LCCI from Stamford College, Kota Kinabalu, Sabah and graduated in 2002. He began his career in 2003 with Tan & Associates as Audit Assistant. In the same year, he left the accounting firm and joined Hotel Shangri-la Kota Kinabalu, Sabah as its Human Resource Executive. During his tenure with Hotel Shangri-La, Kota Kinabalu, he was responsible for human resource and administrative activities for the hotel. In 2007, he left the hotel to join Royal China Restaurant in Kota Kinabalu as Assistant Manager. He was responsible for overseeing the restaurant's day-to-day operations. He then joined Harus Sarjana (M) Sdn Bhd after leaving the restaurant in 2008. He was appointed as manager for this third-party logistics company. He was responsible for overall operation of the warehouse, included administrative activities. He then left the company in 2010 and joined SCH (Sabah) as Sales Executive where he was responsible for the sales and marketing activities within the northern region of east Malaysia. He was promoted to Branch Manager of SCH (Sabah) in 2012.

**Alan Then Soon Fatt**, a Malaysian, aged 32, is currently the Branch Manager of SCH (Sarawak). He is primarily responsible for the branch's marketing function as well as day-to-day operations.

He completed his Sijil Pelajaran Malaysia from Sekolah Menengah Kebangsaan Sungai Tapang, Kuching in 1998. Upon his graduation, he was attached to Siong Kee Hardware Sdn Bhd in 2001 as a Sales Representative. He then left the company to join Sin Leong Seng (East Malaysia) Sdn Bhd in 2003 as its Sales Representative and was promoted as the company's Sales Executive in 2006. During his tenure with Sin Leong Seng (East Malaysia) Sdn Bhd, he was responsible for sales and marketing activities and later, managing the company's sales personnel. He joined our Group as Branch Manager of SCH (Sarawak) in 2008.

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**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

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**8.7 RELATIONSHIPS OR ASSOCIATIONS**

Save as disclosed below, there are no family relationships (as defined under Section 122A of the Act) or association between or amongst our Promoters, substantial shareholders, Directors and key management personnel:-

- (a) Wong Kin Seng, our Business Development Manager of SCHSB, is the son of Wong Sin Chin; and
- (b) Yeem Weng Cheong, our Branch Manager of SCH (Kuantan), is the brother of Yeem Yoon Hin.

**8.8 EXISTING OR PROPOSED SERVICE AGREEMENTS**

As at the LPD, there are no existing or proposed service agreements (contracts for services) entered into between the companies within our Group, with our Directors or key management personnel, other than those which are expiring or determinable by the employing company without payment of compensation (other than statutory compensation) within one (1) year.

**8.9 DECLARATIONS FROM OUR PROMOTERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL**

As at the LPD, none of our Promoters, Directors or key management personnel is or has been involved in any of the following events (whether within or outside Malaysia):-

- (a) A petition under any bankruptcy or insolvency law filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a Director or key personnel;
- (b) Disqualified from acting as a Director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (c) Charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (d) Any judgment that was entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or
- (e) The subject of any order, judgment or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

**8.10 BENEFITS PAID OR INTENDED TO BE PAID**

Save for the salaries, bonuses, allowances and dividend as disclosed in Section 8.S.4, there have been no amounts and benefits that have been or are intended to be paid or given to our Promoters, Directors and/or substantial shareholders within the two (2) years preceding the date of this Prospectus.

## 8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### 8.11 EMPLOYEES

As at the LPD, our Group has a total of 116 employees. The following depicts the breakdown of our employees in our Group:-

Category of Employees As at	Number of employees				As at LPD
	31 August 2010	31 August 2011	31 August 2012	31 August 2013	
Board and senior management	14	15	18	18	18
Sales and administrative staff	23	24	27	33	33
Technical staff	-	5	8	11	11
Support staff	13	14	13	22	22
General workers	34	31	33	32	32
<b>TOTAL</b>	<b>84</b>	<b>89</b>	<b>99</b>	<b>116</b>	<b>116</b>

The permanent employees and foreign workers structure of our Group and the length of our employees' services are as follows:-

Category of Employees	<---Length of service (years)--->			<-----Number of employees----->			
	Less than one (1) year	More than one (1) year but less than five (5) years	More than five (5) years	Total number of employees	Percentage of total employees (%)	Number of local employees	Number of foreign employees
Board and senior management	-	7	11	18	15.65	18	-
Sales and administrative staff	7	11	14	33	27.83	33	-
Technical staff	1	9	1	11	9.57	11	-
Support staff	4	6	12	22	19.13	22	-
General workers	8	14	10	32	27.83	14	18
<b>TOTAL</b>	<b>20</b>	<b>47</b>	<b>49</b>	<b>116</b>	<b>100.0</b>	<b>98</b>	<b>18</b>

None of our employees belong to any labour union. The relationship and cooperation between our management and our employees have always been good and this is expected to continue in the future. As at the LPD, there has been no major industrial dispute pertaining to our employees.

### Training and Development

We view our employees as one of our key assets that play an instrumental role in our Group's continuous growth. We place great emphasis on staff retention by cultivating a safe, enjoyable and conducive working environment within our organisation. We place great emphasis on providing a pleasant working environment for our employees; ensuring skills development across our Group and identifying employee performance improvement



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**8. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

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opportunities for career advancement. As at the LPD, we have workforce strength of 116 employees, of which 98 employees are Malaysian and 18 employees are foreigners.

Our management views our employees as key assets that plays a vital role in our continuous growth and recognise the importance of retaining quality employees. It is our policy to develop and train employees to improve their skills set and professionalism, in order to enhance productivity and operational efficiencies. As training and development is a continuing process, we encourage our employees to continually increase their skills and knowledge through hands-on training.

The management team of our Group has, from time to time, arranged internal and external courses to train our employees. The on-going training and development programmes cover technical and functional course for our employees. We also observe the safety and precaution practices.

Our servicing team is also required to undergo training to familiarise themselves with new products and technologies offered by our suppliers. Currently, our chief mechanic will attend the training programmes conducted by our machinery suppliers at the latter's facilities, due to the chief mechanic's in-depth understanding and knowledge of these machines. General technicians and apprentices are then trained by our chief mechanic on the new products and technologies. Apprentices are also provided with on-the-job training in order to enhance their skill sets.

**8.12 MANAGEMENT SUCCESSION PLAN**

The management of our Group recognises the importance of succession planning for business continuity, and maintaining the level of our competencies and competitiveness in the industry. In view thereof, our Group has taken the appropriate steps to ensure the implementation of succession planning in every department. We encourage senior management to groom the lower and middle management staff, who will be groomed to gradually assume higher responsibilities. In addition, the middle management are continually involved in various operations of the company, and actively participate in the discussion for decision-making to ensure better understanding of the operations and to equip themselves with the necessary knowledge and skills to succeed in senior management roles. This forms part of our employees' career development plan.

Our Board are involved in the process of reviewing the potential successor's readiness, and in identifying key competencies and requirements for managerial and key senior positions for succession planning. Appropriate job functions and candidate profiles are reviewed and matched for management positions, in line with our business goals, strategies and culture. As part of our Group's management succession plan, we have identified middle management personnel across our Group to facilitate skills transfer so as to ensure smooth running and continuity of the operations of our Group.

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**9. APPROVALS AND CONDITIONS****9.1 APPROVALS AND CONDITIONS**

Our Listing is an exempt transaction under Section 213 of the CMSA and is therefore not subject to the approval of the SC.

**9.1.1 Bursa Securities approval**

Bursa Securities had, vide its letter dated 9 September 2013, approved our admission to the Official List of the ACE Market and the listing of and quotation for our entire enlarged issued and paid-up share capital on the ACE Market of Bursa Securities.

The approval from Bursa Securities was subjected to the following conditions:-

No.	Details of conditions imposed	Status of compliance
(a)	Submission of the following information in respect to the moratorium on the shareholdings of promoters to Bursa Malaysia Depository Sdn Bhd ("Bursa Depository"):- (i) Name of shareholders; (ii) Number of shares; and (iii) Date of expiry of the moratorium for each block of shares.	Complied
(b)	Approvals from other relevant authorities have been obtained for implementation of the listing proposal	Complied
(c)	Make the relevant announcements pursuant to paragraphs 8.1 and 8.2 of Guidance Note 1S of the ACE Market Listing Requirements ("ACE LR")	To be complied
(d)	Furnish Bursa Securities a copy of the schedule of distribution showing compliance to the share spread requirements based on the entire issued and paid-up share capital of SCH on the first day of listing;	To be complied
(e)	Any directors of the Company that have not attended the Mandatory Accreditation Programme, must do so prior to listing of the Company; and	To be complied
(f)	In relation to the public offering to be undertaken by SCH, please announce at least 2 market days prior to the listing date, the result of the offering including the following:-  (i) Level of subscription of public balloting and placement; (ii) Basis of allotment/allocation; (iii) A table showing the distribution for placement tranche, in format attached in Appendix I; and (iv) Disclosure of placees who become substantial shareholder of SCH arising from the public offering, if any.	To be complied

**9. APPROVALS AND CONDITIONS (Cont'd)**

<b>No.</b>	<b>Details of conditions imposed</b>	<b>Status of compliance</b>
(g)	SCH/M&A Securities to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the admission to the Official List on the ACE Market is completed.	To be complied

**9.1.2 SC approval**

The Equity Compliance Unit of the SC had, vide its letter dated 11 September 2013, approved our resulting equity structure to our IPO under the equity requirements for public companies. The approval from the Equity Compliance Unit of the SC is subject to the following conditions:-

<b>No.</b>	<b>Details of conditions imposed</b>	<b>Status of compliance</b>
(a)	SCH to allocate 12.5% of its enlarged issued and paid-up share capital to Bumiputera investors at the point of listing. This includes the shares offered under the balloted public offer option, of which 50% are to be offered to Bumiputera investors. In the event that SCH/Ministry of International Trade and Industry are unable to allocate the shares to Bumiputera investors, the unsubscribed shares should be offered to the Bumiputera retail investors via balloting.	Complied
(b)	M&A Securities/SCH are to inform the SC upon completion of the proposed listing	To be complied

**9.2 MORATORIUM ON OUR SHARES**

In accordance with Rule 3.19 of the Listing Requirements and pursuant to the conditions imposed under the approval letter by Bursa Securities, a moratorium will be imposed on the sale, transfer or assignment of those Shares held by our Promoters as follows:-

- (a) The moratorium applies to the entire shareholdings of our Promoters for a period of six (6) months from the date of our admission to the ACE Market of Bursa Securities ("First 6-Month Moratorium");
- (b) Upon the expiry of the First 6-Month Moratorium, our Company must ensure that our Promoters' aggregate shareholdings amounting to 45% of our nominal issued and paid-up ordinary share capital remain under moratorium for a further six (6) months ("Second 6-Month Moratorium"); and
- (c) On the expiry of the Second 6-Month Moratorium, our Promoters may sell, transfer or assign up to a maximum of one-third (1/3) per annum (on a straight line basis) of those Shares held under moratorium.

**9. APPROVALS AND CONDITIONS (Cont'd)**

Details of our Promoters, who will be subject to the abovesaid moratorium, are set out below:-

Promoters	<-----No. of shares held upon admission <sup>(1)</sup> ----->			
	Moratorium shares during the First 6-Month Moratorium <sup>(2)</sup>		Moratorium shares during the Second 6-Month Moratorium	
	No. of SCH Shares	%	No. of SCH Shares	%
Lau Mong Ling	95,039,224	23.05	61,835,103	15.00
Wong Yin Chin	95,043,083	23.06	61,835,103	15.00
Yeen Yoon Hin	95,042,903	23.06	61,835,103	15.00
<b>Total</b>	<b>285,125,210</b>	<b>69.17</b>	<b>185,505,309</b>	<b>45.00</b>

**Notes:-**

- (1) Based on our enlarged issued and paid-up share capital of 412,234,020 Shares as at the date of our Listing.
- (2) After our Offer for Sale.

The moratorium, which has been fully accepted by the our Promoters, is specifically endorsed on the share certificates of our Promoters representing their respective shareholdings which are under moratorium to ensure that our Share Registrar does not register any transfer not in compliance with the restrictions imposed by Bursa Securities. In compliance with the restrictions, Bursa Depository will, on our share registrars' instructions in the prescribed forms, ensure that trading of these Shares are not permitted during the moratorium period.

The endorsement affixed on the share certificates is as follows:-

*"The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by Bursa Securities ("Moratorium Period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of the Bursa Securities during the Moratorium Period. No share certificate or certificates will be issued to replace this certificate during the Moratorium Period unless the same shall be endorsed with this restriction."*

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**10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST****10.1 RELATED PARTY TRANSACTIONS**

Save as disclosed below, for the past four (4) FYEs up to 2013, there are no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders, key management personnel and/or persons connected with them which are significant in relation to the business of our Company and our subsidiaries, as defined under the Listing Requirements.

Transacting Parties	Companies within our Group	Interested Promoters/Directors/Substantial shareholder/Key management personnel	Nature of transaction	Nature of interest	<-----Value of transactions----->			
					FYE 2010 RM'000	FYE 2011 RM'000	FYE 2012 RM'000	FYE 2013 RM'000
Lau Mong Ling	SCHWM	Lau Mong Ling	Rental of double storey house located in Balakong to accommodate foreign workers	Monthly rental income of RM900 per month	11	*6	*-	*-
Edisi Kiara Sdn Bhd	SCHWM	Lau Mong Ling	Rental of double storey house located in Balakong to accommodate foreign workers	Monthly rental income of RM900 per month	11	*6	*-	*-
Speed Volta Belt Sdn Bhd^	SCH Corporation, SCHME, SCHWM	Lau Mong Ling (Director) Yeen Yoon Hin (Director) Wong Sin Chin (Director) Lim Lee Pooi (Chief Marketing Officer)	Supply/Purchase of quarry industrial products	Sale:- Purchase:-	4,554 2,752	2,154 1,815	^-	^-

**10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST (Cont'd)****Notes:-**

- \* Rental of up to July 2011, Lau Mong Ling had subsequently disposed both the double storey houses in August and September 2011.
- ^ Inactive since July 2011.
- # Speed Volta Belt Sdn Bhd ("SVBSB") was originally set-up as the distribution arm for volta belts (e.g. industrial timing belts) for our Group. As SVBSB has its own set of distribution team, it also distributes other quarry industrial products to our subsidiaries and to third party customers in order to capitalise on the excess capacity of SVBSB. However, the transactions of volta belts was relatively low from the FYEs 2010 to FYE 2011 as compared to the supply of other quarry industrial products. In view of this, our management had in 2011 undertaken a review of our Group structure involving SVBSB and has decided to transfer the quarry industrial products business (including volta belts) of SVBSB back to SCHSB in order to maximise its efficiency and capacity. Hence, SVBSB was excluded from our Listing.

Resulting from the above, effective 31 July 2011, SVBSB has ceased its business operations and is currently inactive. The Directors and shareholders of SVBSB whom are also our Promoters and in view of SVBSB's previous role as one of our distribution arm (as explained in the paragraph above), SVBSB was not classified as our major customers/suppliers under Section 6.10 and Section 6.12 of this Prospectus, as the sales and purchases transactions between our Group and SVBSB would not be reflective of actual third parties transactions.

The audited PAT of SV for the FYEs 2010 to 2013 are as follows:-

<b>FYE</b>	<b>RM</b>
2010	151,599
2011	126,511
2012	Inactive
2013	Inactive

Our Directors are of the view that the above related party transactions were conducted on an arm's length basis and were carried out in the ordinary course of business and on competitive commercial terms not more favourable to the related parties than those generally available to the public and were not to the detriment of our minority shareholders.

The due diligence working group ("DDWG") of our Company confirms that all of the related party transactions, as disclosed under Section 10.1 above, were conducted on an arm's length basis and were carried out in the ordinary course of business and on competitive commercial terms not more favourable to the related parties than those generally available to the public and were not to the detriment of our minority shareholders.

As provided under the Listing Requirements, in order to mitigate any potential conflict of interest arising from such recurrent transactions, our Board may seek the approval from our non-interested shareholders for a mandate to continue to enter into such recurrent transactions at the next general meeting of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions in our ordinary course of business without the need to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, amongst others, supervise and monitor any recurrent transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regard to any recurrent transaction entered into by us.

## **10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST (Cont'd)**

### **10.2 CONFLICT OF INTEREST**

As at the LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations carrying on a similar or related trade as our Group, or is customers and/or suppliers of our Group.

Our Promoters who are the Directors and substantial shareholders of SVBSB, an inactive company, have jointly and severally provided an undertaking that for so long as they remain as Directors and/or substantial shareholders of our Group, they shall not, through SVBSB carry out any business activities which is in competition or in conflict with the business of our Group.

### **10.3 OTHER TRANSACTIONS**

#### **10.3.1 Transactions entered into that are unusual in their nature or conditions**

Our Directors have confirmed that there were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which we or any of subsidiaries were a party in respect of the past four (4) FYEs 2010 to 2013.

#### **10.3.2 Outstanding loans (including guarantees of any kind) made by us or any of our subsidiaries to/for the benefit of related parties**

Save as disclosed below, there were no outstanding loans (including guarantees of any kind) made to/by us to or for the benefit of any related party in respect, for the past four (4) FYEs 2010 to 2013:-

- (a) Both SCH Corporation and SCHWM have granted a corporate guarantee in favour of Public Bank Berhad for the credit facilities given to Edisi Kiara Sdn Bhd, a company owned by Lau Mong Ling and his sons, Lau Kok Foo and Lau Kok Keong who are the Directors and shareholders of Edisi Kiara Sdn Bhd.

The Directors of Edisi Kiara Sdn Bhd have declared and confirmed that as of the LPD, there are no defaults in the repayment of the credit facilities and the current outstanding amount is RM2,944,306.07. Further, our Directors have on 3 April 2012 given their undertaking to cause and procure the discharge of both the said corporate guarantees given by SCH Corporation and SCHWM.

Public Bank Berhad had vide its letter dated 11 June 2012, approved the discharge the corporate guarantee to Public Bank Berhad given by SCH Corporation and SCHWM for the credit facilities given to Edisi Kiara Sdn Bhd ("Discharge"). The approval of the Discharge is subject to the following conditions:-

- (i) Third party charger(s) and/or guarantor(s) written consent is to be obtained, if applicable; and
- (ii) A processing fee of RM200 is levied as reimbursement cost approval of the specific request to changes in terms and conditions.

The solicitor for the Discharge has vide its letter dated 4 August 2013 confirms that the above conditions imposed by Public Bank Berhad has been met. In addition, our Directors confirm that Public Bank Berhad has returned the said corporate guarantees to SCH Corporation and SCHWM.

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**10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTEREST (Cont'd)**

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**10.3.3 Promotions of any material assets acquired/to be acquired within three (3) years preceding the date of this Prospectus**

None of our Directors or substantial shareholders had any interest, direct or indirect, in the promotion of or in any material assets which had been, within the past four (4) FYE's 2010 to 2013, acquired or proposed to be acquired or disposed of or proposed to be disposed of by or leased or proposed to be leased to us.

**10.4 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS**

- (a) M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing.
- (b) Teh & Lee has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing.
- (c) UHY has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing.
- (d) Protégé Associates has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION**

The following sections set out the summary of our Group's proforma financial statements. The proforma consolidated financial information of our Group are prepared based on our audited consolidated financial statements. The proforma consolidated financial information as contained herein are presented for illustrative purposes to show the aggregate results of our Group and on the assumption that our Group structure had been in existence throughout the financial years under review. Our proforma consolidated financial statements have been compiled based on the bases and accounting policies consistent with those currently adopted by our Group which are set out in the notes and assumptions included in the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11.2 of this Prospectus. The financial statements used in the preparation of our proforma consolidated financial statements were prepared in accordance with applicable Financial Reporting Standards in Malaysia. Any adjustments which were dealt with when preparing our proforma consolidated financial statements have been highlighted and disclosed in Section 11.2 of this Prospectus. In this respect, you should read the summary of our proforma financial information which have been presented below together with the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11.2 of this Prospectus.

