



SCH GROUP BERHAD

201101044580 (972700-P)
(Incorporated in Malaysia)

Interim Financial Report
For the Second (2nd) Quarter Ended
29 February 2020

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SECOND (2ND) QUARTER ENDED 29 FEBRUARY 2020**

	<-- Individual Quarter -->		<-- Cumulative Quarter -->	
	Unaudited 29.02.2020 RM'000	Unaudited 28.02.2019 RM'000	Unaudited 29.02.2020 RM'000	Unaudited 28.02.2019 RM'000
Revenue	22,035	22,602	54,791	56,676
Cost of Sales	(17,004)	(17,788)	(42,064)	(44,772)
Gross Profit	5,031	4,814	12,727	11,904
Other operating income	307	3,226	556	3,393
Administrative expenses	(5,481)	(5,441)	(10,407)	(10,487)
Selling and distribution expenses	(2,119)	(760)	(4,104)	(1,766)
(Loss)/Profit from operations	(2,262)	1,839	(1,228)	3,044
Finance costs	(924)	(1,049)	(1,808)	(1,991)
(Loss)/Profit before taxation	(3,186)	790	(3,036)	1,053
Taxation	44	(203)	(4)	(402)
(Loss)/Profit for the financial period	(3,142)	587	(3,040)	651
Other comprehensive (loss)/income:				
Foreign currency translation differences	(3)	16	11	3
Total comprehensive (loss)/income for the financial period	(3,145)	603	(3,029)	654
(Loss)/Profit for the period attributed to:				
- Owners of the company	(3,028)	737	(2,916)	788
- Non-controlling interest	(114)	(150)	(124)	(137)
	(3,142)	587	(3,040)	651
Total comprehensive (loss)/income attributable to:				
- Owners of the company	(3,031)	753	(2,905)	791
- Non-controlling interest	(114)	(150)	(124)	(137)
	(3,145)	603	(3,029)	654
Weighted average number of ordinary shares ('000)	555,512	555,512	555,512	555,512
(Loss)/Earnings per share:				
- Basic (sen)	(0.55)	0.13	(0.52)	0.14
- Diluted (sen)	(0.51)	0.12	(0.49)	0.13

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 August 2019 and the accompanying explanatory notes attached to the interim financial report.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 29 FEBRUARY 2020**

	Unaudited As at 29.02.2020 RM'000	Audited As at 31.08.2019 RM'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	60,331	61,625
Right-of-use	701	-
Goodwill on consolidation	28,757	28,757
Trade receivables	22	433
	<u>89,811</u>	<u>90,815</u>
CURRENT ASSETS		
Inventories	24,374	26,111
Trade receivables	37,145	40,076
Other receivables, prepayments and deposits	3,500	3,231
Contract assets	-	1,218
Tax recoverable	1,158	766
Fixed deposit with licensed banks	6,805	5,439
Cash and bank balances	10,861	10,927
	<u>83,843</u>	<u>87,768</u>
TOTAL ASSETS	<u>173,654</u>	<u>178,583</u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	75,918	75,918
Merger deficit reserve	(23,859)	(23,859)
Foreign currency translation reserves	3	(8)
Retained earnings	30,981	33,927
	<u>83,043</u>	<u>85,978</u>
Non-controlling interest	3,518	3,642
TOTAL EQUITY	<u>86,561</u>	<u>89,620</u>
CURRENT LIABILITIES		
Trade payables	17,177	20,033
Other payables	2,393	1,979
Contract liabilities	287	656
Lease liabilities	159	424
Bank borrowings	12,926	8,723
Tax payable	14	159
	<u>32,956</u>	<u>31,974</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 29 FEBRUARY 2020 (CONTINUED)**

	Unaudited As at 29.02.2020 RM'000	Audited As at 31.08.2019 RM'000
NON-CURRENT LIABILITIES		
Lease liabilities	576	732
Bank borrowings	46,473	49,169
Deferred tax liabilities	7,088	7,088
	54,137	56,989
TOTAL LIABILITIES	87,093	88,963
TOTAL EQUITY AND LIABILITIES	173,654	178,583
 NET ASSET PER SHARE (sen)	 14.95	 15.47

The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 August 2019 and the accompanying explanatory notes attached to this interim financial report.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SECOND (2ND) QUARTER ENDED 29 FEBRUARY 2020**

