



ANNUAL
REPORT

18



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Dato' Chan Choun Sien
Wong Kin Seng
Dato' Ong Choo Meng
Khoo Chee Siang
Sim Yee Fuan
Gan Khong Aik

Independent Non-Executive Chairman
Executive Director
Non-Independent Non-Executive Director
Non-Independent Non-Executive Director
Independent Non-Executive Director
Independent Non-Executive Director

AUDIT COMMITTEE

Sim Yee Fuan (*Chairman*)
 Dato' Chan Choun Sien
 Gan Khong Aik

RISK MANAGEMENT COMMITTEE

Gan Khong Aik (*Chairman*)
 Dato' Chan Choun Sien
 Wong Kin Seng

REMUNERATION COMMITTEE

Dato' Chan Choun Sien (*Chairman*)
 Sim Yee Fuan
 Gan Khong Aik

NOMINATION COMMITTEE

Gan Khong Aik (*Chairman*)
 Sim Yee Fuan
 Dato' Chan Choun Sien

COMPANY SECRETARIES

Tan Tong Lang (MAICSA 7045482)
 Thien Lee Mee (LS0009760)

REGISTERED OFFICE

Suite 10.02, Level 10
 The Gardens South Tower
 Mid Valley City
 Lingkaran Syed Putra
 59200 Kuala Lumpur
 Tel no : +603-2298 0263
 Fax no : +603-2298 0268

HEAD OFFICE/PRINCIPAL PLACE OF BUSINESS

Lot 35, Jalan CJ 1/1,
 Kawasan Perusahaan Cheras Jaya,
 43200 Cheras,
 Selangor Darul Ehsan.
 Tel no : +603-9082 2481/2681/2781/2881/2981
 Fax no : +603-9082 9697

AUDITORS

Messrs ECOVIS AHL PLT (AF 1825)
 No 9-3, Jalan 109F, Plaza Danau 2
 Taman Danau Desa
 58100 Kuala Lumpur
 Tel no : +603-7981 1799
 Fax no : +603-7980 4796

PRINCIPAL BANKER

AmBank (M) Berhad
 CIMB Bank Berhad
 Public Bank Berhad
 HSBC Bank Malaysia Berhad

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn Bhd
 Unit 32-01, Level 32
 Tower A, Vertical Business Suite
 Avenue 3, Bangsar South
 No. 8, Jalan Kerinchi, 59200 Kuala Lumpur
 Tel no : +603-2783 9299
 Fax no : +603-2783 9222