**11.1 HISTORICAL FINANCIAL INFORMATION****11.1.1 Proforma Consolidated Statements of Comprehensive Income**

The following table sets forth an extract of the proforma consolidated statements of comprehensive income for the past four (4) FYEs 2010 to 2013 which have been prepared for illustration purposes on the assumption that the current structure of the Group existed throughout the FYEs under review. The proforma consolidated statements of comprehensive income are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set out in Section 11.2 of this Prospectus.

	<-----Proforma Group----->			
	FYE 2010 RM'000	FYE 2011 RM'000	FYE 2012 RM'000	FYE 2013 RM'000
Revenue	40,044	44,267	54,240	61,251
Less: Cost of sales	(26,939)	(28,689)	(34,429)	(39,917)
<b>Gross profit</b>	<b>13,105</b>	<b>15,578</b>	<b>19,811</b>	<b>21,334</b>
Other operating income	984	992	1,068	562
Administrative expenses	(6,586)	(7,222)	(7,397)	(8,336)
Selling and distribution expenses	(1,839)	(1,560)	(2,121)	(1,990)
Operating expenses	(329)	(39)	(16)	(174)
<b>Profit from operations</b>	<b>5,335</b>	<b>7,749</b>	<b>11,345</b>	<b>11,396</b>
Finance costs	(767)	(1,066)	(1,084)	(942)
<b>Profit before taxation</b>	<b>4,568</b>	<b>6,683</b>	<b>10,261</b>	<b>10,454</b>
Taxation	(1,361)	(1,770)	(2,786)	(2,792)
<b>Net profit for the financial year, representing total comprehensive income for the financial year</b>	<b>3,207</b>	<b>4,913</b>	<b>7,475</b>	<b>7,662</b>
No. of 5 shares assumed to be in issue ('000)*	321,542	321,542	321,542	321,542
EBIT	5,335	7,749	11,345	11,396
EBITDA	6,598	9,281	13,021	13,367
Gross profit margin (%)	32.73	35.19	36.52	34.83
PBT margin (%)	11.41	15.10	18.92	17.07

**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**

	<b>&lt;-----Proforma Group-----&gt;</b>			
	<b>FYE 2010</b>	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2013</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
PAT margin (%)	8.01	11.10	13.78	12.51
Effective tax rate (%)	29.79	26.49	27.15	26.71
Gross EPS (sen)	1.42	2.08	3.19	3.25
Net EPS (sen)	1.00	1.53	2.32	2.38
No. of Shares assumed to be in issue ('000)^	412,234	412,234	412,234	412,234
Diluted net EPS (sen)^	0.78	1.19	1.81	1.86

**Notes:-**

\* Based on the number of Shares in issue before our IPO.

^ Based on the number of Shares in issue after our IPO.

**Notes to the Proforma Consolidated Statements of Comprehensive Income:-**

- (a) The proforma consolidated statements of comprehensive income have been prepared based on the audited financial statements of SCH and our subsidiaries, using the bases and accounting policies consistent with those adopted in the audited financial statements, after giving effect to the proforma adjustments which are considered appropriate.
- (b) The audited financial statements of SCH and our subsidiaries for the respective financial years under review have been prepared in accordance with applicable Financial Reporting Standards in Malaysia.
- (c) The gross profit margin is computed by dividing the gross profit by the revenue earned in the respective financial years.
- (d) The PBT margin is computed by dividing the PBT by the revenue earned in the respective financial years.
- (e) The PAT margin is computed by dividing the PAT by the revenue earned in the respective financial years.
- (f) The gross EPS is computed by dividing the PBT by the number of ordinary shares assumed to be in issue of 321,542,020 Shares.
- (g) The net EPS is computed by dividing the PAT by the number of ordinary shares assumed to be in issue of 321,542,020 Shares.
- (h) The diluted net EPS is computed by dividing PAT by the enlarged number of ordinary shares after our Listing of 412,234,020 Shares.
- (i) All significant inter-company transactions are eliminated on consolidation and the consolidated results reflect external transactions only.
- (j) There was no share of profits of joint venture or associates throughout the financial years under review.
- (k) There were no exceptional or extraordinary items throughout the financial years under review.

**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****11.1.2 Proforma Consolidated Statements of Financial Position**

The proforma consolidated statements of financial position as set out below are provided for illustrative purposes only to show the effects on the consolidated statements of financial position of our Group as at 31 August 2013 had the Public Issue and utilisation of proceeds been completed on that date. The proforma consolidated statements of financial position are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set out in the ensuing pages and in Section 11.2 of this Prospectus.

<b>&lt;----- Proforma Group -----&gt;</b>				
	<b>(I)</b>	<b>(II)</b>	<b>(III)</b>	
	<b>As at 31</b>	<b>(1)After</b>	<b>(2)After</b>	<b>(3)After</b>
	<b>August</b>	<b>Acquisitions</b>	<b>Proforma I</b>	<b>Proforma II</b>
	<b>2013</b>	<b>RM'000</b>	<b>and Public</b>	<b>and</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>Issue</b>	<b>Utilisation</b>
			<b>RM'000</b>	<b>of Proceeds</b>
				<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	-	13,591	13,591	23,591
Capital work in progress	-	94	94	94
<b>Total Non-Current Assets</b>	<b>-</b>	<b>13,685</b>	<b>13,685</b>	<b>23,685</b>
<b>Current Assets</b>				
Inventories	-	24,788	24,788	29,788
Trade receivables	-	18,406	18,406	18,406
Other receivables	321	3,188	3,188	2,487
Cash and bank balances	1	2,217	23,076	6,776
Tax recoverable	-	401	401	401
Fixed deposits with licensed banks	-	1,527	1,527	1,527
<b>Total Current Assets</b>	<b>322</b>	<b>50,527</b>	<b>71,386</b>	<b>59,385</b>
<b>Total Assets</b>	<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
<b>Equity</b>				
Share capital	-	32,154	41,223	41,223
Share premium	-	-	11,790	11,200
Merger deficit	-	(24,515)	(24,515)	(24,515)
Retained profits	(15)	31,225	31,225	29,814
Foreign exchange reserve	-	65	65	65
<b>Total equity attributable to the owners of the Company</b>	<b>(15)</b>	<b>38,929</b>	<b>59,788</b>	<b>57,787</b>
<b>LIABILITIES</b>				
<b>Non-Current Liabilities</b>				
Hire purchase payables	-	2,202	2,202	2,202
Bank borrowings	-	2,745	2,745	2,745
Deferred tax liabilities	-	140	140	140
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>5,087</b>	<b>5,087</b>	<b>5,087</b>

**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**

<----- Proforma Group ----->				
		(I)	(II)	(III)
	As at 31	(1)After	(2)After	(3)After
	August	Acquisitions	Proforma I	Proforma II
	2013	RM'000	and Public	and
	RM'000	RM'000	Issue	Utilisation
			RM'000	of Proceeds
				RM'000
<b>Current Liabilities</b>				
Trade payables	-	6,977	6,977	6,977
Other payables	337	2,821	2,821	2,821
Amount owing to Directors	-	19	19	19
Hire purchase payables	-	1,146	1,146	1,146
Bank borrowings	-	9,108	9,108	9,108
Tax payable	-	125	125	125
<b>Total Current Liabilities</b>	<b>337</b>	<b>20,196</b>	<b>20,196</b>	<b>20,196</b>
<b>Total Equity and Liabilities</b>	<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
Par value per ordinary share (RM)	^0.10	0.10	0.10	0.10
Number of ordinary shares ('000)	^	321,542	412,234	412,234
NA (RM'000)	(15)	38,929	59,788	57,787
NA per share (RM)	(750)	0.12	0.15	0.14
Borrowings (All interest bearing debts) (RM'000)	-	15,201	15,201	15,201
Gearing (Times)	-	0.39	0.25	0.26

**Notes:-**

(1) Incorporates the effects of the Acquisitions.

(2) Incorporates the effects of Proforma (I) and Public Issue.

(3) Incorporates the effects of Proforma (II) and utilisation of proceeds as set out in Section 3.10 of this Prospectus.

^ Represents 20 SCH Shares.

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****11.1.3 Proforma Consolidated Statement of Cash Flow**

The proforma consolidated statement of cash flow for the FYE 2013 as set out below are provided for illustrative purposes only and are based on the assumption that the current structure of our Group existed throughout the financial years under review and adjusted for our Public Issue and the utilisation of proceeds. The proforma consolidated statement of cash flow should be read in conjunction with the accompanying notes and assumptions set out in Section 11.2 of this Prospectus.

	<b>FYE 2013 RM'000</b>
<b>Cash flows from Operating Activities</b>	
<b>Profit before taxation</b>	10,454
Adjustments for :	
Bad debts written off	70
Depreciation of property, plant and equipment	1,971
Property, plant and equipment written off	3
Interest expenses	938
Interest income	(53)
Inventories written off	12
Other investments written off	112
Gain on disposal of property, plant and equipment	(276)
Reversal of impairment on trade receivables	(46)
Impairment on trade receivables	46
<b>Operating profit before working capital changes</b>	<b>13,231</b>
<b>Changes in working capital:</b>	
Inventories	(7,543)
Trade receivables and other receivables	(731)
Trade payables and other payables	(67)
Amounts owing by directors	(77)
<b>Cash generated from operations</b>	<b>4,813</b>
Interest paid	(938)
Interest received	53
Tax paid	(3,085)
Tax refund	61
<b>Net cash from operating activities</b>	<b>904</b>
<b>Cash Flow From Investing Activities</b>	
Purchase of property, plant and equipment	(10,559)
Proceeds from disposal of other investments	455
Capital work-in-progress incurred	(94)
<b>Net cash used in investing activities</b>	<b>(10,198)</b>
<b>Cash Flows From Financing Activities</b>	
Repayment of hire purchase payables	(2,154)
Decrease in bankers' acceptance and trust receipts	(1,114)
Repayment of term loans	(973)
Fixed deposit pledged as collaterals	(40)
Proceeds from public issue	20,859
Payment for listing expenses	(1,300)
<b>Net cash from financing activities</b>	<b>15,278</b>

**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**

	<b>FYE 2013 RM'000</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,984</b>
<b>Cash and cash equivalents at beginning of the financial year</b>	<b>787</b>
<b>Exchange fluctuation adjustment at beginning of the financial year</b>	<b>5</b>
<b>Cash and cash equivalents at end of the financial year</b>	<b>6,776</b>
<b>Cash and cash equivalents at end of the financial year comprises:</b>	
Cash and bank balances	6,776
Fixed deposit pledged with a licensed banks	1,527
	8,303
Less: Fixed deposit pledged with a licensed banks	(1,527)
	<b>6,776</b>

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## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

### 11.2 REPORTING ACCOUNTANTS' LETTER ON PROFORMA CONSOLIDATED FINANCIAL INFORMATION



Date: **20 DEC 2013**

**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

Dear Sirs,

#### **SCH GROUP BERHAD ("SCH" OR "THE COMPANY") PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

We have reviewed the proforma consolidated financial information of SCH and its subsidiaries namely, SCH Corporation Sdn Bhd and its subsidiaries ("SCH Corporation or SCH Corporation Group"), Italiaworld Pte Ltd ("Italiaworld"), SCH Wire-Mesh Manufacturing Sdn Bhd ("SCHWM"), and SCH Machinery & Equipment Sdn Bhd ("SCHME") (collectively referred as "SCH Group" or "the Group") for the four (4) financial years ended ("FYE") 31 August 2010, 31 August 2011, 31 August 2012 and 31 August 2013 together with the accompanying notes thereon, which we have stamped for the purpose of identification.

The proforma consolidated financial information of SCH Group has been prepared for illustrative purposes only for inclusion in this Prospectus of SCH Group in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of SCH Group on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), after making certain assumptions and such adjustments to show the effects on:-

- (a) the consolidated financial results of SCH Group for the financial years under review on the basis that the Group structure as of the date of this Prospectus had been in existence throughout the financial years under review;
- (b) the consolidated financial position of SCH Group as at 31 August 2013 on the basis that the Group structure as of the date of this Prospectus had been in existence on 31 August 2013, adjusted for the effects of the Acquisitions and Listing Scheme (as defined in section 1.3 and section 1.4) as well as utilisation of the listing proceeds of RM20.86 million raised pursuant to the IPO; and
- (c) the consolidated statement of cash flows of SCH Group for the FYE 2013 on the basis that the Group structure as of the date of this Prospectus had been in existence throughout 31 August 2013, adjusted for the effects of the Acquisitions and Listing Scheme (as defined in section 1.3 and section 1.4) as well as utilisation of the listing proceeds of RM20.86 million raised pursuant to the IPO.

As the proforma consolidated financial information has been prepared for illustrative purposes only, such information, because of its nature, may not reflect SCH Group's actual financial position and cash flow position for the financial years under review. Further, such information does not predict the Group's future financial results, financial position and cash flow position.

**UHY** (AF1411)  
**Chartered Accountants**  
Suite 11.05, Level 11  
The Gardens South Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur

Phone +60 3 2279 3088  
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Email [uhykl@uhy.com.my](mailto:uhykl@uhy.com.my)  
Web [www.uhy.com.my](http://www.uhy.com.my)

**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****Responsibilities**

It is the sole responsibility of the Directors of SCH Group to prepare the proforma consolidated financial information in accordance with the requirements of the Prospectus Guidelines – *Equity and Debt* issued by the Securities Commission Malaysia ("SC") ("Prospectus Guidelines").

Our responsibility is to form an opinion on the proforma consolidated financial information as required by the Prospectus Guidelines and to report our opinion to you based on our work. In providing this opinion we are not responsible in updating or refreshing any report or opinion previously made by us on any financial information used in the compilation of the proforma consolidated financial information, nor do we accept responsibility for such report or opinion beyond that owed to those to whom the report or opinion were addressed by us at the date of issue.

**Basis of opinion**

We conducted our work in accordance with Malaysian Approved Standards on Assurance Engagements, ISAE 3000 – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

Our work consisted primarily of comparing the proforma consolidated financial information to the proforma financial statements of SCH and audited financial statements of respective subsidiaries of SCH, considering the evidence supporting the adjustments and discussing the proforma consolidated financial information with the Directors/Officers of SCH Group. Our work involved no independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanation we considered necessary in order to provide us with reasonable assurance that the proforma consolidated financial information has been prepared on the basis stated using financial statements prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), and in a manner consistent with both the format of the financial statements and the accounting policies adopted by SCH Group. Our work also involves assessing whether each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing the proforma consolidated financial information.

**Opinion**

In our opinion:-

- (a) the proforma consolidated financial information of SCH Group together with the accompanying notes, which are provided for illustrative purposes only, have been properly prepared on the basis and assumptions set out in the accompanying notes, and such basis are consistent with the accounting policies adopted by SCH Group;
- (b) the audited financial statements used in the preparation of proforma consolidated financial information have been prepared in accordance with applicable MFRS except for audited financial statements of Italiaworld which was prepared based on the Singapore Financial Reporting Standards and the proforma consolidated financial information have been properly prepared in a manner consistent with the format of the financial statements adopted by SCH Group; and
- (c) Each material adjustments made to the information used in the preparation of the proforma consolidated financial information are appropriate for the purposes of preparing the proforma consolidated financial information.



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**



This letter has been prepared for the purpose of inclusion in this Prospectus issued in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of SCH on the ACE Market of Bursa Securities. As such, this letter should not be used for any other purposes without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'WAM'.

**UHY**

Firm Number: AF 1411

Chartered Accountants

A handwritten signature in black ink, appearing to be 'Stephen Wan Yeng Leong'.

**STEPHEN WAN YENG LEONG**

Approved Number: 2963/07/15 (J)

Chartered Accountant

Kuala Lumpur

**20** DEC 2013

**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")****PROFORMA CONSOLIDATED FINANCIAL INFORMATION****1. Proforma Group, Basis of Consolidation of Subsidiaries, Basis of Preparation, Acquisitions and Listing Scheme****1.1 Proforma Group**

The proforma consolidated financial information of SCH Group is prepared for illustrative purposes only. The relevant financial years of SCH Group for this letter cover FYE 2010, FYE 2011, FYE 2012 and FYE 2013 ("Relevant Financial Years").

The proforma consolidated financial information of SCH Group has been prepared on the assumption that the Group had been in existence throughout the Relevant Financial Years. The proforma consolidated financial information comprises the following:-

Section 2 - Proforma Consolidated Statements of Comprehensive Income for the Relevant Financial Years;

Section 3 – Proforma Consolidated Statements of Financial Position as at 31 August 2013; and

Section 4 - Proforma Consolidated Statement of Cash Flows for the FYE 31 August 2013.

The audited financial statements of Italiaworld were presented in Singapore Dollar ("SGD"). In preparing this letter, the financial information was translated into Ringgit Malaysia ("RM") for comparison and information purposes.

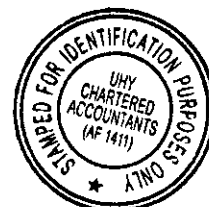
The exchange rates used for the purposes of this letter are extracted from Bank Negara Malaysia as follows:

**Financial years ended (average rate)**

31 August 2010	SGD1.00 : RM2.3B35
31 August 2011	SGB1.00 : RM2.4114
31 August 2012	SGB1.00 : RM2.4490
31 August 2013	SGB1.00 : RM2.4B24

**Financial years ended (closing rate)**

31 August 2010	SGD1.00 : RM2.3179
31 August 2011	SGD1.00 : RM2.46B4
31 August 2012	SGD1.00 : RM2.490B
31 August 2013	SGD1.00 : RM2.5B06



## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

### SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP") PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

#### 1.2 Basis of Preparation

#### 1.2 Basis of Preparation

The proforma consolidated financial information has been prepared for illustrative purposes only and based on the audited financial statements of SCH, SCH Corporation Group, Italiaworld, SCHWM, and SCHME for the Relevant Financial Years. The audited financial statements used in the preparation of this letter for the financial years under review were not subject to any qualification or modification.

The proforma consolidated financial information has been prepared in accordance with MFRS except for the audited financial statements of Italiaworld which was prepared based on the Singapore Financial Reporting Standards and have been prepared in a manner consistent with the format of the financial statements adopted by SCH Group after incorporating adjustments that are appropriate for the preparation of the proforma consolidated financial information.

The proforma consolidated financial information, because of its nature, may not reflect SCH Group's actual financial results, financial position and cash flow position. Further, such information does not predict the Group's future financial position, statement of comprehensive income and statement of cash flows.

The proforma consolidated financial information has been prepared using the merger method. Under the merger method:-

- (i) If the cost of merger is lower than the nominal value of the share capital of the subsidiaries acquired, a credit balance will arise and be treated as merger reserve; and
- (ii) If the cost of merger exceeds the nominal value of the share capital of the subsidiaries acquired, a debit balance will arise and be treated as merger deficit under the proforma consolidated statement of financial position.

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****1.3 Acquisitions**

In preparation for the listing of the Company on the ACE Market of Bursa Securities, 5CH have undertaken the Acquisitions. Under the Acquisitions, the Company had entered into four (4) sale and purchase agreements to acquire the entire equity interest in 5CH Corporation, Italiaworld, SCHWM and 5CHME.

**a) Acquisition of SCH Corporation**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between SCH and the vendors of 5CH Corporation, being Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin, 5CH acquired 5CH Corporation's entire issued and paid-up share capital of RM7,880,002 comprising 7,880,002 ordinary shares of RM1.00 each for a total purchase consideration of RM23,556,900, which was wholly satisfied by the issuance of 235,569,000 new ordinary shares of RM0.10 each in 5CH ("5shares") at an issue price of RM0.10 per 5share on 11 November 2013. Immediately thereafter, SCH Corporation became a wholly-owned subsidiary of 5CH.