	←-- Attributable to the Owners of the Company --→						
	←-- Non-Distributable --→		Distributable				
Unaudited	Share Capital RM'000	Merger Reserve RM'000	Translation Reserve RM'000	Retained Earnings RM'000	Total RM'000	Non Controlling Interest RM'000	Total Equity RM'000
Balance as at 1 September 2019							
-as per previously reported	75,918	(23,859)	(8)	33,927	85,978	3,642	89,620
Effect of adopting MFRS 16	-	-	-	(30)	(30)	-	(30)
Balance as at 1 September 2019 (Restated)	75,918	(23,859)	(8)	33,897	85,948	3,642	89,590
Loss for the financial period	-	-	-	(2,916)	(2,916)	(124)	(3,040)
Other comprehensive income for the financial period	-	-	11	-	11	-	11
Total comprehensive income/(loss) for the financial period	-	-	11	(2,916)	(2,905)	(124)	(3,029)
Balance as at 29 February 2020	75,918	(23,859)	3	30,981	83,043	3,518	86,561

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SECOND (2ND) QUARTER ENDED 29 FEBRUARY 2020 (CONTINUED)**

Audited	Share Capital RM'000	Merger Reserve RM'000	Translation Reserve RM'000	Retained Earnings RM'000	Total RM'000	Non Controlling Interest RM'000	Total Equity RM'000
Balance as at 1 September 2018 (Restated)	75,918	(23,859)	10	28,168	80,237	3,880	84,117
Profit/(loss) for the financial year	-	-	-	5,759	5,759	(238)	5,521
Other comprehensive loss for the financial year	-	-	(18)	-	(18)	-	(18)
Total comprehensive (loss)/income for the financial year	-	-	(18)	5,759	5,741	(238)	5,503
Balance as at 31 August 2019	75,918	(23,859)	(8)	33,927	85,978	3,642	89,620

The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 August 2019 and the accompanying explanatory notes attached to this interim financial report.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SECOND (2ND) QUARTER ENDED 29 FEBRUARY 2020**

	Unaudited 6 months ended 29.02.2020 RM'000	Unaudited 6 months ended 28.02.2019 RM'000
Cash Flows From Operating Activities		
(Loss)/Profit before taxation	(3,036)	1,053
Adjustment for:		
Depreciation of property, plant and equipment	2,548	1,981
Property, plant and equipment written off	2	-
Unrealised gain on foreign exchange	-	(178)
Gain on disposal of property, plant and equipment	(1)	(2,581)
Reversal of impairment on inventory	(24)	(474)
Reversal of impairment on trade receivables	(49)	-
Interest expenses	1,808	1,991
Interest income	(187)	(97)
Operating profit before working capital changes	1,061	1,695
Changes in working capital:		
Inventories	1,761	1,219
Trade and other receivables	3,696	(5,142)
Trade and other payables	(1,207)	82
	4,250	(3,841)
Cash generated from/(used in) operations	5,311	(2,146)
Interest received	187	97
Interest paid	(1,808)	(1,991)
Tax refund	-	1,860
Tax paid	(540)	(1,150)
Exchange differences	-	(3)
	(2,161)	(1,187)
Net cash generated from/(used in) operating activities	3,150	(3,333)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SECOND (2ND) QUARTER ENDED 29 FEBRUARY 2020 (CONTINUED)**

	Unaudited 6 months ended 29.02.2020 RM'000	Unaudited 6 months ended 28.02.2019 RM'000
Cash Flow From Investing Activities		
Purchase of property, plant and equipment	(945)	(1,148)
Proceed from disposal of property, plant and equipment	46	5,081
Net cash (used in)/from investing activities	<u>(899)</u>	<u>3,933</u>
 Cash Flow From Financing Activities		
Increase in foreign currency trade loans	-	1,260
Repayment of lease liabilities	(243)	(132)
Repayment of term loan	(3,701)	(2,997)
Changes on bankers' acceptance & trust receipts	2,994	4,735
Decrease/(Increase) in fixed deposits pledged	3,401	(56)
Net cash from financing activities	<u>2,451</u>	<u>2,810</u>
 Net increase in cash and cash equivalents	4,702	3,410
Cash and cash equivalents at beginning of the financial period	12,859	8,603
Exchange rate adjustment	-	-
Cash and cash equivalents at end of the financial period	<u>17,561</u>	<u>12,013</u>
 Cash and cash equivalents at end of the financial period comprises:		
- Fixed deposits placed with licensed banks	6,805	4,723
- Cash and bank balances	10,861	11,209
- Bank overdraft	-	(487)
	<u>17,666</u>	<u>15,445</u>
Less: Fixed deposits pledged with licensed banks	(105)	(3,432)
	<u>17,561</u>	<u>12,013</u>

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 August 2019 and the accompanying explanatory notes attached to this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

A. EXPLANATORY NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 29 FEBRUARY 2020

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards ("MFRS") No. 134: Interim Financial Reporting and Paragraph 9.22 and Appendix 9B of the ACE Listing Requirements ("Listing Requirement").