STOCK EXCHANGE LISTING

ACE Market of Bursa Malaysia Securities Berhad

Ordinary Shares

Stock Name : SCH
 Stock Code : 0161

Warrants

Stock Name : SCH-WA
 Stock Code : 0161WA

WEBSITE

www.schgroup.com.my

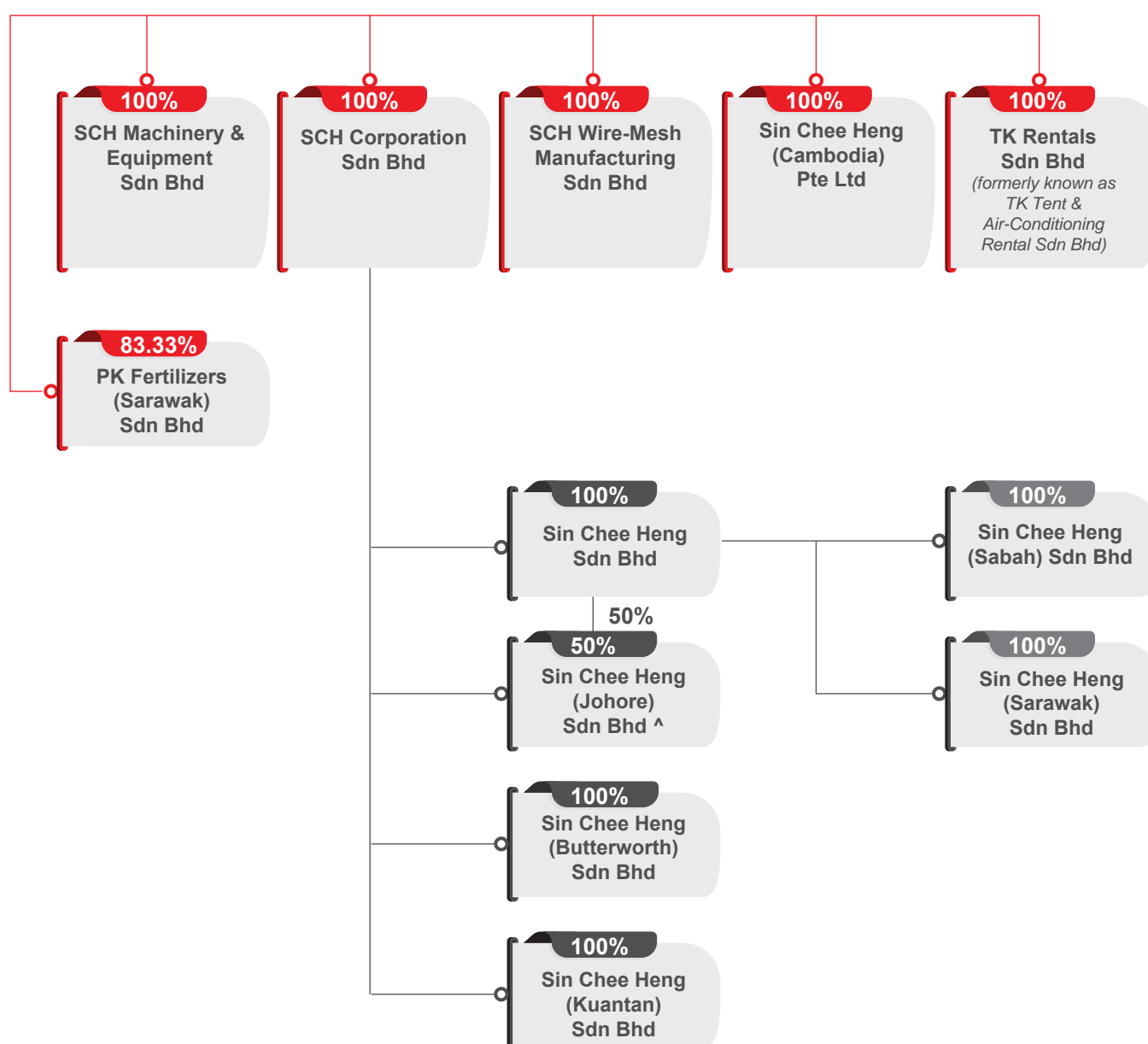
INVESTORS RELATIONS

Email : mary.schgroup@gmail.com
 Tel no : +603-9082 2481/2681/2781/2881/2981
 Fax no : +603-90829697

CORPORATE STRUCTURE



SCH Group Berhad
(Company No. 972700-P)