The purchase consideration of 5CH Corporation of RM23,556,900 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited consolidated net assets ("NA") position of SCH Corporation as at 31 August 2012 of RM23,556,869.

**b) Acquisition of Italiaworld**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between SCH and the vendors of Italiaworld, being Lau Mong Ling, Wong Sin Chin and Yeen Yoon Hin, 5CH acquired Italiaworld's entire issued and paid-up share capital of SGD100,000 comprising 100,000 ordinary shares for a total purchase consideration of RM895,600, which was wholly satisfied by the issuance of 8,956,000 new Shares at an issue price of RM0.10 per 5share on 11 November 2013. Immediately thereafter, Italiaworld become a wholly-owned subsidiary of SCH.

The purchase consideration of Italiaworld of RM895,600 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited NA position of Italiaworld as at 31 August 2012 of SGD359,528 (equivalent to RM895,512).

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****1.3 Acquisitions (Cont'd)****c) Acquisition of SCHWM**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between SCH and the vendors of SCHWM, being Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin, Au Yong Sau Kuen and Wong Sang @ Wong Hock Lim, SCH acquired SCHWM's entire issued and paid-up share capital of RM500,000 comprising 500,000 ordinary shares of RM1.00 each for a total purchase consideration of RM2,070,200, which was wholly satisfied by the issuance of 20,702,000 new Shares at an issue price of RM0.10 per Share on 11 November 2013. Immediately thereafter, SCHWM became a wholly-owned subsidiary of SCH.

The purchase consideration of SCHWM of RM2,070,200 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited NA position of SCHWM as at 31 August 2012 of RM2,070,195.

**d) Acquisition of SCHME**

Pursuant to the sale and purchase agreement dated 3 January 2013 entered into between SCH and the vendors of SCHME, being Lau Mong Ling, Wong Sin Chin, Yeen Yoon Hin and Lim Lee Pooi, SCH acquired SCHME's entire issued and paid-up share capital of RM400,000 comprising 400,000 ordinary shares of RM1.00 each for a purchase consideration of RM5,631,500, which was wholly satisfied by the issuance of 56,315,000 new Shares at an issue price of RM0.10 per Share on 11 November 2013. Immediately thereafter, SCHME became a wholly-owned subsidiary of SCH.

The purchase consideration of SCHME of RM5,631,500 was arrived at a willing-buyer willing-seller basis, after taking into consideration the audited NA position of SCHME as at 31 August 2012 of RM5,631,458.

The new Shares issued pursuant to the Acquisitions shall *rank pari passu* in all respects with the existing issued Shares including the voting rights and will be entitled to all rights and dividends and other distributions, the entitlement date of which are subsequent thereof.

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## 11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)

### SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP") PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)

#### 1.4 Listing Scheme

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of the Company on the ACE Market of Bursa Securities, the details of the Listing Scheme are as follows:-

##### (i) Public Issue

Pursuant to the Public Issue, the Company shall issue 90,692,000 new Shares ("Issue Share") at an issue price of RM0.23 per Share ("IPO Price") to be allocated in the following manner:-

- a) 13,000,000 Issue Shares will be made available for application by the Malaysian Public, to be allocated via ballot;
- b) 13,000,000 Issue Shares made available to the eligible Directors, employees and business associates/persons who have contributed to the success of the Group;
- c) 19,662,000 new shares by way of private placement to selected investors; and
- d) 45,030,000 new shares by way of private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry

The Issue Shares shall *rank pari passu* in all respects with the existing issued Shares including the voting rights and will be entitled to all rights and dividends and other distributions, the entitlement date of which are subsequent thereof.

Upon completion of the Public Issue, the issued and paid-up share capital will increase from RM32,154,202 comprising 321,542,020 Shares to RM41,223,402 comprising 412,234,020 Shares.

##### (ii) Offer for Sale

Concurrent with the Listing, the Company will undertake an offer for sale of 32,980,000 Shares ("Offer Shares") at the IPO Price. The Offerors are offering for sale 32,980,000 Offer Shares, representing approximately 8.0% of the enlarged issued and paid-up share capital to selected investors. The Offer Shares are payable in full on application upon such terms and conditions as set out in this Prospectus.

##### (iii) Listing

Upon completion of the IPO, the Company's entire enlarged issued and paid-up share capital of RM41,223,402 comprising 412,234,020 Shares shall be listed on the ACE Market of Bursa Securities.

(Collectively known as the "Listing Scheme")



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****2. Proforma Consolidated Statements of Comprehensive Income**

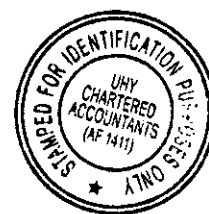
The proforma consolidated statements of comprehensive income of SCH Group for the Relevant Financial Years are set out below, which have been prepared for illustration purposes assuming that SCH Group had been existence throughout the financial years under review.

	<----- Group ----->			
	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	RM'000	RM'000	RM'000	RM'000
Revenue	40,044	44,267	54,240	61,251
Cost of sales	(26,939)	(28,689)	(34,429)	(39,917)
<b>Gross profit</b>	<b>13,105</b>	<b>15,578</b>	<b>19,811</b>	<b>21,334</b>
Other income	984	992	1,068	562
Administrative expenses	(6,586)	(7,222)	(7,397)	(8,336)
Selling and distribution expenses	(1,839)	(1,560)	(2,121)	(1,990)
Other operating expenses	(329)	(39)	(16)	(174)
Finance costs	(767)	(1,066)	(1,084)	(942)
<b>Profit before taxation</b>	<b>4,568</b>	<b>6,683</b>	<b>10,261</b>	<b>10,454</b>
Taxation	(1,361)	(1,770)	(2,786)	(2,792)
<b>Net profit for the financial year, representing total comprehensive income for the financial year</b>	<b>3,207</b>	<b>4,913</b>	<b>7,475</b>	<b>7,662</b>
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	6,598	9,281	13,021	13,367
Earnings before interest and taxation ("EBIT")	5,335	7,749	11,345	11,396
Gross profit margin (%)	32.73	35.19	36.52	34.83
Profit before tax margin (%)	11.41	15.10	18.92	17.07
Profit after tax margin (%)	8.01	11.10	13.78	12.51
Effective tax rate (%)	29.79	26.49	27.15	26.71
No. of Shares assumed to be in issue ('000)*	321,542	321,542	321,542	321,542
Gross earnings per share (sen)	1.42	2.08	3.19	3.25
Net earnings per share (sen)	1.00	1.53	2.32	2.38
No. of Shares assumed to be in issue ('000)^	412,234	412,234	412,234	412,234
Diluted net earnings per share (sen)	0.78	1.19	1.81	1.86

**Notes-**

\* Number of Shares in issue before the IPO

^ Number of shares issued after the IPO



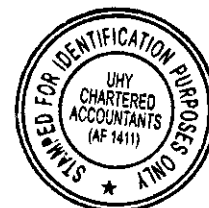
**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)**

**SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)**

**2.1 Notes to the Proforma Consolidated Statements of Comprehensive Income**

- 2.1.1 The gross profit margin is computed by dividing the gross profit by the revenue earned in the respective financial years.
- 2.1.2 The profit before tax margin is computed by dividing the profit before taxation by the revenue earned in the respective financial years.
- 2.1.3 The profit after tax margin is computed by dividing the profit after taxation by the revenue earned in the respective financial years.
- 2.1.4 The gross earnings per share is computed by dividing the profit before taxation by the number of ordinary shares assumed to be in issue of 321,542,020 Shares.
- 2.1.5 The net earnings per share is computed by dividing the profit after taxation by the number of ordinary shares assumed to be in issue of 321,542,020 Shares.
- 2.1.6 The diluted net earnings per share is computed by dividing profit after taxation by the enlarged number of ordinary shares after the Listing Scheme of 412,234,020 Shares
- 2.1.7 All significant inter-company transactions are eliminated on consolidation and the consolidated results reflect external transactions only.
- 2.1.8 There was no share of profits of joint venture or associates throughout the financial years under review.
- 2.1.9 There were no exceptional or extraordinary items throughout the financial years under review.

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. Proforma Consolidated Statements of Financial Position as at 31 August 2013**

The proforma consolidated statements of financial position of SCH Group as at 31 August 2013 have been prepared for illustrative purposes only and after making such adjustments as considered necessary assuming that SCH Group had been in existence on 31 August 2013 and the Listing Scheme completed on that date.

		<----- Proforma Group----->			
		I	II	III	
				After	
		5CH	After	Proforma I	Proforma II
		as at	Acquisitions	and Public	and
		31 August		Issue	Utilisation
		2013			of Proceeds
		RM'000	RM'000	RM'000	RM'000
Notes					
<b>A55ET5</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	3.2.1	-	13,591	13,591	23,591
Capital work in progress	3.2.2	-	94	94	94
<b>Total Non-Current Assets</b>		<b>-</b>	<b>13,685</b>	<b>13,685</b>	<b>23,685</b>
<b>Current Assets</b>					
Inventories	3.2.3	-	24,788	24,788	29,788
Trade receivables	3.2.4	-	18,406	18,406	18,406
Other receivables	3.2.5	321	3,188	3,188	2,487
Cash and bank balances	3.2.6	1	2,217	23,076	6,776
Tax recoverable	3.2.7	-	401	401	401
Fixed deposits with licensed banks	3.2.8	-	1,527	1,527	1,527
<b>Total Current Assets</b>		<b>322</b>	<b>50,527</b>	<b>71,386</b>	<b>59,385</b>
<b>Total Assets</b>		<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
<b>Equity</b>					
Share capital	3.2.9	-	32,154	41,223	41,223
Share premium	3.2.10	-	-	11,790	11,200
Merger deficit	3.2.11	-	(24,515)	(24,515)	(24,515)
Retained profits		(15)	31,225	31,225	29,814
Foreign exchange reserve	3.2.12	-	65	65	65
<b>Total equity attributable to the owners of the Company</b>		<b>(15)</b>	<b>38,929</b>	<b>59,788</b>	<b>57,787</b>



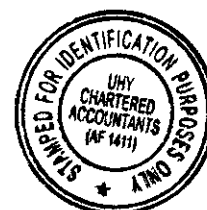
**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3. Proforma Consolidated Statements of Financial Position as at 31 August 2013  
(Cont'd)**

		<----- Proforma Group----->			
			I	II	III
	Notes	SCH as at 31 August 2013 RM'000	After Acquisitions RM'000	After Proforma I and the Public Issue RM'000	After Proforma II and Utilisation of Proceeds RM'000
<b>LIABILITIES</b>					
<b>Non-Current Liabilities</b>					
Hire purchase payables	3.2.13	-	2,202	2,202	2,202
Bank borrowings	3.2.14	-	2,745	2,745	2,745
Deferred tax liabilities	3.2.15	-	140	140	140
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>5,087</b>	<b>5,087</b>	<b>5,087</b>
<b>Current Liabilities</b>					
Trade payables	3.2.16	-	6,977	6,977	6,977
Other payables	3.2.17	337	2,821	2,821	2,821
Amount owing to Directors	3.2.18	-	19	19	19
Hire purchase payables	3.2.13	-	1,146	1,146	1,146
Bank borrowings	3.2.14	-	9,108	9,108	9,108
Tax payable	3.2.19	-	125	125	125
<b>Total Current Liabilities</b>		<b>337</b>	<b>20,196</b>	<b>20,196</b>	<b>20,196</b>
<b>Total Equity and Liabilities</b>		<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
Par value per ordinary share (RM)		^0.10	0.10	0.10	0.10
Number of ordinary shares ('000)		^	321,542	412,234	412,234
NA (RM'000)		(15)	38,929	59,788	57,787
NA per share (RM)		(750)	0.12	0.15	0.14
Borrowings (All interest bearing debts) (RM'000)		-	15,201	15,201	15,201
Gearing (Times)		-	0.39	0.25	0.26

**Notes-**

\* Represents RM 2.00

^ At the date of incorporation, SCH issued 2 ordinary shares of RM1.00 each as subscribers' shares. On 31 January 2012, SCH undertook a share split involving the subdivision of every one (1) existing ordinary share of RM1.00 each in the Company into ten (10) shares of RM0.10 each.



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3.1 Proforma Adjustments to the Proforma Consolidated Statements of Financial Position****Proforma I**

Proforma I incorporates the effects of the Acquisitions.

**Proforma II**

Proforma II incorporates the effects of Proforma I and the IPO.

Upon completion of the IPO, the issued and paid-up share capital will increase from RM32,154,202 comprising 321,542,020 Shares to RM41,223,402 comprising 412,234,020 Shares.

The Offer for Sale outlined in Section 1.4 (ii) does not have any financial impact to the proforma consolidated statement of financial position.

**Proforma III**

Proforma III incorporates the effects of Proforma II and the utilisation of proceeds.

The proceeds will be utilised in the following manner:

	<b>RM'000</b>	<b>%</b>
Estimated listing expenses	2,000	9.59
Capital expenditure on construction of the new operation facility	10,000	47.94
General working capital requirements	8,859	42.47
<b>Total</b>	<b>20,859</b>	<b>100.00</b>

The listing expenses are estimated to be RM2.00 million, of which an amount of RM0.59 million in respect of share issuance expenses will be set off against the share premium account and the balance of RM1.41 million will be charged to the statement of comprehensive income.

A total RM8.86 million or 42.47% of the proceeds raised from the IPO has been earmarked to supplement the general working capital requirements of the SCH Group. RM3.86 million of the cash proceeds shall be used in the day-to-day operations such as the payment of labour, defrayment of operating expenses, installation and transportation cost as well as other overheads deemed necessary for the smooth running of the operations.

The remaining RM 5.00 million from the proceeds shall be utilised to purchase brand new quarry machinery and quarry equipment as inventories for its distribution and supply of quarry machinery and quarry equipment business segment.



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3.2 Notes to the Proforma Consolidated Statements of Financial Position as at 31 August 2013****3.2.1 Property, Plant and Equipment**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	13,591
As per Proforma I and II	13,591
Proposed Utilisation of Proceeds	10,000
<b>As per Proforma III</b>	<b>23,591</b>

**3.2.2 Capital Work in Progress**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	94
<b>As per Proforma I,II and III</b>	<b>94</b>

**3.2.3 Inventories**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	24,788
As per Proforma I and II	24,788
Proposed Utilisation of Proceeds	5,000
<b>As per Proforma III</b>	<b>29,788</b>

**3.2.4 Trade Receivables**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	18,406
<b>As per Proforma I,II and III</b>	<b>18,406</b>



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GRDUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3.2 Notes to the Proforma Consolidated Statements of Financial Position as at 31 August 2013 (Cont'd)****3.2.5 Other Receivables**

	RM'000
As at 31 August 2013	321
Arising from the Acquisitions	2,867
As per Proforma I and II	3,188
Proposed Utilisation of Proceeds	(701)
<b>As per Proforma III</b>	<b>2,487</b>

**3.2.6 Cash and Bank Balances**

	RM'000
As at 31 August 2013	1
Arising from the Acquisitions	2,216
As per Proforma I	2,217
Proposed Public Issue	20,859
As per Proforma II	<b>23,076</b>
Proposed Utilisation of Proceeds	*(16,300)
<b>As per Proforma III</b>	<b>6,776</b>

**Note:-**

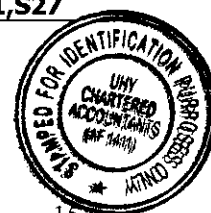
- \* Utilisation of proceeds relates to listing expense of RM1.3 million (total estimated listing expenses of RM2.0 million RM0.7 million paid in the FYE2013 by the Group). Capital expenditure on the construction of the new operation facility of RM14.0 million (RM10.0 million from IPO proceed and the remaining RM4.00 assumed to be financed from bank) and purchases of brand new quarry machinery and quarry equipment as inventory of RM5.0 million.

**3.2.7 Tax Recoverable**

	RM'000
As at 31 August 2013	-
Arising from the Acquisitions	401
<b>As per Proforma I,II and III</b>	<b>401</b>

**3.2.8 Fixed Deposits with Licensed Banks**

	RM'000
As at 31 August 2013	-
Arising from the Acquisitions	1,527
<b>As per Proforma I,II and III</b>	<b>1,527</b>



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3.2 Notes to the Proforma Consolidated Statements of Financial Position as at 31 August 2013 (Cont'd)****3.2.9 Share Capital**

	<b>RM'000</b>
As at 31 August 2013	*
Arising from the Acquisitions	32,154
As per Proforma I	32,154
Proposed Public Issue	9,069
<b>As per Proforma II and III</b>	<b>41,223</b>

**Note:-**

\* Represents RM2.00 of the subscribers shares issued upon incorporation of SCH on 22 December 2011

**3.2.10 Share Premium**

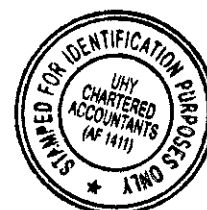
	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	-
As per Proforma I	-
Proposed Public Issue	11,790
As per Proforma II	11,790
Proposed Utilisation of Proceeds	*(590)
<b>As per Proforma III</b>	<b>11,200</b>

**Note:-**

\* The listing expenses are estimated to be RM2 million, of which an amount of RM0.59 million in respect of share issuance expenses will be set off against the share premium account.

**3.2.11 Merger Deficit**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	(24,515)
<b>As per Proforma I,II and III</b>	<b>(24,515)</b>



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3.2 Notes to the Proforma Consolidated Statements of Financial Position as at 31 August 2013 (Cont'd)****3.2.12 Foreign Exchange Reserve**

	RM'000
As at 31 August 2013	-
Arising from the Acquisitions	65
<b>As per Proforma I,II and III</b>	<b>65</b>

**3.2.13 Hire Purchase Payables**

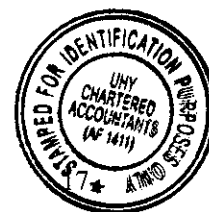
	RM'000
<b>Non-Current Liabilities</b>	
As at 31 August 2013	-
Arising from the Acquisitions	2,202
<b>As per Proforma I,II and III</b>	<b>2,202</b>
<b>Current Liabilities</b>	
As at 31 August 2013	-
Arising from the Acquisitions	1,146
<b>As per Proforma I,II and III</b>	<b>1,146</b>

**3.2.14 Bank Borrowings**

	RM'000
<b>Non-Current Liabilities</b>	
As at 31 August 2013	-
Arising from the Acquisitions	2,745
<b>As per Proforma I,II and III</b>	<b>2,745</b>
<b>Current Liabilities</b>	
As at 31 August 2013	-
Arising from the Acquisitions	9,108
<b>As per Proforma I,II and III</b>	<b>9,108</b>

**3.2.15 Deferred Tax Liabilities**

	RM'000
As at 31 August 2013	-
Arising from the Acquisitions	140
<b>As per Proforma I,II and III</b>	<b>140</b>



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****3.2 Notes to the Proforma Consolidated Statements of Financial Position as at 31 August 2013 (Cont'd)****3.2.16 Trade Payables**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	6,977
<b>As per Proforma I,II and III</b>	<b>6,977</b>

**3.2.17 Other Payables**

	<b>RM'000</b>
As at 31 August 2013	337
Arising from the Acquisitions	2,484
<b>As per Proforma I,II and III</b>	<b>2,821</b>

**3.2.18 Amount Owing to Directors**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	19
<b>As per Proforma I,II and III</b>	<b>19</b>

**3.2.19 Tax Payable**

	<b>RM'000</b>
As at 31 August 2013	-
Arising from the Acquisitions	125
<b>As per Proforma I,II and III</b>	<b>125</b>

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****4. Proforma Consolidated Statement of Cash Flows for the FYE 2013**

The proforma consolidated statement of cash flows for the FYE 2013 has been prepared for illustrative purposes only and after making such adjustments as considered necessary assuming SCH Group had been in existence throughout the FYE 2013 and the Listing Scheme completed on that date.