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 August 2019 and the accompanying explanatory notes attached to this interim financial report.

The significant accounting policies adopted in preparation of this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 August 2019, except for the adoption of the new MFRS, amendments to MFRSs and IC Interpretation as below:

MFRS 16	Leases
Amendments to MFRS 9	Prepayments Features with Negative Compensation
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Long-term interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Payments
Annual Improvement to MFRSs 2015 – 2017 Cycle	

The adoption above mentioned standards did not have any material impact on this interim financial report, other than initial application of MFRS 16 Leases as disclosure in Note A2.

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A2. Impact of the initial application of MFRS 16 Leases

The Group has adopted MFRS 16 using the modified retrospective approach method. Accordingly, the Group has not restated the comparative information.

The adoption of MFRS 16 to the opening balance as at 1 September 2019 has the following impact:

<u>Statement of financial position</u> <u>(Extracted)</u>	1.9.2019 As previously reported	Effect of adoption of MFRS 16	1.9.2019 As restated
	RM'000	RM'000	RM'000
Non-current assets			
- Right-of use	-	1,075	1,075
Non-current liabilities			
- Lease liabilities	732	806	1,538
Current liabilities			
- Lease liabilities	424	299	723
Equity			
- Retained earnings	33,927	(30)	33,897

A3. Auditors' report of preceding annual audited financial statements

The auditors' report on the preceding year audited financial statements was not subject to any qualification.

A4. Seasonal or cyclical factors

The businesses of the Group were not affected by seasonal or cyclical factors.

A5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and financial period-to-date.

A6. Material changes in estimates

There were no changes in the estimates of amounts reported in prior financial years that had a material effect on the current financial quarter and financial period-to-date.

A7. Debt and equity securities

There were no issuances, cancellations, repurchases, resales, repayments of debts and/or securities, shares held as treasury shares or the resale of treasury shares during the financial period ended 29 February 2020.

A8. Segmental information

The Group's revenue was derived from four (4) main business segments, namely the following: -

6-months ended 29 February 2020

	Investment Holding RM'000	Fertilizers RM'000	*Machinery RM'000	Equipment Rental RM'000	Elimination RM'000	Consolidated RM'000
Revenue						
External sales	-	34,349	13,850	6,592	-	54,791
Inter-segment sales	1,000	-	2	557	(1,559)	-
Total	1,000	34,349	13,852	7,149	(1,559)	54,791
Results						
Segment results	732	(235)	(466)	(289)	(1,157)	(1,415)
Finance costs	(1,007)	(559)	(229)	(19)	6	(1,808)
Finance income	71	9	98	9	-	187
Loss before taxation	(204)	(785)	(597)	(299)	(1,151)	(3,036)
Taxation	-	-	-	(4)	-	(4)
Loss after taxation	(204)	(785)	(597)	(303)	(1,151)	(3,040)

* Machinery segment previously defined as Quarry Industry

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6-months ended 29 February 2019

	Investment Holding RM'000	Fertilizers RM'000	*Machinery RM'000	Equipment Rental RM'000	Eliminations RM'000	Consolidated RM'000
Revenue						
External sales	-	36,096	14,052	6,528	-	56,676
Inter-segment sales	-	-	7,966	-	(7,966)	-
Total	-	36,096	22,018	6,528	(7,966)	56,676
Results						
Segment results	703	(85)	3,005	325	(1,000)	2,948
Finance costs	(1,060)	(638)	(294)	-	-	(1,992)
Finance income	10	-	87	-	-	97
(Loss)/Profit before taxation	(347)	(723)	2,798	325	(1,000)	1,053
Taxation	-	(102)	(222)	(78)	-	(402)
(Loss)/Profit after taxation	(347)	(825)	2,576	247	(1,000)	651

* Machinery segment previously defined as Quarry Industry

A9. Dividend Paid

No dividend was paid during the current quarter under review.

A10. Valuation of property, plant and equipment

The Group has not carried out any valuation on its property, plant and equipment in the current financial quarter.

A11. Capital commitments

There were no material capital commitments as at the date of this report.

A12. Changes in the composition of the Group

There were no material changes in the composition of the Group for the current financial period.