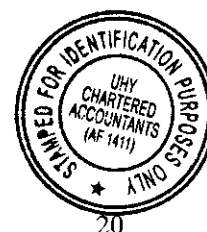
	<b>RM'000</b>
<b>Cash flows from Operating Activities</b>	
<b>Profit before taxation</b>	10,454
Adjustments for :	
Bad debts written off	70
Depreciation of property, plant and equipment	1,971
Property, plant and equipment written off	3
Interest expenses	938
Interest income	(53)
Inventories written off	12
Other investments written off	112
Gain on disposal of property, plant and equipment	(276)
Reversal of impairment on trade receivables	(46)
Impairment on trade receivables	46
<b>Operating profit before working capital changes</b>	<b>13,231</b>
<b>Changes in working capital:</b>	
Inventories	(7,543)
Trade receivables and other receivables	(731)
Trade payables and other payables	(67)
Amounts owing by directors	(77)
<b>Cash generated from operations</b>	<b>4,813</b>
Interest paid	(938)
Interest received	53
Tax paid	(3,085)
Tax refund	61
<b>Net cash from operating activities</b>	<b>904</b>
<b>Cash Flow From Investing Activities</b>	
Purchase of property, plant and equipment	(10,559)
Proceeds from disposal of other investments	455
Capital work-in-progress incurred	(94)
<b>Net cash used in investing activities</b>	<b>(10,198)</b>



**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****SCH GROUP BERHAD AND ITS SUBSIDIARIES ("SCH GROUP")  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION (CONT'D)****4. Proforma Consolidated Statement of Cash Flows for the FYE 31 August 2013  
(Cont'd)**

	<b>RM'000</b>
<b>Cash Flows From Financing Activities</b>	
Repayment of hire purchase payables	(2,154)
Decreased in bankers' acceptance and trust receipts	(1,114)
Repayment of term loans	(973)
Fixed deposit pledged as collaterals	(40)
Proceeds from public issue	20,859
Payment for listing expenses	(1,300)
<b>Net cash from financing activities</b>	<b>15,278</b>
 <b>Net increase in cash and cash equivalents</b>	 <b>5,984</b>
<b>Cash and cash equivalents at beginning of the financial year</b>	<b>787</b>
<b>Exchange fluctuation adjustment at beginning of the financial year</b>	<b>5</b>
<b>Cash and cash equivalents at end of the financial year</b>	<b>6,776</b>
 <b>Cash and cash equivalents at end of the financial year comprises:</b>	
Cash and bank balances	6,776
Fixed deposit pledged with a licensed banks	1,527
	8,303
Less: Fixed deposit pledged with a licensed banks	(1,527)
	<b>6,776</b>

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**11. PROFORMA HISTORICAL FINANCIAL INFORMATION (Cont'd)****11.3 CAPITALISATION AND INDEBTEDNESS**

The following information shall be read in conjunction with the Reporting Accountants' letter on proforma consolidated financial information and Accountants' Report set out in Sections 11.2 and 13 of this Prospectus.

The following table shows our Group's cash and bank balances, capitalisation and indebtedness based on our proforma financial position as at 31 August 2013, and as adjusted for the net proceeds from our IPO and proposed utilisation of the proceeds from our Public Issue:-

	←-----Proforma Group----->	
	As at 31 August 2013 RM'000	After our Public Issue and utilisation of proceeds RM'000
Cash and bank balances	2,217	6,776
Fixed deposits with licensed banks	1,527	1,527
<b>Total cash and cash equivalents</b>	<b>3,744</b>	<b>8,303</b>
<b>Indebtedness</b>		
<b>Current</b>		
Bankers' acceptance	8,612	8,612
Hire purchase payables	1,146	1,146
Term loans	496	496
<b>Non-current</b>		
Hire purchase payables	2,202	2,202
Term loan	2,745	2,745
<b>Total indebtedness</b>	<b>15,201</b>	<b>15,201</b>
Shareholders' equity	38,929	57,787
<b>Total capitalisation and indebtedness</b>	<b>54,130</b>	<b>72,988</b>

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**THE FOLLOWING MANAGEMENT DISCUSSION AND SEGMENTAL ANALYSIS OF THE AUDITED RESULTS OF OUR GROUP FOR THE PAST FOUR (4) FYE'S 2010 TO 2013 SHOULD BE READ IN CONJUNCTION WITH OUR PROFORMA CONSOLIDATED FINANCIAL INFORMATION AND THE RELATED NOTES THEREON FOR THE PAST FOUR (4) FYE'S 2010 TO 2013 INCLUDED IN SECTION 11 OF THIS PROSPECTUS.**

**THIS DISCUSSION AND ANALYSIS CONTAINS DATA DERIVED FROM THE AUDITED FINANCIAL STATEMENTS OF OUR GROUP AS WELL AS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. YOU SHOULD ALSO CAREFULLY CONSIDER THE RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCES AS SET OUT IN SECTION 4 OF THIS PROSPECTUS.**

**12.1 FINANCIAL RESULTS AND POSITION**

Our proforma consolidated financial information have been compiled based on the basis and accounting policies consistent with those currently adopted by our Group which are set out in the notes and assumptions included in the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11.2 of this Prospectus. The financial statements used in the preparation of our proforma consolidated financial information were prepared in accordance with the approved accounting standards issued by the Malaysian Accounting Standards Board. Any adjustments which were dealt with when preparing our consolidated financial information have been highlighted and disclosed in Section 11.2 of this Prospectus.

**Proforma consolidated statements of comprehensive income**

The following table sets out the proforma consolidated statements of comprehensive income for the past four (4) FYEs 2010 to 2013 which have been prepared for illustrative purposes only based on the assumption that our Group structure has been in existence throughout the financial years under review.

You should read this proforma consolidated statements of comprehensive income in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Letter on Proforma Consolidated Financial Information as set out in Section 11 of this Prospectus and the Accountants' Report as set out in Section 13 of this Prospectus.

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## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

	<-----Proforma Group----->			
	FYE 2010 RM'000	FYE 2011 RM'000	FYE 2012 RM'000	FYE 2013 RM'000
Revenue	40,044	44,267	54,240	61,251
Less: Cost of sales	(26,939)	(28,689)	(34,429)	(39,917)
<b>Gross profit</b>	<b>13,105</b>	<b>15,578</b>	<b>19,811</b>	<b>21,334</b>
Other operating income	984	992	1,068	562
Administrative expenses	(6,586)	(7,222)	(7,397)	(8,336)
Selling and distribution expenses	(1,839)	(1,560)	(2,121)	(1,990)
Operating expenses	(329)	(39)	(16)	(174)
<b>Profit from operations</b>	<b>5,335</b>	<b>7,749</b>	<b>11,345</b>	<b>11,396</b>
Finance costs	(767)	(1,066)	(1,084)	(942)
<b>Profit before taxation</b>	<b>4,568</b>	<b>6,683</b>	<b>10,261</b>	<b>10,454</b>
Taxation	(1,361)	(1,770)	(2,786)	(2,792)
<b>Net profit for the financial year, representing total comprehensive income for the financial year</b>	<b>3,207</b>	<b>4,913</b>	<b>7,475</b>	<b>7,662</b>
No. of 5shares assumed to be in issue ('000)*	321,542	321,542	321,542	321,542
EBIT	5,335	7,749	11,345	11,396
EBITDA	6,598	9,281	13,021	13,367
Gross profit margin (%)	32.73	35.19	36.52	34.83
PBT margin (%)	11.41	15.10	18.92	17.07
PAT margin (%)	8.01	11.10	13.78	12.51
Effective tax rate (%)	29.79	26.49	27.15	26.71
Gross EP5 (sen)	1.42	2.08	3.19	3.25
Net EP5 (sen)	1.00	1.53	2.32	2.38
No. of 5shares assumed to be in issue ('000)^	412,234	412,234	412,234	412,234
Diluted net EP5 (sen)^	0.78	1.19	1.81	1.86

### Notes:-

\* Based on the number of Shares in issue before our IPO.

^ Based the enlarged number of Shares after our IPO.

@ The diluted net EPS is computed by dividing PAT over the enlarged number of Shares after our IPO.

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## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### 12.2 PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets out our proforma consolidated statements of financial position as at 31 August 2013, assuming that the Acquisitions, our IPO and utilisation of proceeds had been effected as at that date, for illustrative purposes only, and should be read in conjunction with the notes and assumptions included in the Reporting Accountants' Letter on Proforma Consolidated Financial Information, as set out in Section 11.2 of this Prospectus.

	<----- Proforma Group ----->			
		I	II	III
	As at 31 August 2013 RM'000	(1) After Acquisitions RM'000	(2) After Proforma I and Public Issue RM'000	(3) After Proforma II and Utilisation of Proceeds RM'000
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	-	13,591	13,591	23,591
Cash investment - Work in progress	-	94	94	94
<b>Total Non-Current Assets</b>	<b>-</b>	<b>13,685</b>	<b>13,685</b>	<b>23,685</b>
<b>Current Assets</b>				
Inventories	-	24,788	24,788	29,788
Trade receivables	-	18,406	18,406	18,406
Other receivables	321	3,188	3,188	2,487
Cash and bank balances	1	2,217	23,076	6,776
Tax recoverable	-	401	401	401
Fixed deposits with licensed banks	-	1,527	1,527	1,527
<b>Total Current Assets</b>	<b>322</b>	<b>50,527</b>	<b>71,386</b>	<b>59,385</b>
<b>Total Assets</b>	<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
<b>EQUITY</b>				
Share capital	-	32,154	41,223	41,223
Share premium	-	-	11,790	11,200
Merger deficit	-	(24,515)	(24,515)	(24,515)
Retained profits	(15)	31,225	31,225	29,814
Foreign exchange reserve	-	65	65	65
<b>Total equity attributable to the owners of the Company</b>	<b>(15)</b>	<b>38,929</b>	<b>59,788</b>	<b>57,787</b>

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

	SCH	Proforma Group		
		I	II	III
	As at 31 August 2013 RM'000	(1)After Acquisitions RM'000	(2)After Proforma I and Public Issue RM'000	(3)After Proforma II and Utilisation of Proceeds RM'000
<b>LIABILITIES</b>				
<b>Non-Current Liabilities</b>				
Hire purchase payables	-	2,202	2,202	2,202
Bank borrowings	-	2,745	2,745	2,745
Deferred tax liabilities	-	140	140	140
<b>Total Non-Current Liabilities</b>	-	<b>5,087</b>	<b>5,087</b>	<b>5,087</b>
<b>Current Liabilities</b>				
Trade payables	-	6,977	6,977	6,977
Other payables	337	2,821	2,821	2,821
Amount owing to Directors	-	19	19	19
Hire purchase payables	-	1,146	1,146	1,146
Bank borrowings	-	9,108	9,108	9,108
Tax payable	-	125	125	125
<b>Total Current Liabilities</b>	<b>337</b>	<b>20,196</b>	<b>20,196</b>	<b>20,196</b>
<b>Total Equity and Liabilities</b>	<b>322</b>	<b>64,212</b>	<b>85,071</b>	<b>83,070</b>
Par value per Share (RM)	^0.10	0.10	0.10	0.10
Number of Shares in issue ('000)	^	321,542	412,234	412,234
(NL)/NA (RM'000)	(15)	38,929	59,788	57,787
(NL)/NA per Share (RM)	(750)	0.12	0.15	0.14
Borrowings (All interest bearing debts) (RM'000)	-	15,201	15,201	15,201
Gearing (times)	-	0.39	0.25	0.26

**Notes:-**

(1) Incorporates the effects of the Acquisitions.

(2) Incorporates the effects of Proforma (I) and Public Issue.

(3) Incorporates the effects of Proforma (II) and utilisation of proceeds as set out in Section 3.10 of this Prospectus.

\* Represents RM2.00.

^ At the date of incorporation, SCH issued 2 ordinary shares of RM1.00 each as subscribers' shares. On 31 January 2012, SCH undertook a share split involving the subdivision of every one (1) existing ordinary share of RM1.00 each in the Company into ten (10) shares of RM0.10 each.

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## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### 12.3 PROFORMA CONSOLIDATED STATEMENT OF CASH FLOWS

The proforma consolidated statement of cash flows for FYE 2013 has been prepared for illustrative purposes only to show the effects of our IPO on our cash flow statement for FYE 2013 had our IPO been effected on that date and our Group had been in existence since the beginning of FYE 2013 and should be read in conjunction with the accompanying notes and assumptions as set out in the Reporting Accountants' letter on the Proforma Consolidated Financial Information in Section 11 of this Prospectus.

	FYE 2013 RM'000
<b>Cash flows from Operating Activities</b>	
<b>Profit before taxation</b>	10,454
Adjustments for:	
Bad debts written off	70
Depreciation of property, plant and equipment	1,971
Property, plant and equipment written off	3
Interest expenses	938
Interest income	(53)
Inventories written off	12
Other investments written off	112
Gain on disposal of property, plant and equipment	(276)
Reversal of impairment on trade receivables	(46)
Impairment on trade receivables	46
<b>Operating profit before working capital changes</b>	<b>13,231</b>
<b>Changes in working capital:</b>	
Inventories	(7,543)
Trade receivables and other receivables	(731)
Trade payables and other payables	(67)
Amounts owing by directors	(77)
<b>Cash generated from operations</b>	<b>4,813</b>
Interest paid	(938)
Interest received	53
Tax paid	(3,085)
Tax refund	61
<b>Net cash from operating activities</b>	<b>904</b>
<b>Cash Flow From Investing Activities</b>	
Purchase of property, plant and equipment	(10,559)
Proceeds from disposal of other investments	455
Capital work-in-progress incurred	(94)
<b>Net cash used in investing activities</b>	<b>(10,198)</b>
<b>Cash Flows From Financing Activities</b>	
Repayment of hire purchase payables	(2,154)
Decrease in bankers' acceptance and trust receipts	(1,114)
Repayment of term loans	(973)
Fixed deposit pledged as collaterals	(40)
Proceeds from public issue	20,859
Payment for listing expenses	(1,300)
<b>Net cash from financing activities</b>	<b>15,278</b>



**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)**

	<b>FYE 2013 RM'000</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,984</b>
<b>Cash and cash equivalents at beginning of the financial year</b>	<b>787</b>
<b>Exchange fluctuation adjustment at beginning of the financial year</b>	<b>5</b>
<b>Cash and cash equivalents at end of the financial year</b>	<b>6,776</b>
<b>Cash and cash equivalents at end of the financial year comprises:</b>	
Cash and bank balances	6,776
Fixed deposit pledged with a licensed banks	1,527
	<b>8,303</b>
Less: Fixed deposit pledged with a licensed banks	(1,527)
	<b>6,776</b>

The proforma consolidated statement of cash flows has been prepared based on the audited financial statements of our Group for FYE 2013, with the assumption that our current Group structure has been in existence since the beginning of FYE 2013 and adjusted for our Public Issue and utilisation of proceeds from our Public Issue.

The proforma consolidated statement of cash flows has been prepared based on accounting principles and basis consistent with those normally adopted in the preparation of our Group's audited financial statements.

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## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### CAPITALISATION AND INDEBTEDNESS

The following table sets out the proforma consolidated fixed deposits, cash and bank balances, capitalisation and indebtedness as at 31 August 2013 based on our proforma consolidated statement of financial position as at 31 August 2013 and adjusted to show the effects of our IPO and the utilisation of proceeds from our Public Issue as set out in Section 3.10 of this Prospectus.

	←-----Proforma Group----->	
	As at 31 August 2013 RM'000	After our Public Issue and utilisation of proceeds RM'000
Cash and bank balances	2,217	6,776
Fixed deposits with licensed banks	1,527	1,527
<b>Total cash and cash equivalents</b>	<b>3,744</b>	<b>8,303</b>
<b>Indebtedness</b>		
<b>Current</b>		
Bankers' acceptance	8,612	8,612
Hire purchase payables	1,146	1,146
Term loans	496	496
<b>Non-current</b>		
Hire purchase payables	2,202	2,202
Term loan	2,745	2,745
<b>Total indebtedness</b>	<b>15,201</b>	<b>15,201</b>
Shareholders' equity	38,929	57,787
<b>Total capitalisation and indebtedness</b>	<b>54,130</b>	<b>72,988</b>

Save as disclosed above, we do not have any borrowings that are unsecured or unguaranteed. The contingent liabilities of our Group are set out in Section 12.5.6 of this Prospectus.

### 12.4 OVERVIEW

Our Company was incorporated in Malaysia as a public limited company on 22 December 2011. Our authorised share capital is RM50,000,000 comprising 500,000,000 Shares, of which RM32,154,202 comprising 321,542,020 Shares have been issued and fully paid-up as at the date of this Prospectus.

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)**

The movements in our issued and paid-up share capital since the date of our incorporation are set out below:-

Date of Allotment	No. of SCH Shares Allotted	Par Value	Consideration/ Types of Issue	Resultant Issued and Paid-up Share Capital
		RM		RM
22 December 2011	2	1.00	RM2/Subscribers' shares	2
31 January 2012 <sup>^</sup>	20	0.10	RM2/Share split	2
11 November 2013	321,542,000	0.10	RM32,154,200/Issued as consideration for the Acquisitions	32,154,202

**Note:-**

<sup>^</sup> On 31 January 2012, our Company undertook a share split involving the subdivision of every one (1) existing ordinary share of RM1.00 each in the Company into ten (10) shares of RM0.10 each.

Our Company is principally an investment holding company, whereas our revenue is derived through our subsidiaries whose principal activities are summarised below:-

Company	Principal Activities
SCH Corporation	Investment holding
SCHWM	Manufacturing and distribution of quarry grill
SCHME	Supplying and distributing quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery to the quarry industry
Italiaworld	Supplying and distributing all kinds of quarry industrial products to the quarry industry in the South East Asia region mainly Singapore and Indonesia
SCHSB	Supplying and distributing all kinds of quarry industrial products and quarry machinery in the central region of peninsular Malaysia
SCH (Butterworth)	Distributing of all kinds quarry industrial products to the quarry industry in the northern region of peninsular Malaysia
SCH (Kuantan)	Distributing of all kinds quarry industrial products to the quarry industry in the eastern region of peninsular Malaysia
SCH (Johore)	Distributing of all kinds quarry industrial products to the quarry industry in the southern region of peninsular Malaysia
SCH (Sabah)	Distributing of all kinds quarry industrial products to the quarry industry in the north east of east Malaysia
SCH (Sarawak)	Distributing of all kinds of quarry industrial products to the quarry industry in the north west of east Malaysia

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### A. REVENUE

For the financial years under review, our revenue is mainly derived from the 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. Our Group is also involved in the manufacturing and distribution of quarry grill. Please refer to section 6 of this Prospectus for our Group's detailed business overview.

Our revenue from the sales of goods and services is measured at the fair value of the consideration receivable and is recognised when significant risk and rewards have been transferred to the buyer.

The following is the revenue analysis of our Group by subsidiaries/geographical segments and activities for the past four (4) years from FYEs 2010 to 2013.