A13. Contingent liabilities and contingent assets

There were no contingent assets as at the date of this financial report.

A14. Material events subsequent to the end of the quarter

There were no other material events subsequent to the end of current quarter and financial period-to-date that have not been reflected in this interim financial report.

A15. Related party transactions

Transaction with companies in which a Director has interest for the current quarter ended 29 February 2020 was as follows: -

	Current Quarter ended 29.02.2020 RM'000	Cumulative Quarter ended 29.02.2020 RM'000
Sales of industrial products and spare parts	9	29
Sales of fertilisers goods	140	4,382
Sales or rental of rental equipment	39	144
 Rental of factory	 169	 338
Hiring of lorry	49	98
Purchase of raw materials	3,747	5,178

The transactions were carried out in the ordinary course of business and on normal commercial terms.

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B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Review of performance

	Quarter ended 29.02.2020 ("Q2/20") RM'000	Quarter ended 28.02.2019 ("Q2/19") RM'000	Changes RM'000	Changes (%)
Revenue	22,035	22,602	(567)	-2.5%
(Loss)/Profit before tax	(3,186)	790	(3,976)	-503.3%
(Loss)/Profit after tax	(3,142)	587	(3,729)	-635.3%

Comparison between Q2/20 with Q2/19

For the Q2/20, the Group achieved revenue of RM22.0 million, a decrease of 2.5% as compared to corresponding quarter (Q2/19) of RM22.6 million. The decrease in revenue were mainly due to lower sale demand of the spare parts in the machinery segment. The Group incurred loss before tax of RM3.2 million as compared to Q2/19 profit after tax of RM0.8 million principally due to the one-off gains previously derived from disposal of property and reversal of inventory impairment in the corresponding quarter Q2/19.

	Year-to-date 29.02.2020 ("2Q/FY20") RM'000	Year-to-date 28.02.2019 ("2Q/FY19") RM'000	Changes RM'000	Changes (%)
Revenue	54,791	56,676	(1,885)	-3.3%
(Loss)/Profit before tax	(3,036)	1,053	(4,089)	-388.3%
(Loss)/Profit after tax	(3,040)	651	(3,691)	-567.0%

Comparison between 2Q/FY20 with 2Q/FY19

The Group achieved revenue of RM54.8 million in 2Q/FY20 as compared to RM56.7 million in the corresponding period 2Q/FY19, a decrease of RM1.9 million or 3.3%. The decrease in revenue mainly due to slower market in palm oil industry during first quarter of 2020.

The Group reported a loss before tax of RM3.0 million in 2Q/FY20 as compared to profit before tax of RM1.1 million in corresponding period 2Q/FY19. This is mainly due to the one-off gains previously derived from disposal of property and reversal of inventory impairment in the corresponding period 2Q/FY19.

The detailed information of the results of each business sector for a 6-months period is disclosed in Note A8.

B2. Comparison with immediate preceding quarter's results

	Quarter ended 29.02.2020 ("Q2/20") RM'000	Quarter ended 30.11.2019 ("Q1/20") RM'000	Changes RM'000	Changes (%)
Revenue	22,035	32,756	(10,721)	-32.7%
(Loss)/Profit before tax	(3,186)	150	(3,336)	-2,224.0%
(Loss)/Profit after tax	(3,142)	102	(3,244)	-3,180.4%

For the current quarter under review, the Group achieve revenue of RM22.0 million, a decrease by RM10.7 million as compared to the preceding quarter Q1/20. The decrease in revenue mainly due to the decrease of revenue from fertilizers segment where the demand of fertilizers supply is seasonal low in second quarter attributable to the raining season and festive holiday season (i.e. non-working days). With the lower revenues in the second quarter of 2020, the group reported a loss before tax of RM3.2 million as compared with preceding quarter's profit before tax of RM0.2 million.

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B3. Prospects

The COVID-19 outbreak has evolved into a global pandemic, adversely impacting the global economy due to the constraints on the movement of people and the suspension of business operations to contain the virus. With the emerging impact of supply-demand shock and a drop in consumption and affordability, the global economy is expected to contract and downsize risk are expected to continue in 2020.

The extend impact of the Covid-19 pandemic on the SCH Group operational and financial performance will depend on the future development including the duration and spread of the outbreak, all of which are highly uncertain and cannot be estimated. Despite the more challenging operating environment, SCH Group remains cautiously optimistic of the view that the Covid-19 outbreak will not affect the fundamental and long-term prospects of the business.