#### (i) Analysis of revenue by subsidiaries/geographical segments

The breakdown of the revenue of our Group by subsidiaries is as follows:-

Companies	Geographical	<-----Proforma Group----->							
		FYE 2010		FYE 2011		FYE 2012		FYE 2013	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
SCH		-	-	-	-	-	-	-	-
SCH Corporation	Klang Valley	-	-	-	-	-	-	-	-
SCHSB*	Klang Valley	21,032	52.5	33,504	75.7	42,324	78.0	48,039	78.4
SCH (Butterworth)*	Penang	3,939	9.8	5,513	12.5	6,051	11.2	6,005	9.8
SCH (Kuantan)*	Pahang	4,885	12.2	6,206	14.0	7,699	14.2	8,376	13.7
SCH (Johore)*	Johore	2,968	7.4	2,987	6.7	3,976	7.3	4,416	7.2
SCH (Sabah)*	Sabah	4,426	11.1	4,024	9.1	4,437	8.2	3,875	6.3
SCH (Sarawak)*	Sarawak	1,475	3.7	1,571	3.5	2,682	4.9	2,532	4.1
Italiaworld	Singapore	2,202	5.5	2,993	6.8	2,396	4.5	3,047	5.0
SCHWM	Klang Valley	4,689	11.7	4,791	10.8	5,255	9.7	4,975	8.1
SCHME	Klang Valley	15,396	38.5	10,266	23.2	15,911	29.3	13,905	22.7
		<b>61,012</b>	<b>152.4</b>	<b>71,855</b>	<b>162.3</b>	<b>90,731</b>	<b>167.3</b>	<b>95,170</b>	<b>155.3</b>
Consolidation adjustment ^		(20,968)	(52.4)	(27,588)	(62.3)	(36,491)	(67.3)	(33,919)	(55.3)
<b>Total</b>		<b>40,044</b>	<b>100.0</b>	<b>44,267</b>	<b>100.0</b>	<b>54,240</b>	<b>100.0</b>	<b>61,251</b>	<b>100.0</b>

#### Notes:-

\* Subsidiaries of SCH Corporation.

^ The consolidation adjustments are in relation to the elimination of inter-company transactions within our Group.

Our Group's subsidiaries are located in various major states of Malaysia to have better regional coverage over the country. Our subsidiaries are located in various states where major quarry operators and end-users in the quarry industry are located. Our wide geographical coverage enables us to market our products in a more efficient and effective manner, with deeper understanding of the local market and site conditions of each region covered. In addition, our Group's operations in various regions allow us to provide timely deliveries to our customers, leading to higher levels of customer satisfaction.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### (ii) Analysis of revenue by activities

The breakdown of our Group's revenue by activities is as follows:-

	<-----Proforma Group----->							
	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Supply of quarry industrial products	19,627	49.0	18,872	42.6	23,894	44.0	27,072	44.2
Supply of quarry machinery, quarry equipment and reconditioned quarry machinery*	8,875	22.2	12,092	27.3	15,684	28.9	19,940	32.6
Supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery	6,705	16.7	8,129	18.4	8,986	16.6	8,418	13.7
Manufacturing and distribution of quarry grill	4,837	12.1	5,174	11.7	5,676	10.5	5,821	9.5
<b>Total</b>	<b>40,044</b>	<b>100.0</b>	<b>44,267</b>	<b>100.0</b>	<b>54,240</b>	<b>100.0</b>	<b>61,251</b>	<b>100.0</b>

#### Notes:-

\* The number of quarry machinery and quarry equipment sold are as follows:-

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Brand new quarry machinery and quarry equipment	25	27	39	44
Reconditioned quarry machinery <sup>(1)</sup>	5	2	6	3 <sup>(2)</sup>
<b>Total (units)</b>	<b>30</b>	<b>29</b>	<b>45</b>	<b>47</b>

(1) SCHME ventured into the supply and distribution of reconditioned hydraulic quarry machineries imported from Junjin CSM in FYE 2010.

(2) The decrease in number of units sold for reconditioned quarry machinery was mainly due to our Group's marketing strategy to promote the sales of new quarry machinery and quarry equipment.

Based on the above segmental analysis, our Group has four (4) sources of income stream. The supply of quarry industrial products is our Group's main revenue stream, representing 49.0%, 42.6%, 44.0% and 44.2% of our Group's total revenue for FYEs 2010, 2011, 2012 and 2013, respectively. The demand for our quarry industrial products from our existing customers is recurring in nature as most of the quarry industrial products have a short industrial useful life of approximately three (3) to six (6) months.

We have also successfully promoted and marketed several quarry machinery and quarry equipment brands under our distributorship rights as evident by the increasing number of units sold from FYE 2010 to FYE 2013. Further, we have also ventured into the reconditioned quarry machinery business segment since FYE 2010. The supply of quarry machinery, quarry equipment and reconditioned quarry machinery is our second largest revenue stream, representing 22.2%, 27.3%, 28.9% and 32.6% of our total revenue in FYEs 2010, 2011, 2012 and 2013, respectively.

The spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery business segment is the third largest contributor to our Group's total revenue in FYEs 2010, 2011, 2012 and 2013, respectively.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

In addition, the manufacturing and distribution of quarry grill business segment had contributed 12.1%, 11.7%, 10.5% and 9.5% of our Group's total revenue in FYEs 2010, 2011, 2012 and 2013, respectively.

### (iii) Commentaries on our revenue

#### FYE 2010

Our Group recorded total revenue of RM40.04 million for FYE 2010, 49.0% of which was contributed by the supply of quarry industrial products business segment. Our revenue recorded a marginal decrease of approximately RM0.56 million or 1.4%, from RM40.60 million during FYE 2009 to RM40.04 million, which was mainly due to the decrease in revenue generated from the manufacturing of quarry grill and supply of quarry industrial products business segments.

Revenue from the supply of quarry industrial products business segment decreased by RM1.62 million or 7.6%, from RM21.25 million in FYE 2009 to RM19.63 million in FYE 2010 due to our management's continuous efforts in growing the supply of quarry machinery, quarry equipment and reconditioned quarry machinery business segment.

The supply of quarry machinery, quarry equipment and reconditioned quarry machinery business segment represents our Group's second largest revenue contributor for FYE 2010. Revenue from this segment increased by approximately RM0.46 million or 5.5% from RM8.42 million in FYE 2009 to RM8.88 million in FYE 2010. The increase was mainly due to continuous support and good response from our customers for the quarry machinery and quarry equipment that we supply. Our Group had sold approximately twenty-five (25) units of brand new quarry machinery and quarry equipment. In FYE 2010, our Group was appointed as the authorised distributor by Ryoko Sangyo Corporation, a trading arm of Mitsubishi, to distribute quarry industrial products such as the Mitsubishi rock tools and drilling equipment. This new distributorship rights is a result of our Group's continuous effort to grow this business segment. We also ventured into the supply of reconditioned quarry machinery business segment in FYE 2010, and successfully sold five (5) units of reconditioned quarry machinery during the financial year.

Revenue from the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery increased by RM3.10 million or 85.9% to RM6.71 million in FYE 2010 from RM3.61 in FYE 2009, which is in line with the increase in number of quarry machinery and quarry equipment sold.

During FYE 2010, revenue from the manufacturing of quarry grill business segment decreased by approximately RM2.49 million or 34.0% from RM7.33 million in FYE 2009 to RM4.84 million in FYE 2010. This was mainly due to competitive pricing pressure on this business segment, as our competitors had resorted to reducing their selling prices to counter for increased competition in the quarry grill market. Despite our competitors' pricing strategy, our Group had decided to maintain our selling prices in order not to undermine the quality of our products. Our management at that point of time had taken a longer term view to protect our reputation as a supplier of quality quarry grills and hence did not participate in the price reduction. This commercial decision stems from our management's views that the situation is only temporary as the quarry grill market would eventually consolidate and the pricing of quarry grills would normalise to its original price levels. During FYE 2012, the overall quarry grill market began to normalise, and this business segment recorded a 9.70% growth or increase by RM0.50 million in revenue from FYE 2011.

#### FYE 2011

Our Group's overall revenue increased by approximately RM4.23 million or 10.6% from RM40.04 million in FYE 2010 to RM44.27 million in FYE 2011. The increase was mainly contributed by the increase in the supply of quarry machinery, quarry equipment and reconditioned quarry

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*Cont'd*)

machinery as well as the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery.

FYE 2011 saw the commencement of various major construction projects in Malaysia such as the Mass Rapid Transit ("MRT"), Low Cost Carrier Terminal ("KLIA 2") and the second (2<sup>nd</sup>) Penang Bridge project, which required huge quantity of building materials such as aggregates, limestone, sand and gravel. The increase in demand for such building materials arising from these construction projects had contributed to a favourable growth in the overall quarry industry especially in the Klang Valley and northern region of peninsular Malaysia.

Furthermore, our Group has successfully penetrated our products into the mining industry by supplying our quarry industrial products and quarry machinery to an iron ore mining operator located in Kuantan, Pahang Darul Makmur.

As a result of the increase in demand from the quarry industry for construction-based materials and the overall growth in the iron ore mining industry, revenue from the supply of quarry machinery, quarry equipment and reconditioned quarry machinery business segment increased by approximately RM3.21 million or 36.2%, from RM8.88 million in FYE 2010 to RM12.09 million in FYE 2011. During FYE 2011, a total of twenty-nine (29) units of quarry machinery and quarry equipment were sold, of which twenty-seven (27) were brand new quarry machinery and quarry equipment, and the balance two (2) units were reconditioned quarry machinery. Although the total number of quarry machinery and quarry equipment sold had decreased marginally by only one (1) unit during FYE 2011 (from 30 units sold in FYE 2010), our Group has however recorded an increase in revenue contribution from this business segment as more brand new quarry machinery and quarry equipment sold in FYE 2011 compared to FYE 2010.

The revenue generated from the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery business segment also increased by approximately RM1.42 million or 21.2% from RM6.71 million in FYE 2010 to RM8.13 million in FYE 2011, which was in line with the additional number of units of quarry machinery and quarry equipment sold.

The supply of quarry industrial products and manufacturing and distribution of quarry grill business segments have remained relatively stable, with marginal deviation in their respective revenue contributions during FYE 2011. Revenue generated from the supply of quarry industrial products business segment reported a marginal decrease of 3.8% as compared to FYE 2010, while the manufacturing and distribution of quarry grill business segment registered a marginal increase in revenue of approximately RM0.33 million or 7.0% from RM4.84 million in FYE 2010 to RM5.17 million in FYE 2011.

### **FYE 2012**

During FYE 2012, our Group's overall revenue increased by RM9.97 million or 22.5% from RM44.27 million in FYE 2011 to RM54.24 million in FYE 2012. The overall increase in revenue was mainly attributable to the continuing demand of quarry industrial products, quarry machinery and quarry equipment arising from various major construction projects such as the MRT, KLIA 2 and 2<sup>nd</sup> Penang Bridge projects, which commenced in FYE 2011.

During FYE 2012, several strategic infrastructure projects under Brunei's National Development Plan 2007-2012, such as the construction and modernisation of Brunei International Airport Terminal implemented by the Brunei authority had also contributed to the overall growth in the quarry industry in East Malaysia. The increase in demand for building material arising from these construction projects had contributed to the increase in the overall demand for various quarry industrial products and reconditioned quarry machinery in East Malaysia. As a result of the above developments in East Malaysia, SCH (Sarawak) and SCH (Sabah) have collectively recorded an increase in revenue by 27.2% in FYE 2012 from the sales of quarry industrial products and reconditioned quarry machineries.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

In addition, Indonesia aims to boost up its investment in domestic ore processing by imposing a 20.0% tax on the export of metal ore from Indonesia. As a result, several quarry operators from Singapore have shifted their quarrying operations from Indonesia to Johor, Malaysia. Due to the overall growth in the quarry industry in Johor arising from new quarry sites being set up, SCH (Johor) recorded an increase in revenue by 33.1% in FYE 2012 from the sales of quarry industrial products, quarry machinery and quarry equipment.

As a result of favourable growth in the overall quarry industry as mentioned above, as well as our Group's continuous marketing effort to penetrate into the quarry industry, all of our business segments recorded commendable growth in FYE 2012.

During FYE 2012, revenue from the supply of quarry industrial products increased by RM5.02 million or 26.6% from RM18.87 million in FYE 2011 to RM23.89 million in FYE 2012.

Revenue generated from the supply of quarry machinery, quarry equipment and reconditioned quarry machinery business segment also increased by RM3.59 million or 29.7% from RM12.09 million in FYE 2011 to RM15.68 million in FYE 2012. We sold forty-five (45) units of quarry machinery (39 units of brand new quarry machinery and quarry equipment, and 6 units of reconditioned quarry machinery) as compared to twenty-nine (29) units sold in FYE 2011.

In tandem with the increase in the number of quarry machinery, quarry equipment and reconditioned quarry machinery sold, revenue generated from the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery business segment had also increased by RM0.86 million or 10.5% from RM8.13 million in FYE 2011 to RM8.99 million in FYE 2012.

Revenue generated from the manufacturing and distribution of quarry grill business segment had also increased by approximately RM0.51 million or 9.7% from RM5.17 million in FYE 2011 to RM5.68 million in FYE 2012. The increase in revenue was contributed from the sales of our new "Diamond Shape" quarry grill design, which was developed internally by our Group and we are currently in the midst of applying for patent rights.

### FYE 2013

During FYE 2013, our Group's overall revenue further increased by RM7.01 million or 12.9% from RM54.24 million in FYE 2012 to RM61.25 million in FYE 2013. The increase in revenue was mainly contributed from the continuous growth in revenue from the supply of quarry industrial products and supply of quarry machinery, quarry equipment and reconditioned quarry machinery. The revenue from the supply of quarry industrial products business segment increased by approximately RM3.18 million or 13.3% from RM23.89 million in FYE 2012 to RM27.07 million in FYE 2013. The increase in revenue was mainly attributable from the favourable growth in the overall quarry industry arising from the various major long term construction projects such as the MRT and 2<sup>nd</sup> Penang Bridge projects, which commenced works in FYE 2011 as well as the overall growth in the residential development projects.

The revenue generated from the supply of quarry machinery, quarry equipment and reconditioned quarry machinery increased by approximately RM4.26 million or 27.1% million from RM15.68 million in FYE 2012 to RM19.94 million in FYE 2013. Due to further growth within the quarry industry, our Group managed to sell forty-seven (47) units of quarry machinery (44 units of brand new quarry machinery and quarry equipment, and 3 units of reconditioned quarry machinery) as compared to forty-five (45) units sold in FYE 2012.

The overall improvement in the quarry industry had also contributed marginal increase of our revenue from manufacturing and distribution of quarry grill by approximately RM0.14 million or 2.6% as compared to FYE 2012.



## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

However, our revenue from the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery decreased by approximately RM0.57 million or 6.3% from RM8.99 million in FYE 2012 to RM8.42 million in FYE 2013 mainly due to our Group's marketing strategy to strengthen our quarry machinery branding by packaging certain spare part for quarry machinery, quarry equipment and reconditioned quarry machinery at a lower selling price to encourage our regular customers to purchase additional units of quarry machinery and quarry equipment.

### B. COST OF SALES

Overall, our cost of sales has trended in tandem with our revenue level for the financial years under review:-

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Revenue (RM'000)	40,044	44,267	54,240	61,251
Increase	N/A	10.5%	22.5%	12.9%
Cost of sales (RM'000)	26,939	28,689	34,429	39,917
Increase	N/A	6.5%	20.0%	15.9%

#### (i) Analysis of cost of sales by subsidiaries/geographical segments

The breakdown of our Group's cost of sales by subsidiaries is as follows:-

Companies	Geographical	Proforma Group							
		FYE 2010		FYE 2011		FYE 2012		FYE 2013	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
5CH		-	-	-	-	-	-	-	-
5CH Corporation	Klang Valley	-	-	-	-	-	-	-	-
5CH5B*	Klang Valley	16,042	59.6	25,452	88.7	31,985	92.9	36,684	91.9
5CH (Butterworth)*	Penang	3,253	12.1	4,604	16.0	5,290	15.4	5,014	12.6
5CH (Kuantan)*	Pahang	4,018	14.9	5,105	17.8	6,441	18.7	6,896	17.3
5CH (Johore)*	Johore	2,552	9.5	2,668	9.3	3,603	10.5	3,959	9.9
5CH (Sabah)*	Sabah	3,729	13.8	3,416	11.9	3,679	10.7	3,293	8.2
5CH (Sarawak)*	Sarawak	1,270	4.7	1,418	4.9	2,317	6.7	2,249	5.6
Italiaworld	Singapore	1,863	6.9	2,457	8.6	1,955	5.7	2,417	6.1
5CHWM	Klang Valley	3,841	14.3	3,752	13.1	3,905	11.3	3,997	10.0
5CHME	Klang Valley	11,487	42.6	7,244	25.4	11,645	33.8	9,716	24.3
		<b>48,055</b>	<b>178.4</b>	<b>56,116</b>	<b>195.7</b>	<b>70,820</b>	<b>205.7</b>	<b>74,225</b>	<b>185.9</b>
Consolidation adjustment^		(21,116)	(78.4)	(27,427)	(95.7)	(36,391)	(105.7)	(34,308)	(85.9)
<b>Total</b>		<b>26,939</b>	<b>100.0</b>	<b>28,689</b>	<b>100.0</b>	<b>34,429</b>	<b>100.0</b>	<b>39,917</b>	<b>100.0</b>

#### Notes:-

\* Subsidiaries of SCH Corporation.

^ The consolidation adjustments are in relation to the elimination of inter-company transactions within our Group.

The marked decrease in SCHME's cost of sales of 36.9% or RM4.25 million, from RM11.49 million in FYE 2010 to RM7.24 million in FYE 2011, was in line with a 33.3% decrease in revenue generated by 5CHME in FYE 2011. During FYE 2011, 5CHME sold only seven (7) brand new quarry machinery and quarry equipment as compared to twenty-two (22) units sold by 5CH5B) during FYE 2011.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

In FYE 2012, SCHME's sales rebounded by 55.0%, leading to a corresponding increase in its cost of sales by 60.8% from FYE 2011. SCHME sold a total of 31 quarry machinery and quarry equipment in FYE 2012 as compared to only 14 units sold by SCHSB.

In FYE 2013, SCHME's sales decreased by 12.6%, leading to a corresponding decrease in its cost of sales by 16.6% from FYE 2012. SCHME sold a total of ten (10) quarry machinery and quarry equipment as compared to thirty-seven (37) units sold by SCHSB during FYE 2013.

### (ii) Analysis of cost of sales by activities

The breakdown of the cost of sales by activities is as follows:-

	<-----Proforma Group----->							
	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Supply of quarry industrial products	12,582	46.7	11,917	41.5	14,873	43.2	17,402	43.6
Supply of quarry machinery, quarry equipment and reconditioned quarry machinery	5,865	21.8	7,210	25.1	9,252	26.9	12,341	30.9
Supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery	4,832	17.9	5,810	20.3	6,399	18.6	6,177	15.5
Manufacturing and distribution of quarry grill	3,660	13.6	3,752	13.1	3,905	11.3	3,997	10.0
<b>Total</b>	<b>26,939</b>	<b>100.0</b>	<b>28,689</b>	<b>100.0</b>	<b>34,429</b>	<b>100.0</b>	<b>39,917</b>	<b>100.0</b>

Our cost of sales for our trading activities mainly consists of the following:-

- (a) Purchases of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery as well as its related spare parts. Collectively, these purchases represent approximately 86.4%, 86.9%, 88.7% and 90.0% of our total cost of sales in FYEs 2010, 2011, 2012 and 2013, respectively; and
- (b) Direct expenses, which mainly relates to transportation fees, insurance charges/payments, commissioning and other miscellaneous costs incurred by our Group. These represent approximately 5% to 8% of our Group's total purchases for the quarry industrial products, quarry machinery, quarry equipment and its related spare parts.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The breakdown of the cost of sales for our manufacturing activities is as follows:-

	<-----Proforma Group----->							
	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw material consumed	2,793	76.3	2,615	69.7	2,695	69.0	2,551	63.8
Direct labour costs*	202	5.5	422	11.2	459	11.8	504	12.6
Factory overheads	665	18.2	715	19.1	751	19.2	942	23.6
<b>Total</b>	<b>3,660</b>	<b>100.0</b>	<b>3,752</b>	<b>100.0</b>	<b>3,905</b>	<b>100.0</b>	<b>3,997</b>	<b>100.0</b>

**Note:-**

\* The increase in direct labour costs was mainly due to the reclassification of the foreign worker wages of approximately RM0.21 million being reclassified from administrative expenses to cost of sales in FYE 2011.

The raw materials used for our manufacturing activities mainly consist of high carbon steel wire and mild steel plate used to produce various sizes of quarry grill. In FYE 2011, we enjoyed a pick-up in gross margin from the manufacturing and distribution of quarry grill business segment, which recorded a gross margin of 27.5% in FYE 2011 *vis-à-vis* 24.3% in FYE 2010. The increase in margin was mainly due to a decrease in the cost of raw materials consumed in FYE 2011 arising from an overall decrease in high carbon steel prices, coupled with improvement in our manufacturing efficiencies. In FYE 2010, the price of high carbon steel was RM3,120 per tonne as compared to RM3,080 per tonne in FYE 2011. Based on the 1.3% decrease in carbon steel prices, coupled with improvement of the manufacturing efficiencies of our machineries for the manufacturing of quarry grill, our Group recorded a reduction in raw material consumed by 6.37% or RM0.17 million, from RM2.79 million during FYE 2010 to RM2.62 million during FYE 2011. Our purchase of a unit of crimping machinery during FYE 2011 had minimised wastage of carbon steel wire and mild steel plate used in the manufacturing process of quarry grills, thus improving our overall manufacturing efficiencies in FYE 2011. In FYE 2013, the decrease in raw material consumed by RM0.15 million or 5.34% as compared to FYE 2012 was mainly due to the two (2) units of crimping machinery acquired in FYE 2013 resulting in further improvement of the manufacturing efficiencies while the increase in factory overhead was mainly due to the increase in depreciation charge for the year.

Direct labour costs consist of salaries, bonuses, social insurance and other staff benefits, which are directly involved in our manufacturing activities while factory overhead consist of rental, repair and maintenance, depreciation of plant and equipment and other general overhead expenses.

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## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### C. GROSS PROFIT ("GP") AND GP MARGIN

The following is the GP and GP margin of our Group by subsidiaries/geographical segments and activities for the past four (4) years from FYEs 2010 to 2013.

#### (i) Analysis of GP by subsidiaries/geographical segments

The breakdown of GP by each of our subsidiaries/geographical segments is as follows:-

Companies	Geographical	<-----Proforma Group----->							
		FYE 2010		FYE 2011		FYE 2012		FYE 2013	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
5CH		-	-	-	-	-	-	-	-
5CH Corporation	Klang Valley	-	-	-	-	-	-	-	-
5CH5B*	Klang Valley	4,990	38.1	8,052	51.7	10,341	52.2	11,355	53.3
5CH (Butterworth)*	Penang	686	5.2	909	5.8	761	3.8	991	4.6
SCH (Kuantan)*	Pahang	867	6.6	1,101	7.1	1,258	6.4	1,480	6.9
SCH (Johore)*	Johore	416	3.2	319	2.0	373	1.9	457	2.1
5CH (Sabah)*	Sabah	697	5.3	608	3.9	758	3.8	582	2.7
5CH (Sarawak)*	Sarawak	205	1.6	153	1.0	364	1.8	283	1.4
Italiaworld	Singapore	339	2.6	536	3.4	441	2.2	630	3.0
5CHWM	Klang Valley	848	6.5	1,039	6.7	1,350	6.8	978	4.6
5CHME	Klang Valley	3,909	29.8	3,022	19.4	4,265	21.6	4,189	19.6
		<b>12,957</b>	<b>98.9</b>	<b>15,739</b>	<b>101.0</b>	<b>19,911</b>	<b>100.5</b>	<b>20,945</b>	<b>98.2</b>
Consolidation adjustment <sup>^</sup>		148	1.1	(161)	(1.0)	(100)	(0.5)	389	1.8
<b>Total</b>		<b>13,105</b>	<b>100.0</b>	<b>15,578</b>	<b>100.0</b>	<b>19,811</b>	<b>100.0</b>	<b>21,334</b>	<b>100.0</b>

#### Notes:-

\* Subsidiaries of SCH Corporation.

<sup>^</sup> The consolidation adjustments are in relation to provision/reversal of unrealised profit arising from unsold stocks in our Group.

The GP for SCHSB increased by RM3.06 million or 61.4% from RM4.99 million in FYE 2010 to RM8.05 million in FYE 2011, increased by RM2.29 million or 28.4% in FYE 2012 and further increased by RM1.02 million or 9.8% in FYE 2013 to RM11.36 million. Such increase was mainly due to the increase in the number of quarry machinery, quarry equipment and quarry industrial products sold during each of the financial years.

The GP for SCHME decreased by RM0.89 million or 22.7% from RM3.91 million in FYE 2010 to RM3.02 million in FYE 2011. This was due to the lesser number of quarry machinery and quarry equipment sold. During FYE 2011, more orders of quarry machinery and quarry equipment were commissioned under SCHSB. SCHME sold only seven (7) brand new quarry machinery and quarry equipment as compared to twenty-two (22) units sold by SCHSB. The GP for SCHME increased by RM1.25 million or 41.1% from RM3.02 million in FYE 2011 to RM4.27 million in FYE 2012 due to the increase in number of quarry machinery and quarry equipment sold - SCHME sold a total of thirty-one (31) quarry machinery and quarry equipment in FYE 2012 as compared to only fourteen (14) units sold by SCHSB.

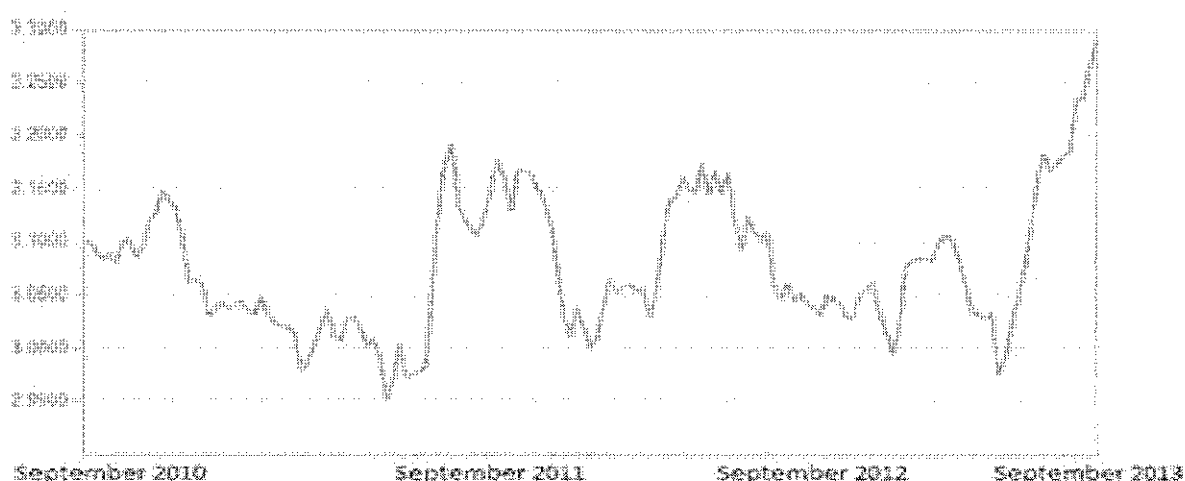
In FYE 2013, the GP for SCHME decreased by RM0.08 million or 1.8% due to the lesser number of quarry machinery and quarry equipment sold. During FYE 2013, more orders of quarry machinery and quarry equipment were commissioned under SCHSB. SCHME sold a total of ten (10) units of quarry machinery, quarry equipment and reconditioned quarry machinery, as compared to thirty-seven (37) units sold by SCHSB.

**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)****(ii) Analysis of GP and GP margin by activities**

The breakdown of our GP and GP margin of our activities is as follows:-

Activities	<-----Proforma Group----->											
	FYE 2010			FYE 2011			FYE 2012			FYE 2013		
	RM'000	% of GP	GP margin %	RM'000	% of GP	GP margin %	RM'000	% of GP	GP margin %	RM'000	% of GP	GP margin %
Supply of quarry industrial products	7,045	53.8	35.9	6,955	44.7	36.9	9,021	45.5	37.8	9,671	44.9	35.7
Supply of quarry machinery, quarry equipment and reconditioned quarry machinery	3,010	23.0	33.9	4,882	31.3	40.4	6,432	32.5	41.0	7,599	35.6	38.1
Supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery	1,873	14.2	27.9	2,319	14.9	28.5	2,587	13.1	28.8	2,241	10.5	26.6
Manufacturing and distribution of quarry grill	1,177	9.0	24.3	1,422	9.1	27.5	1,771	8.9	31.2	1,823	9.0	31.3
<b>Total</b>	<b>13,105</b>	<b>100.0</b>	<b>32.7</b>	<b>15,578</b>	<b>100.0</b>	<b>35.2</b>	<b>19,811</b>	<b>100.0</b>	<b>36.5</b>	<b>21,334</b>	<b>100.0</b>	<b>34.8</b>

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)



The GP margin for the trading activities of our Group, i.e. the supply of quarry Industrial products, supply of quarry machinery, quarry equipment and reconditioned quarry machinery, as well as its related spare parts has been improving due to the following reasons:-

- (a) Our Group was able to enjoy greater savings and better discounts from bulk purchases made from overseas suppliers. In addition, the strengthening of RM against USD from FYE 2010 through 2013 (save for the period from August 2011 to January 2012, May 2012 to August 2012 and June 2013 to August 2013, whereby the USD had strengthened briefly during that period) has also benefited our Group in terms of cost savings for the bulk purchases of various quarry industrial products. Our Group has made bulk purchases over the past four (4) FYEs 2010 to 2013 to ensure that we have sufficient and readily available inventories of quarry industrial products to minimise disruptions and hence enabling our customers to have smooth quarrying process and operations; and
- (b) The GP margin for the supply of quarry machinery, quarry equipment and reconditioned quarry machinery business segment increased from 33.9% in FYE 2010 to 41.0% in FYE 2012, due to better awareness and market acceptance by the quarry industry of our Group's range of quarry industrial products, quarry machinery and quarry equipment, as well as its related spare parts. This has enabled us to market our products at the targeted selling price.
- (c) Our Group was also granted a credit term of 150 days to 180 days from our foreign quarry machinery and quarry equipment suppliers in FYE 2013. Our Group has previously utilised financing facilities to fully repay our foreign suppliers prior to the delivery of quarry machinery. With the credit term granted, our Group is able to obtained further cost saving by timing our repayment within the credit term when the rates are favourable.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

### (iii) Commentaries on our GP and GP margin

#### FYE 2010

For FYE 2010, our Group recorded an overall GP of RM13.11 million and a GP margin of 32.7%. The supply of quarry industrial products business segment which enjoyed a GP margin of 35.9% had contributed 53.8% of our Group's overall GP. Due to bulk purchases made for various quarry industrial products, we were able to enjoy greater savings and better discounts from our overseas suppliers.

Continuous marketing efforts for our quarry machinery, quarry equipment and reconditioned quarry machinery business segment, aimed to create better market awareness and acceptance by the quarry industry, has enabled our Group to better penetrate into quarry industry. As a result of such marketing efforts, we were able to increase our sales of quarry machinery, quarry equipment and reconditioned quarry machinery at our targeted selling price. Collectively, the supply of quarry machinery, quarry equipment and reconditioned quarry machinery business segment, which enjoyed a GP margin of 33.9% had contributed a substantial 23.0% of our Group's total GP.

Our GP for the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery contributed 14.2% of our Group's total GP with a GP margin of 27.9%. The GP arising from our manufacturing and distribution of quarry grill business segment amounted to RM1.18 million, representing 9.0% of our Group's overall GP, with a GP margin of 24.3%.

Spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery as well as quarry grill are consumable items with lifespan of less than six (6) months, and require regular replacement depending on the hours of usage due to extensive wear and tear. Hence, the demand for our spare parts and quarry grill are repetitive and constant in nature. As consumables, these spare parts and quarry grill carry a lower GP margin as compared to the GP margin of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery.

The manufacturing and distribution of quarry grill business segment contributed approximately 9.0% with GP margin of 24.3%, represents the lowest GP margin as compared to our other business segments. Nevertheless, the inclusion of the manufacturing and distribution of quarry grills business segment to our Group's product range is important for us to be a specialised and integrated one stop distribution centre of a wide range of quarry products. We manufacture our quarry grills as part of our product offering in order to better control the quality of quarry grills supplied and ensure reliable supply to our customers in the quarry industry.

#### FYE 2011

Our continuous marketing efforts since FYE 2010 to create better awareness and increasing market acceptance by the quarry industry for our product range in FYE 2011, with the increase in sales of quarry machinery and quarry equipment at our targeted selling price. Furthermore, as most of our quarry industrial products, quarry machinery, quarry equipment and its related spare parts are purchased from foreign suppliers and transacted in USD, the continued strengthening of RM against USD during FYE 2011 has reduced the cost of our foreign imports as well as the discount and price incentives given by our foreign suppliers for bulk purchases.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

In FYE 2011, carbon steel prices (a major raw material used in the manufacturing of quarry grill), decreased by 1.3% from RM3,120 per tonne in FYE 2010 to RM3,080 per tonne in FYE 2011. This contributed to the improvement in GP margin of the manufacturing and distribution of quarry grill business segment from 24.3% in FYE 2010 to 27.5% in FYE 2011. Furthermore, during FYE 2011, we also saw improvement in efficiency resulting from the replacement of older machinery used in the production of quarry grill, thereby reducing wastages and cost of sales.

### FYE 2012

Our Group's overall GP continued to increase by approximately RM4.23 million or 27.2%, from RM15.58 million in FYE 2011 to RM19.81 million in FYE 2012. In terms of GP margin, our Group's overall GP margin increased marginally by 1.3 percentage points to 36.5% from 35.2% in FYE 2011. As such, the overall increase in GP was mainly due to higher level of revenue generated during the said financial year. During the financial year, all of our business segments saw slight increase of less than 1% percentage points in their respective GP margin with the exception of the manufacturing and distribution of quarry grill business segment which recorded the highest increase in GP margin by 3.7 percentage points to 31.2% from 27.5% in FYE 2011.

During FYE 2012, we changed our inventory procurement strategy i.e. stocking-up in advance in anticipation of an increase in the demand for our range of quarry industrial products, brand new quarry machinery and quarry equipment. This is in view of the prospects of growing demand for quarry-based materials to support the booming construction industry, as outlined under the Malaysian Government's Economic Transformation Programme ("ETP"). Our strategy to making bulk purchases in advance is intended to shorten delivery time and minimise disruption to our customers' quarrying process. As most of our quarry industrial products, quarry machinery, quarry equipment and its related spare parts are purchased from foreign suppliers and transacted in USD, the continued strengthening of RM against USD during FYE 2011 has reduced the cost of our foreign imports, in addition to the discount and price incentives given by foreign suppliers for bulk purchases made. The GP margin from the supply of quarry industrial products increased by 0.9 percentage points to 37.8% while the GP margin from the supply of quarry machinery, quarry equipment and reconditioned quarry machinery increased by 0.6 percentage points to 41.0%.

The GP margin for the manufacturing and distribution of quarry grill business segment increased from 27.5% in FYE 2011 to 31.2% in FYE 2012 due to lower carbon steel prices coupled with discount given by suppliers for bulk purchases of carbon steel wires. As a result, the average price of carbon steel wires reduced from approximately RM3,200 per tonne to RM2,900 per tonne during the period under review. Further, the increase in GP margin was also due to higher selling price for our new "Diamond Shape" quarry grill design, which was launched in FYE 2012 to expand our range of quarry grills offerings.

The GP margin for the supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery remained almost consistent for FYE 2012.

### FYE 2013

Our Group's overall GP continued to increase by approximately RM1.52 million or 7.7%, from RM19.81 million in FYE 2012 to RM21.33 million in FYE 2013. Despite the increase in GP, our Group's overall GP margin decreased marginally to 34.8% from 36.5% in FYE 2012 which was mainly due to the implementation of our Group's marketing strategy to offer our quarry industrial product, quarry machinery, quarry equipment and reconditioned quarry machinery as well as spare part for quarry machinery and quarry machinery at the competitive price in order to improve/increase our market position within quarry industry from other competitors.



## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The decrease in GP margin for supply of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery and supply of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery was mainly due to the following:-

- (a) the increase in selling price (approximately 2% - 3%) by our foreign suppliers. Nevertheless, our Group has decided to maintain our selling price despite the increased in cost as part of our marketing strategy to strengthen our market position; and
- (b) the GP margin for the spare parts for quarry machinery, quarry equipment decreased marginally mainly due to our Group's marketing strategy to strengthen our quarry machinery branding by packaging certain spare part for quarry machinery, quarry equipment and reconditioned quarry machinery at a lower selling price to encourage our regular customers to purchase additional units of quarry machinery and quarry equipment.

The GP margin for the manufacturing and distribution of quarry grill business segment remained consistent for FYE 2013.

### D. OTHER OPERATING INCOME

Other operating income of our Group comprises mainly the following:-

	<-----Proforma Group----->							
	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Fixed deposit interest income	31	3.2	37	3.8	43	4.0	53	9.5
Gain on disposal of assets	-	-	21	2.1	201	18.8	276	49.1
Gain on disposal of other investment	12	1.2	155	15.6	208	19.5	-	-
Recovery of bad debts	565	57.4	372	37.5	477	44.7	14	2.5
Rental income on quarry machinery	272	27.7	144	14.5	74	6.9	116	20.6
Sales tax refund	-	-	202	20.4	-	-	-	-
Others	104	10.5	61	6.1	65	6.1	103	18.3
<b>Total</b>	<b>984</b>	<b>100.0</b>	<b>992</b>	<b>100.0</b>	<b>1,068</b>	<b>100.0</b>	<b>562</b>	<b>100.0</b>

#### (i) Commentaries on our other operating income

Our Group recorded other operating income of approximately RM0.98 million, RM0.99 million, RM1.07 million and RM0.56 million, for the FYEs 2010, 2011, 2012 and 2013, respectively.

#### FYE 2010

For FYE 2010, our Group's other operating income amounted to RM0.98 million and mainly consists of the recovery of bad debts of approximately RM0.57 million and rental income of RM0.28 million, respectively.

The recovery of bad debts amounted to approximately RM0.57 million were from five (5) customers, whose amount outstanding which were written-off in the prior year. Our Group's policy in FYE 2010 was such that trade debts with ageing of above 180 days (normal credit terms of 150 to 180 days) are provided for/written-off in our accounts. These provisions are subsequently reversed upon actual collections. Our credit terms of 150 days to 180 days for trade debts reflect the industry norm. We have since realigned this trade collection policy in accordance with the relevant Financial Reporting Standards where we review the collectability of

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

amount due from our customers on an individual/collective basis to ensure better provisioning estimates.

In addition, our rental income on quarry machinery was mainly derived from the rental of one (1) unit of cone crusher and Nakayama VSI SR120C to a customer for RM0.07 million per annum and RM0.15 million per annum, respectively.

### FYE 2011

Our Group's other operating income increased marginally by approximately RM0.01 million or by 0.8% from RM0.98 million in FYE 2010 to RM0.99 million in FYE 2011. Such operating income mainly comprise the recovery of bad debts of RM0.38 million, one-off income such as gain on disposal of RM0.18 million and sales tax refund of RM0.20 million.

We had recovered bad debts of approximately RM0.38 million during FYE 2011, which the outstanding amount was earlier written-off in the prior year according to our trade collection policy.

During FYE 2011, we disposed of our unit trust investments (Prudential Unit Trust) resulting in an one-off gain on disposal of approximately RM0.16 million.

Our Group had applied for the sales tax exemption to the Royal Malaysian Customs Department of Malaysia ("Kastam") in February 2009, which approval was obtained in FYE 2011. Pursuant to Kastam's approval, quarry grills produced by our Group are exempted from sales tax for the period effective from 26 May 2009 to 25 May 2012. As such, we received a sales tax refund amounted to RM0.20 million from Kastam in FYE 2011 for sales tax which we have paid prior to obtaining Kastam's approval. The sales tax exemption was subsequently renewed by Kastam for a period of three (3) years, effective from 26 May 2012 to 27 May 2014.