Fertilizers

The emerging impact of global slowdown has resulting in the weakening of palm oil demand and its Crude Palm Oil (CPO) price after its peak in January 2020. However, SCH Group existing sale orders received in fertilizers remain strong.

Machinery

During the Movement Control Order (MCO) period, the suspension of business operations has resulted in suspension of many construction and quarry related activities. The emerging impact of Covid-19 has causing uncertainties on the market demand resulting in a slowdown of business.

Equipment Rental

With the constraints on the movement of people amid COVID-19, events have been either postponed or cancelled both locally and internationally, affecting our sales within the events sector. The resumption of events will depend on the containment of COVID-19 and hence uncertain. As such, SCH Group focus is outside event sector in the near term.

B4. Profit forecast

The Group does not have any profit forecast in the public documents.

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B5. Taxation

	←Individual Quarter→		←Cumulative Quarter→	
	Unaudited 29.02.2020 RM'000	Unaudited 28.02.2019 RM'000	Unaudited 29.02.2020 RM'000	Audited 28.02.2019 RM'000
Income tax expense				
- Current financial year	(44)	94	-	191
- Under/(over) provision in prior year	-	-	4	102
- Real property gain tax	-	109	-	109
	(44)	203	4	402

The Group incurred nil tax expenses in the current quarter due to the tax loss position.

The effective tax rate for corresponding quarter of preceding year is higher than the Malaysian statutory tax rate of 24% is mainly due to non-tax deductibility of certain expenses incurred by the Group and no group tax reliefs for tax losses derived from loss-making subsidiary companies.

B6. Status of corporate proposals announced

There were no corporate proposals that were announced but not completed as at the date of this report.

B7. Borrowings

The Group's borrowings were as follows: -

	Unaudited As at 29.02.2020 RM'000	Audited As at 31.08.2019 RM'000
Secured		
Bankers' acceptance	5,677	1,735
Hire purchases	1,266	1,156
Term loans	52,456	56,157
Total bank borrowings	59,399	59,048
Short Term		
Bankers' acceptance	5,677	1,735
Hire purchases	477	424
Term loans	6,772	6,988
	12,926	9,147
Long Term		
Hire purchases	789	732
Term loans	45,684	49,169
	46,473	49,901

B8. Changes in material litigation

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group, and the Board is not aware of any proceedings pending or of any fact likely to give rise to any proceedings.

B9. Dividend

No dividend was proposed for the financial quarter.

B10. Earnings per share

a) Basic

The basic earnings per share is calculated based on the Group's profit attributable to equity holders of the Company divided by the weighted average number of ordinary shares as follows:

	Individual Quarter Ended		Cumulative Quarter Ended	
	29.02.2020	28.02.2019	29.02.2020	28.02.2019
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit attributable to ordinary equity holders of the Group	(3,028)	737	(2,916)	788
Weighted average number of ordinary shares in issue ('000)	555,512	555,512	555,512	555,512
Basic (loss)/ earnings per share (sen)	(0.55)	0.13	(0.52)	0.14

b) Diluted

	Individual Quarter Ended		Cumulative Quarter Ended	
	29.02.2020	28.02.2019	29.02.2020	28.02.2019
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit attributable to ordinary equity holders of the Group	(3,028)	737	(2,916)	788
Weighted average number of ordinary shares in issue ('000)	555,512	555,512	555,512	555,512
Adjustment for dilutive effect on conversion of warrants ('000)	42,258	42,258	42,258	42,258
Total	597,770	597,770	597,770	597,770
Diluted (loss)/earnings per share (sen)	(0.51)	0.12	(0.49)	0.13

B11. Disclosure on selected expense/income items as required by the Listing Requirements

	Individual Quarter Ended		Cumulative Quarter Ended	
	29.02.2020	28.02.2019	29.02.2020	28.02.2019
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit before taxation is arrived at after charging/(crediting):-				
Depreciation of property plant and equipment	1,231	1,089	2,548	1,981
Interest expenses	924	1,049	1,808	1,991
Interest income	(75)	(51)	(187)	(97)
Gain on disposal of property, plant and equipment	-	(2,579)	(1)	(2,581)
Gain on foreign exchange (realised/unrealised)	(61)	(90)	(67)	(7)
Property, plant and equipment written off	1	-	2	-
Reversal of impairment on trade receivables	-	-	(49)	-
Reversal of impairment on inventories	-	(474)	(24)	(474)

B12. Comparative figures

Comparatives figures, where applicable, have been modified to conform to the current presentation.

BY ORDER OF THE BOARD
19 May 2020