### FYE 2012

For FYE 2012, our Group's other operating income increased by approximately RM0.08 million or by 7.7% from RM0.99 million in FYE 2011 to RM1.07 million in FYE 2012. Such operating income mainly comprise the recovery of bad debts of RM0.48 million and one-off income such as gain on disposal of RM0.41 million.

We recovered a bad debt of approximately RM0.48 million during FYE 2012, which its outstanding amount was earlier written-off in the prior year according to our trade collection policy.

During FYE 2012, we disposed off five (5) units of motor vehicles which resulted in a gain on disposal of assets of approximately RM0.20 million. In addition, we also disposed off our unit trust investments (Prudential Unit Trust) giving rise to a one-off gain on disposal of approximately RM0.21 million.

### FYE 2013

For FYE 2013, our Group's other operating income decreased by approximately RM0.51 million or by 47.4% from RM1.07 million in FYE 2012 to RM0.56 million in FYE 2013. The decrease in other income was mainly due to the bad debts recovered from the previous financial year. The decrease in the bad debts recovered was mainly due to the realignment of the trade collection policy in accordance with the relevant Financial Reporting Standards in FYE 2010.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

During FYE 2013, our other operating income comprised mainly of rental income from leasing of one (1) unit of cone crusher quarry machinery for RM0.12 million per annum, representing 20.3% of the total other operating income for the financial year.

Our Group had also traded-in four (4) units of motor vehicles to a car dealer which resulted in a gain on disposal of assets of approximately RM0.28 million.

### E. OPERATING EXPENSES AND FINANCE COSTS

The components of our operating expenses and finance costs are as follows:-

	<-----Proforma Group----->							
	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertisement and promotions	243	2.6	41	0.4	13	0.1	30	0.3
Auditors' remuneration	55	0.6	55	0.6	67	0.6	141	1.1
Provision for doubtful debts and bad debts written off	188	2.0	329	3.3	51	0.5	123	1.1
Commissions	457	4.8	284	2.9	580	5.5	358	3.1
Depreciation of plant and equipment	985	10.3	1,246	12.6	1,362	12.8	1,632	14.3
Directors' remuneration	928	9.7	968	9.8	1,084	10.2	1,028	9.0
Entertainment	66	0.7	135	1.4	165	1.6	138	1.2
Finance costs	820	8.6	1,132	11.4	1,146	10.8	942	8.7
Insurance	207	2.2	238	2.4	326	3.1	293	2.6
Loss on disposal of property, plant and equipment	286	3.0	16	0.2	3	0.0	-	-
Office expenses	508	5.3	485	4.9	1,016	9.6	938	8.2
Professional fee	293	3.1	419	4.2	73	0.7	173	1.5
Staff costs	2,868	30.1	2,881	29.1	2,706	25.5	3,266	28.6
Travelling and accommodation	934	9.8	1,004	10.2	1,146	10.8	1,141	10.0
Other miscellaneous expenses	683	7.2	654	6.6	880	8.2	1,239	10.3
<b>Total</b>	<b>9,521</b>	<b>100.0</b>	<b>9,887</b>	<b>100.0</b>	<b>10,618</b>	<b>100.0</b>	<b>11,442</b>	<b>100.0</b>

#### (i) Commentaries on our operating expenses and finance costs

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Operating expense and finance cost (RM'000)	9,521	9,887	10,618	11,442
Operating expense ratio*	23.8%	22.3%	19.6%	18.7%

**Note:-**

\* Calculated based on expenses and finance costs as a proportion of revenue

Based on the above analysis, our operating efficiencies have improved over the financial years under review, as evident by the gradual decline in operating expense ratio from 23.8% in FYE 2010 to 18.7% in FYE 2013.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

### FYE 2010

Our Group's operating expenses largely comprised staff cost and director's remuneration (collectively, 39.8%), depreciation (10.3%) and travelling and accommodation expenses (9.8%).

Our Group had incurred a one-off advertising and promotional expenses via billboard advertising to promote the Junjin CSM quarry machinery targeted at the quarry industry in FYE 2010. Hence, higher advertising fees and promotional expenses were incurred for the financial year under review as compared to the years following FYE 2010.

During FYE 2010, we disposed off two (2) units of Nakayama quarry machinery to Syarikat Gemilang Sdn Bhd upon the expiry of the lease term, resulting in a one-off loss on disposal of approximately RM0.21 million. These two (2) units of Nakayama quarry machinery were previously rented to our customers for a total rental income of RM0.74 million. Both of these quarry machinery were leased to our customers without any commitment to subsequently purchase the quarry machinery. All risk and rewards are retained by our Group throughout the leased period.

Miscellaneous expenses mainly comprised donations to charitable organisations, printing and stationery expenses, travelling allowances for administrative staff and staff welfare expenses. The increase in miscellaneous expenses was mainly due to increase in staff welfare, which we have incurred as part of our staff retention strategy, particularly when our Group has achieved better business performance as compared to previous financial year.

### FYE 2011

During FYE 2011, our Group's overall operating expenses and finance costs increased by RM0.37 million or 3.8% from RM9.52 million in FYE 2010 to RM9.89 million in FYE 2011. This was mainly due to the increase in the depreciation costs incurred as a result of the acquisition of additional motor vehicles, machinery and office equipment and higher finance costs.

The higher finance costs incurred in FYE 2011 was due to drawdown of a new term loan facility to acquire a land located at Lot 3S, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan. The term loan facility amounted to RM3.57 million and carries funding cost at the rate of base lending rate ("BLR") plus 2.0%, as well as finance cost incurred to refinance a bank loan from OCBC Bank.

Professional fees increased by 43.0% mainly due to the appointment of a consultant for the application of sales tax exemption to Kastam for our quarry grill products, legal fees for the preparation of agreements for the acquisition of land and the related loan facility sums.

### FYE 2012

During FYE 2012, our Group's operating expenses and finance costs increased by RM0.73 million or by 7.4% from RM9.89 million in FYE 2011 to RM10.62 million in FYE 2012. The increase was mainly due to increase in commissions paid, depreciation expenses, directors' fees and travelling expenses. Collectively, these expenses increased by approximately RM0.67 million, but was partially offset by a decrease in staff cost of approximately RM0.18 million.

During FYE 2012, commissions paid amounted to RM0.58 million, an increase of more than 100% from RM0.28 million paid in FYE 2011. Commissions are paid to our sales team and introducers of clients to our Group, and are only paid upon collections from customers.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The decrease in staff cost of approximately RM0.18 million or 6.1% was mainly due to decrease in bonus provisioning. An average of three (3) months bonus was paid in FYE 2011 as compared to an average of one (1) month bonus in FYE 2012.

### FYE 2013

During FYE 2013, our Group's overall operating expenses and finance costs increased by RM0.82 million or by 7.8% from RM10.62 million in FYE 2012 to RM11.44 million in FYE 2013. The increase was mainly due to increase in depreciation expenses, and staff costs. Collectively, these expenses increased by approximately RM0.83 million.

The increase in staff cost of by approximately RM0.56 million or 20.7% was mainly due to the revision of staff remuneration packages as well as the increase in bonus due to better business performance as compared to the last financial year. An average of two (2) months bonus was paid in FYE 2013 as compared to an average of one (1) month bonus paid in FYE 2012.

The increase in depreciation of plant and equipment was mainly due to the full year of depreciation charge in FYE 2013 as compared to five (5) months depreciation charge in FYE 2012, resulting from the machinery acquired in April 2012 amounted to RM1.28 million.

## F. PROFIT BEFORE TAXATION ("PBT") AND PBT MARGIN

### (i) Analysis of PBT margin

	<-----Proforma Group----->			
	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	RM'000	RM'000	RM'000	RM'000
PBT	4,568	6,683	10,261	10,454
PBT margin (%)	11.4	15.1	18.9	17.07

### (ii) Commentaries on our PBT and PBT margin

During FYE 2010, our Group achieved PBT of RM4.57 million with a PBT margin of 11.4%. Our PBT increased by approximately RM2.11 million from RM4.57 in FYE 2010 to RM6.68 million in FYE 2011 mainly due to the increase in GP margin. Our Group's overall GP margin had increased by 2.5 percentage points from 32.7% in FYE 2010 to 35.2% in FYE 2011.

Our Group's PBT increased by approximately RM3.58 million from RM6.68 in FYE 2011 to RM10.26 million in FYE 2012 mainly due to the higher revenue and GP margin contributed by all of our business segments. The decline in operating expense ratio from 22.3% in FYE 2011 to 19.6% in FYE 2012 also contributed to the higher PBT margin.

Our Group's PBT had increased marginally by approximately RM0.19 million from RM10.26 in FYE 2012 to RM10.45 million in FYE 2013, which was mainly due to the higher revenue generated by our Group. However, the decrease in overall GP margin has resulted in a lower PBT margin. Our Group's overall GP margin had decreased by 1.7 percentage points from 36.5% in FYE 2012 to 34.8% in FYE 2013.

Please refer to Sections 12.4(C)(iii) and 12.4(E)(i) above for further discussions on our GP margin and operating expense ratio.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### G. TAXATION

The following table sets out the comparison between our effective and statutory tax rates for the past four (4) FYEs 2010 to 2013:-

	<-----Proforma Group----->			
	FYE 2010 RM'000	FYE 2011 RM'000	FYE 2012 RM'000	FYE 2013 RM'000
Taxation	1,361	1,770	2,786	2,792
Effective tax rate (%)	29.8	26.5	27.1	26.7
Statutory tax rate (%)	25.0	25.0	25.0	25.0

#### (i) Commentaries on our taxation

Save for SCHWM, 5CHME and Italiaworld, the income tax of SCH Corporation Group is calculated at the statutory rate of 25% on the chargeable income based on the estimated assessable profit for FYEs 2010, 2011, 2012 and 2013, respectively.

The income tax rate for SCHWM and 5CHME is calculated at the statutory rate of 20% on the first RM500,000 and 25% on the balance of chargeable income based on the estimated assessable profit for FYEs 2010, 2011, 2012 and 2013, respectively. The income tax of Italiaworld is calculated at the statutory rate of 17% on the chargeable income based on the estimated assessable profit for FYEs 2010, 2011, 2012 and 2013, respectively.

The effective tax rate for the financial years under review was higher than the statutory tax rate due principally to certain expenses not deductible for tax purposes which includes amongst others, depreciation, entertainment and non-deductible professional fees.

#### 12.4.1 Significant factors affecting our revenue and profits

The profitability of our business is primarily dependent on the types of products that our Group sells and its selling prices and the supply and cost of sales of the products sold. The selling prices of our products are determined based on market forces of supply and demand.

Other factors that can affect our results include:-

- The ability to stay competitive *vis-à-vis* our competitors by selling good quality products while maintaining our profit margin;
- The ability to develop and implement marketing strategies and/or products to suit customers' needs;
- The ability to develop good working relationships with our customers and suppliers as well as staff and implement incentive driven plans to improve on our staff efficiency;
- Developments in the political and economic conditions in Malaysia which may materially and adversely affect the business, operations and financial performance of our Group;
- Dependability on the abilities and continued performance of our Directors, managers and key employees. Any loss of these key personnel could materially affect our Group;
- The ability to pass on higher cost of goods sold to the customers due to the fluctuation of these prices in the market;

## **12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)**

- (g) Foreign exchange fluctuations and translation losses which may result in our Group incurring foreign exchange losses or gains due to the fluctuations in the exchange rates; and
- (h) The potential effects of adverse or favourable interest rate fluctuations which may affect our Group's profitability given that all of our Group's borrowings are interest-bearing.

### **12.4.2 Impact from foreign exchange, interest rates, commodity prices and inflation**

#### Impact from foreign currency exchange rates

The impact of the foreign exchange to our GP and GP margin is explained in Section 12.4(C). Our Group does not recognise any realised/unrealised foreign exchange gain or loss as all purchases in USD are made via trade facilities. Other than as disclosed in Section 12.4(C)(iv), we have not experienced any significant gains or losses on foreign exchange rates during the four (4) FYEs 2010 to 2013.

As at the LPD, our Group has not used any financial instruments for hedging purposes.

#### Impact from interest rates

Our Group's gearing stands at 0.39 times as at 31 August 2013 and all of our borrowings are interest bearing obligations. Any interest rate hike will affect businesses and hence, our Group will monitor and plan for any alternative financing options should the need arise. During the past four (4) FYEs 2010 to 2013, our results were not adversely affected by interest rate fluctuations.

#### Impact from commodity prices

During the past four (4) FYEs 2010 to 2013, there was no material impact from the commodity price fluctuations that had significantly affected our Group.

#### Impact of inflation

Our Group's financial performance during the past four (4) FYEs 2010 to FYE 2013 was not significantly affected by the impact of inflation. Notwithstanding that, our Group is confident of passing on the effect of higher product costs due to inflation to our customers. However, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

### **12.4.3 Impact from Government, economic, fiscal or monetary policies**

Save for a change in Government regulations affecting our products or the quarry industry, there is no material impact arising from government, economic, fiscal or monetary policies that could materially affect our operations and financial performance.

### **12.4.4 Exceptional and extraordinary items**

There were no exceptional and extraordinary items for FYEs 2010, 2011, 2012 and 2013.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### 12.S LIQUIDITY AND CAPITAL RESOURCES

#### 12.S.1 Working capital

Our business growth over the past four (4) FYEs 2010 to FYE 2013 has been financed through a combination of internally generated funds, credit granted by suppliers and bank borrowings/trade financing from financial institutions.

As at 31 August 2013, our Group has cash and cash equivalents of approximately RM3.75 million including fixed deposits of RM1.53 million which have been pledged for bank facilities granted to our Group. The balance of RM2.22 million represents free cash flows to our Group.

Based on the proforma consolidated statement of financial position of our Group as at 31 August 2013 (after the Acquisitions but before our Public Issue), our Group's net asset position stood at RM38.93 million and at a gearing level of 0.39 times.

Our Directors are confident that after taking into consideration the gearing level and cash flow position as well as the banking facilities currently available to our Group, our Group has sufficient working capital for our existing and foreseeable requirements over the period of twelve (12) months from the date of this Prospectus.

#### 12.5.2 Cash flow summary

The following table sets out the summary of the proforma consolidated statement of cash flows for FYE 2013, which have been prepared for illustrative purposes only based on the assumption that our Group's structure had been in existence throughout the financial years under review, but prior to the Public Issue and the utilisation of proceeds, and should be read in conjunction with the notes and assumptions set out in Section 11 of this Prospectus.

	<b>Proforma Group FYE 2013 RM'000</b>
Net cash from operating activities	5,904
Net cash used in investing activities	(198)
Net cash used in financing activities	(4,281)
<b>Net increase in cash and cash equivalents</b>	<b>1,425</b>
Cash and cash equivalents at beginning of the financial year	787
Exchange fluctuation adjustment on opening balance	5
<b>Cash and cash equivalents at end of the financial year</b>	<b>2,217</b>
<b>Cash and cash equivalents at end of the financial year comprise:-</b>	
Fixed deposit with a licensed bank	1,527
Cash and bank balances	2,217
	3,744
Less: Fixed deposit pledged with a licensed bank	(1,527)
	<b>2,217</b>

#### Cash flow from operating activities

Net cash generated from our operating activities amounted to RM5.9 million. This comprised operating profit before working capital changes of RM13.23 million adjusted for net working capital outflow of RM7.33 million.



## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### Cash flow used in investing activities

The net cash used in investing activities of approximately RM0.22 million was mainly due to acquisition of property, plant and equipment of RM0.58 million and being offset with the proceed from the disposal of property, plant and equipment RM0.45 million.

### Cash flow used in financing activities

The net cash used in financing activities of RM4.28 million was mainly due to the payment of hire purchase and term loan of RM4.24 million.

Save as disclosed in Section 12.8 of this Prospectus, there is no legal, financial or economic restriction on the ability of our subsidiaries to transfer funds to our Company in the form of cash dividends. Thus, we are confident we can meet our cash obligations as and when the need arises.

### 12.5.3 Borrowings

As at 31 August 2013, we had a total outstanding borrowing amounted to RM15.20 million, details of which are set out below:-

	<b>Proforma Group 31 August 2013 RM'000</b>
Interest-bearing short-term borrowings:-	
Bankers' acceptance^^	8,612
Hire purchase payables	1,146
Term loans*	496
	<u>10,254</u>
Interest-bearing long-term borrowings:-	
Hire purchase payables	2,202
Term loan*	2,745
<b>Total borrowings</b>	<b><u>15,201</u></b>
Gearing (times) as at 31 August 2013**	0.39
Gearing (times) after our Public Issue and proposed utilisation of proceeds^	0.26

#### Notes:-

- \* The term loan mainly consist of loan taken to finance the purchase of land located at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan. The term loan is repayable via 168 monthly instalments and carries interest rate of 8LR plus 2% per annum.
- \*\* Based on the shareholders equity of RM38.92 million as at 31 August 2013.
- ^ Based on the proforma shareholders equity of RM57.78 million after our Public Issue and utilisation of proceeds.
- ^^ Our Group currently utilises letter of credit facility to finance our foreign purchases of quarry industrial products, quarry machinery, quarry equipment and reconditioned quarry machinery. Upon delivery by our foreign suppliers, we convert this letter of credit facility into bankers' acceptance and/or trust receipts to maximise our credit facility period. This will prolong the repayment period for our foreign purchase to approximately 180 days.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

The details of the types of credit facilities that we use and its balances as at the LPD are as follows:-

Type of financial instruments	Tenure	Interest Rates	Balance as at the LPD RM'000
Bank overdrafts	-	6.65% to 8.10%	19
Bankers' acceptances	170 days to 180 days	3.60% to 5.39%	7,368
Letters of credit/trust receipts	170 days to 180 days	7.55% to 8.30%	760
Hire purchase	5 March 2008 to 20 February 2017	2.33% to 3.90%	3,058
Term loans	1 July 2009 to 15 December 2015	4.60% to 8.60%	2,881
<b>Total</b>			<b>14,086</b>

As at 31 August 2013, our Group does not have any borrowings in any foreign currency. Our Group has not defaulted in any payments of principal sums and/or interests in respect of any borrowings throughout the past four (4) FYEs 2010 to 2013, and the subsequent financial period up to the LPD.

As at the LPD, neither our Group nor any of our subsidiaries is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities.

### 12.5.4 Material capital commitments

As at the LPD, save as disclosed in Section 3.10 of this Prospectus, our Directors are not aware of any material commitments for capital expenditure contracted or known to be contracted by our Group which may have a material impact on our Group's financial position or business.

### 12.5.5 Material litigation

As at the LPD, our Group is not engaged in any material litigation, claim or arbitration, either as a plaintiff or defendant, and we do not know of any proceeding pending or threatened or of any fact that is likely to give rise to any proceeding which might materially or adversely affect our financial position or business.

### 12.5.6 Contingent Liabilities

As at the LPD, our Board is not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the financial position of our Group.

In the ordinary course of business, 5CH5B has granted corporate guarantees to its subsidiaries and 5CHWM and 5CHME (subsidiaries under the acquisition in the Listing Scheme) for working capital purposes.

As at the LPD, there were no corporate guarantees given to third parties for credit facilities.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### 12.5.7 Key financial ratios

The key financial ratios of our Group for the financial years under review are as follows:-

	<----- Proforma Group ----->			
	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Trade receivables turnover period (days) <sup>(1)</sup>	111	89	93	106
Trade payables turnover period (days) <sup>(2)</sup>	84	90	69	58
Inventory turnover period (day) <sup>(3)</sup>	170	201	208	211
Current ratio (times) <sup>(4)</sup>	1.85	1.82	2.09	2.50
Gearing ratio (times) <sup>(5)</sup>	0.59	0.63	0.59	0.39

**Notes:-**

- (1) Computed based on average trade receivables as at year end over revenue for the year multiplied by 365 days.
- (2) Computed based on average trade payables as at year end over cost of sales for the year multiplied by 365 days.
- (3) Computed based on average inventory as at year end over cost of sales for the year multiplied by 365 days.
- (4) Computed based on current assets over current liabilities as at year end.
- (5) Computed based on the bank borrowings as at year end over shareholders' funds.

#### (i) Trade receivables

As at 31 August 2013, the trade receivables of our Group amounted to approximately RM18.41 million which can be analysed as follows:-

	<----- Proforma Group ----->				
	<----- Within credit term ----->			Exceeding credit period	Total
	0 to 60 days	61 to 120 days	121 to 180 days	Over 180 days	
<b>Trade receivables (RM'000)</b>	<b>7,244</b>	<b>5,989</b>	<b>1,885</b>	<b>3,288</b>	<b>18,406</b>
% of total trade receivables (%)	39.4	32.5	10.2	17.9	100.0
Subsequent collections up 30 November 2013	(2,495)	(4,530)	(1,415)	(1,058)	(9,498)
<b>Trade receivables net of subsequent collections (RM'000)</b>	<b>4,749</b>	<b>1,459</b>	<b>470</b>	<b>2,230</b>	<b>8,908</b>
% of trade receivables net of subsequent collections to total trade receivables (%)	25.8	7.9	2.6	12.1	48.4
<b>Analysis of trade receivables as at 31 August 2013</b>					
Trade receivables (RM'000)	7,244	5,989	1,885	2,196	17,314
Specific trade receivables (RM'000)*	-	-	-	1,092	1,092
	<b>7,244</b>	<b>5,989</b>	<b>1,885</b>	<b>3,288</b>	<b>18,406</b>

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

**Note:-**

\* Credit terms ranges from two (2) years to three (3) years

Trade receivables are recognised at their original invoice amount which represents their fair value on initial recognition.

Our Group's normal trade credit term ranges from 150 days to 180 days (save for Italiaworld which grants credit period ranging from 90 days to 120 days) from FYEs 2010 to 2013. Other credit terms are assessed and approved on a case by case basis. During the financial years under review, the trade receivables turnover of our Group was lower than the normal credit terms provided. This was mainly attributable to the sales of quarry machinery and quarry equipment where no/low credit terms are given.

The average credit term offered to the quarry industry ranges between 120 days to 150 days. However, our Group provides longer trade credit terms to our local customers, ranging from 150 days to 180 days (save for Italiaworld which grants credit period ranging from 90 days to 120 days) during the financial years under review. Most of our foreign purchases from foreign suppliers are financed via bankers' acceptances which maximises our credit facility period up to 180 days for the repayment of these foreign purchases. This arrangement would provide more time for our customers, especially smaller quarry operators and quarry plants to make payment to us.

The credit term offered by Italiaworld ranges between 90 days to 120 days, which is based on industry norm of the quarry industry in Singapore and Indonesia. The credit period granted by Italiaworld is shorter than that granted to our local customers (ranging from 150 days to 180 days) due to the management's strategy to adopt more stringent and prudent procedures to monitor the status of collection from our foreign customers. Our Group has adopted such strategy to minimise the incidence of bad debts as the legal cost involved in recovering bad debts and instituting legal action is normally higher in a foreign jurisdiction.

The total trade receivables as at end of FYE 2013 includes outstanding balance from specific trade receivables amounted to RM1.09 million. These specific trade receivables relate to the sales of three (3) units of quarry machinery amounted to RM2.60 million to customers at a specific credit terms of two (2) to three (3) years. This specific credit terms are one-off decisions made by our management to support certain customers that have established good business relationship with our Group. These customers are newly incorporated companies who have secured various quarry projects but do not have sufficient track record to obtain adequate financing from financial institutions to support their projects.

As at 30 November 2013, most of our trade receivables as at FYE 2013 have been collected save for RM8.91 million which represents 48.4% of the total receivables as at FYE 2013. Based on this trade receivables of RM8.91 million, the amount of RM7.77 million (including RM1.09 million specific trade receivables) representing 87.2% are within their credit terms. These trade receivables represents our Group's active and regular customers whom we have continuously maintained good business relationship. The remaining trade receivables of approximately RM2.19 million which had exceeded the credit terms represents the net position after providing the necessary impairment for doubtful debts and bad debts written off. However, based on the historical payment trend from these customers and the good business relationship between us, these outstanding amounts will be settled progressively. As such, our Board is of the view that these outstanding balances are recoverable and accordingly, no additional doubtful debts have been made. Our Board further confirms that there are no overdue trade receivables which are in dispute or under legal action.

As at the 30 November 2013, all trade receivables outstanding have been collected save for RM8.91 million which represents 48.4% of the total receivables as at FYE 2013.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

UHY, our Reporting Accountants had reviewed the trade receivables as at 31 August 2013 of RM18.40 million and has conducted background searches and performed subsequent cash collection testing of these trade receivables accounts. UHY is satisfied that the outstanding amount of RM1.09 million with specific settlement arrangements shall be collected in accordance with their contractual terms and the remaining amount of RM7.82 million will be collected on a progressive basis. Thus, UHY is of the view that these outstanding balances are recoverable.

We have during FYE 2010, FYE 2012 and FYE 2013, provided for doubtful debts for a total amount of approximately RM0.25 million. The provision for doubtful debts represent less than 0.2% of our total revenue for FYE 2010, FYE 2011 and FYE 2013 of RM145.56 million. No provision doubtful debts were provided in FYE 2011.

We have during FYE 2010, FYE 2011 and FYE 2013 written off bad debts for approximately RM0.04 million, RM0.33 million and RM0.07 million respectively. The bad debts written off represent less than 0.1%, 0.8% and 0.1% of our total revenue for FYE 2010, FYE 2011 and FYE 2013 respectively. No bad debts were written off in FYE 2012.

The bad debts written off by our Group is illustrated as follows:-

	FYE 2010 RM'000	FYE 2011 RM'000	FYE 2012 RM'000	FYE 2013 RM'000
Provision for doubtful debts	148	-	51	52
Bad debts written off	40	329	-	71

Our Group had previously adopted a general provision whereby all of our trade debts with an ageing of above 180 days (normal credit terms of between 150 days to 180 days) are provided for as doubtful debts. These provisions may be subsequently reversed upon actual collections. However, our Group have since realigned this policy in FYE 2010 in accordance with the relevant Financial Reporting Standards where we review the collectability of amount due from our customers on an individual/collective basis to ensure better provision estimates.

Our Group's policy in assessing our customer's credibility and credit period is made on an individual basis by our sales team and approved by the respective marketing manager and/or branch managers. Material credit terms to be given to certain customers are approved by our Directors and all of our outstanding debts are closely monitored by our management personnel located at each branch offices and reported back to our key management team on a periodical basis.

Commissions are paid to our sales team and introducers of clients only upon collections from customers. Such policy is implemented to encourage our sales team to collect the amount due from customers, in particular overdue debts.

Our Directors are of the opinion that the remaining outstanding balances that exceed the credit term are recoverable and accordingly, no allowance for doubtful debts has been made. Our Board are of the opinion that the remaining balances of the trade receivables that exceed the credit term given are recoverable and that no allowance for doubtful debts is required. Our Board also further confirm that there are no overdue trade receivables which are in dispute or under legal action.

This is further supported by our Board's representation that these customers are all still actively dealing with our Group and as such our Directors has confirmed that there are no overdue debtors which are in dispute or under legal action and hence are confident to recover these debts. Thus, no allowance for doubtful debts is required at this juncture.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

### (ii) Trade Payables

As at 31 August 2013, our Group's trade payables amounted to approximately RM6.98 million, which can be analysed as follows:-

	Proforma Group				
	Within credit term			Exceeding credit period	Total
	0 to 60 days	61 to 120 days	121 to 180 days	Over 180 days	
<b>Trade payables (RM'000)</b>	<b>4,278</b>	<b>1,910</b>	<b>524</b>	<b>265</b>	<b>6,977</b>
% of total trade payables	61.3	27.4	7.5	3.8	100.0
Subsequent payments up to 30 November 2013 (RM'000)	(2,785)	(1,209)	(480)	(265)	(4,739)
<b>Trade payables net of subsequent payments (RM'000)</b>	<b>1,493</b>	<b>701</b>	<b>44</b>	<b>-</b>	<b>2,238</b>
% of trade payables net of subsequent payments to total trade payables (%)	21.4	10.0	0.6	-	32.1

The normal trade credit term granted to our Group ranges from 150 days to 180 days from FYEs 2010 to 2013. Other credit terms are assessed and granted by our suppliers on a case by case basis. For the financial years under review, our trade payables turnover period was shorter than the normal credit terms granted to us. This was mainly attributable to our Group utilising trade facilities from financial institutions to purchase quarry industrial products, quarry machinery, quarry equipment and spare parts for quarry machinery and quarry equipment from our overseas suppliers.

The trade facilities are utilised effectively as our Group also practices back-to-back settlement to our foreign suppliers for the purchase of quarry industrial products, quarry machinery and quarry equipment when we have collected payments from our customers. Our Group believes the timely settlement to our suppliers will benefit our Group and put us in a better position to negotiate for favourable pricings from our suppliers.

As at 30 November 2013, we have further reduced our trade payables by RM4.74 million. The outstanding balance trade payables of RM2.24 million are still within the normal credit terms.

As at the 30 November 2013, there is no other dispute with respect to the trade payables and no legal action has been initiated by our suppliers to demand for payment against our Group.

### (iii) Inventories

Our Group's inventories mainly consist of quarry industrial products, quarry machinery and quarry equipment, as well as spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery. Our inventory turnover period was 170 days, 201 days, 208 days and 211 days for the FYEs 2010, 2011, 2012 and 2013, respectively. The increasing trend in inventory turnover periods during the financial years under review were mainly due to our Group's strategy to purchase in bulk and in advance of our Group's inventory levels, especially for high value quarry machinery and quarry equipment since FYE 2011. This is done to ensure prompt delivery and to meet the anticipated increase in demand from customers in line with the favourable growth in the overall quarry industry.

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

	←----- Proforma Group ----->			
	FYE 2010 RM'000	FYE 2011 RM'000	FYE 2012 RM'000	FYE 2013 RM'000
<b>Cost of Sales</b>				
Quarry industrial products, spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery; and quarry grill	21,074	21,479	25,177	27,576
Quarry machinery, quarry equipment and reconditioned quarry machinery	5,865	7,210	9,252	12,341
<b>Total</b>	<b>26,939</b>	<b>28,689</b>	<b>34,429</b>	<b>39,917</b>
<b>Inventory</b>				
Quarry industrial products, spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery; and quarry grill	8,062	11,777	15,871	16,558
Quarry machinery, quarry equipment and reconditioned quarry machinery	5,743	6,061	5,514	8,230
<b>Total</b>	<b>13,805</b>	<b>17,838</b>	<b>21,385</b>	<b>24,788</b>
<b>Inventory turnover period (days)</b>				
Quarry industrial products, spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery, and quarry grill	144	169	200	215
Quarry machinery, quarry equipment and reconditioned quarry machinery	264	299	228	203
<b>Total</b>	<b>170</b>	<b>201</b>	<b>208</b>	<b>211</b>

Our Group's general practice is to hold three (3) to five (5) months of inventories on hand in order to maintain a sustainable level of inventory to ensure timely deliveries to our customers and to enable our customers to mitigate the risk of delay while ensuring minimal disruptions to our customers' overall quarrying process. This also helps to prevent shortages of quarry industrial products and spare parts of quarry machinery, quarry equipment and reconditioned quarry machinery.

Our inventory turnover period for quarry industrial products, spare parts for quarry machinery and quarry equipment and quarry grill increased from 144 days in FYE 2010 to 169 days in FYE 2011, increased to 200 days in FYE 2012 and further increased to 215 days in FYE 2013. This is higher than our average inventory period of three (3) to five (5) months mainly due to bulk purchases undertaken for quarry industrial products and spare parts for quarry machinery and quarry equipment from overseas suppliers in order to take advantage of the discount on such bulk purchases and price incentives provided from our foreign suppliers. In addition, our Group had also capitalised on the strengthening of RM against USD during the end of FYE 2011, to purchase more inventory at a lower cost as most of our quarry industrial products are imported and transacted in USD.

Our Board is of the view that it is viable to stock up and capitalise on the savings arising from the lower foreign translation rate as well as the bulk discounts given by our suppliers. The quarry industrial products and spare parts for quarry machinery and quarry equipment are non-perishable goods inventories.

As our customers in the quarry industry are located all over Malaysia, the timing of the supply chain between quarry industrial products is crucial in the quarrying process. As quarry industrial

## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

products are consumable items with lifespan ranging from three (3) to six (6) months as a result of extensive wear and tear, regular replacement are required on a timely, consistent and efficient manner, especially in the event of sudden breakdown or damage of the various parts involved. As such, our strategy of bulk purchases and maintaining high levels of spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery in our inventories will enable us to provide continuous supplies to our customers on a timely, efficient and cost-efficient manner, without disrupting the overall supply chain of the quarrying process, causing disruptions to the quarrying operations.

UHY, our Reporting Accountants had performed the stock take during FYE 2013 and nothing has come to UHY's attention that its inventories are perishable. In addition, UHY have also randomly verified the sales invoices subsequent to FYE 2013 to substantiate its marketability.

Our Group's inventory turnover period for quarry machinery, quarry equipment and reconditioned quarry machinery increased from 264 days in FYE 2010 to 299 days in FYE 2011. This was mainly due to high purchases of new high value quarry machinery and quarry equipment made towards the end of FYE 2011, which resulted from orders by customers for deliveries in the subsequent financial year as well as to capitalise on the RM strengthening against USD. The increase in the inventory level was also due to our venture into the supply of reconditioned quarry machinery.

Our Group's inventory turnover period for quarry machinery, quarry equipment and reconditioned quarry machinery decreased from 299 days in FYE 2011 to 228 days in FYE 2012 and further decreased to 203 days in FYE 2013. This was mainly due to the reduced number of quarry machinery and quarry equipment held at year end as a result of higher units of quarry machinery and quarry equipment sold during the year.

As evident by the growing revenue trend of our Group from FYE 2010 to FYE 2013, the increase in inventory turnover days does not indicate any suppression in demand. It is mainly due to a few high value machineries being intentionally kept as inventory.

However, for FYE 2013, the overall increase in inventory turnover period from 208 days in FYE 2012 to 211 days in FYE 2013 was mainly due to higher stocks of quarry industrial products, spare parts and quarry grill kept as inventories.

As at the LPD, our Directors are of the view that there is no material slow moving inventory.

### (iv) Gearing ratio

Our Group's gearing ratio ranges from 0.39 times to 0.63 times over the financial years under review. The increase in our gearing in FYE 2011 was mainly due to a new term loan of RM3.57 million drawn to partially finance our acquisition of an industrial vacant land located at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan which amounted to RM4.39 million.

Our Group's gearing ratio had decreased from 0.63 times to 0.39 times from FYE 2011 to FYE 2013, which was mainly due to our Group subsequently settling bank overdraft payments in FYE 2013.

Overall, our gearing ratios remained healthy, below 1.0 time from FYE 2010 to FYE 2013.



## 12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

### (v) Current ratio

Our current ratio ranges from 1.82 to 2.50 times over the financial years under review. This shows that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables can be readily converted to cash together with our cash at bank to meet any outstanding trade financing facilities and trade payables.

### 12.6 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Group's revenue increased by 12.9% or RM7.01 million, from RM54.24 million in FYE 2012 to RM61.25 million in FYE 2013. The quarry machinery and equipment market grew 9.4% and 9.8% from 2011 to 2013. This was in tandem with the growth in the construction industry performance. In line with this, the quarry operations market enjoyed strong growth of 11.5%, 12.0% and 13.0% in 2011, 2012 and 2013, respectively.

In addition, the projects and initiatives launched by the ETP (initiated 26 October 2010) are expected to continue to take effect. Strong capital inflows encouraged through the ETP, which seeks to propel Malaysia towards becoming a high-income developed nation with a RM1.7 trillion gross nation income ("GNI") economy by 2020, are expected to eventuate and now have more visible and pronounced effects on the local economy, and consumer income. Under the ETP, private-sector driven projects with an investment value of RM1.3 trillion are to be undertaken to spearhead Malaysia's economic growth over the next ten (10) years.

As a result of the above developments, we have acquired a leasehold vacant industrial land located in Cheras, Selangor Darul Ehsan, with a total land area of approximately 8,510 sq m for the construction of our new operation facility to cater for our business growth in the quarry machinery and quarry equipment segments. Our new operation facility shall house our new corporate office, warehouse, showroom cum service centre for quarry machinery and quarry equipment and reconditioning works space. Further details of our new operation facility are elaborated under Section 3.10 of this Prospectus.

Based on the above, our Board is of the opinion that:-

- (a) Our Group's revenue is expected to remain sustainable with an upward growth trend, in line with the growing outlook of the quarry equipment and machinery market in Malaysia, the overall quarry operations as well as the booming construction industry;
- (b) Our liquidity is expected to improve further subsequent to our Public Issue given the additional funds to be raised for our Group to carry out our future plans as stated in Section 6.15 of this Prospectus; and
- (c) Our capital resources are expected to be strengthened, taking into account an amount of approximately RM8.86 million from the IPO proceeds to be utilised for general working capital requirements, as well as our internally generated fund from improved financial performance for FYE 2013. We may consider debt funding for our capital expansion should the need arises.

In addition to the above, our Board is not aware of any circumstances which would result in a significant decline in our revenue and gross profit margins or know factors that are likely to have a material impact on our liquidity, revenue or profit/loss position.

As at LPD, to the best of our Board's knowledge and belief after making due enquiry, our Group's financial conditions and operations have not been and are not expected to be affected by any of the following:-

## **12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)**

- (a) known trends, demands, commitment, events or uncertainties that may have a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those disclosed in Sections 4, 6, 11 and 12 of this Prospectus;
- (b) material commitment for capital expenditure save as disclosed in Section S.7.7 of this Prospectus;
- (c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as disclosed in this Sections 4, S and 12 of this Prospectus;
- (d) known trends, demands, commitments, events or uncertainties that may have a material impact on our Group's liquidity and capital resources, other than those disclosed in Sections 12.S of this Prospectus; and
- (e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position other than those disclosed in this section and in Sections 4, S and 6 of this Prospectus.

Information on our Group's business and financial prospects, significant trend in sales, cost and selling prices is set out in Sections 6 and 12 of this Prospectus. Discussion on the overview of the quarrying industry and quarry machinery and equipment market, its prospects and outlook are further elaborated in Section 7 of this Prospectus.

Based on the outlook of the quarry machinery and quarry equipment market in Malaysia as set out in Section 7 of this Prospectus, our Group's competitive strengths as set out in Section 6.14 of this Prospectus and our future plans as set out in Section 6.1S of this Prospectus, our Board is optimistic about the future prospects of our Group.

### **12.7 ORDER BOOK**

The nature of our Group's business is such that we receive purchase orders from our customers with specifications and quantity required. We do not enter into any long term contract with our customers.

### **12.8 DIVIDEND POLICY**

Our Company presently does not have any formal dividend policy. Any declaration of interim dividends and recommendation of final dividends are subject to the discretion of our Board and any final dividend proposed is subject to our shareholders' approval.

Upon Listing, our Board intends to adopt a stable and sustainable dividend policy to allow our shareholders to participate in the profits of our Group while maintaining an optimal capital structure and ensuring sufficient funds are available for our future growth.

Investors should take note that this dividend policy merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends, which are subject to our Board's absolute discretion.

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**12. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)**

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Our ability to pay future dividends to our shareholders is subject to various factors including but not limited to our financial performance, cash flow requirements, availability of distributable reserves and capital expenditure plans.

As our Company is an investment holding company, our income and therefore, our ability to pay dividends is dependent upon the dividends and other distributions that we receive from our subsidiaries. The payment of dividends or other distributions by our subsidiaries will depend on their operational results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective board of directors deem relevant.

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