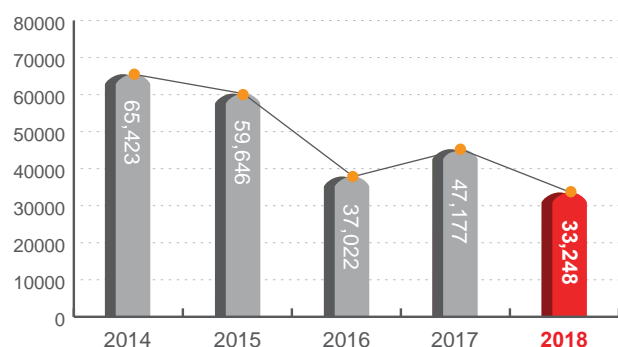
**Note:-**

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

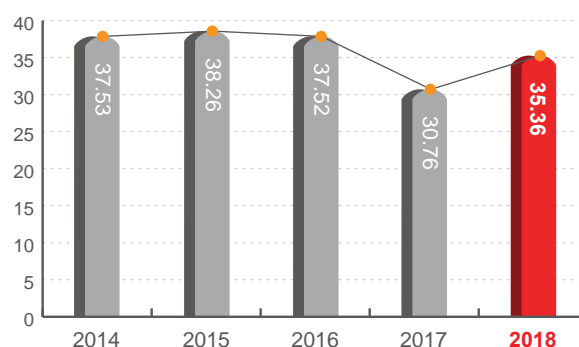
FINANCIAL HIGHLIGHTS

| Financial Year Ended 31 August | | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|--------|----------------|
| KEY FINANCIALS | | | | | | |
| Revenue | RM'000 | 65,423 | 59,646 | 37,022 | 44,177 | 33,248 |
| Gross Profit (GP) | RM'000 | 24,551 | 22,823 | 13,891 | 13,590 | 11,756 |
| GP Margin | % | 37.53 | 38.26 | 37.52 | 30.76 | 35.36 |
| Earnings/(Loss) before Interest, Tax, Depreciation & Amortisation (EBITDA) | RM'000 | 12,782 | 11,330 | 3,631 | 3,879 | (5,747) |
| Profit/(Loss) Before Tax (PBT) | RM'000 | 10,348 | 9,183 | 2,282 | 2,735 | (7,491) |
| PBT Margin | % | 15.82 | 15.4 | 6.16 | 6.19 | (22.53) |
| Profit/(Loss) After Tax (PAT) | RM'000 | 7,192 | 6,460 | 1,633 | 1,822 | (8,058) |
| PAT Margin | % | 10.99 | 10.83 | 4.41 | 4.12 | (24.24) |
| Basic Earnings/(Loss) Per Share (Basic EPS) | sen | 1.93 | 1.57 | 0.40 | 0.44 | (1.92) |

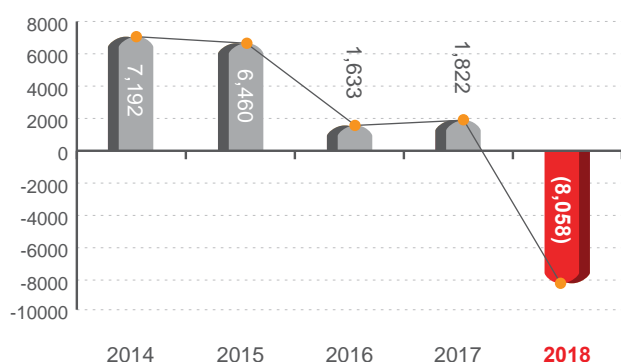
REVENUE (RM'mil)



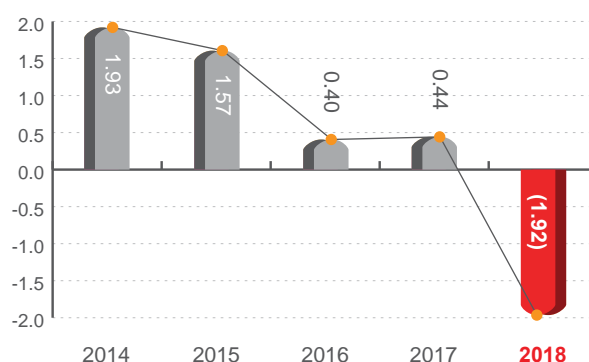
GP MARGIN (%)



PROFIT/(LOSS) AFTER TAX (PAT) (RM'mil)



BASIC EARNINGS/(LOSS) PER SHARE (BASIC EPS) (sen)



PROFILE OF DIRECTORS

DATO' CHAN CHOUN SIEN

48 years of age, Malaysian, Male

*Independent
Non-Executive Chairman*

Dato' Chan Choun Sien was appointed to the Board as an Independent Non-Executive Director of the Company on 1 August 2018. On 22 October 2018, he was re-designated as Independent Non-Executive Chairman.

*Chairman of
Remuneration Committee*

He graduated from the University of Melbourne with a Bachelor of Laws (Honours) and Bachelor of Commerce. He is a member of CPA Australia. He was previously a Managing Director of a leading investment bank with over 22 years of experience in corporate finance, investment banking and private banking covering Southeast Asia.

*Member of
Nomination Committee,
Audit Committee, and
Risk Management Committee*

He does not hold any directorship in other public listed companies.

He does not have any family relationship with any director and/or major shareholder of the Company, nor conflict of interest with the Company.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

WONG KIN SENG

48 years of age, Malaysian, Male

Executive Director

Wong Kin Seng was appointed to the Board as the Executive Director of the Company on 9 May 2017.

*Member of
Risk Management Committee*

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 the Company 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 18 years of extensive experience and knowledge he gained in the operations of our Group, he was then promoted to Business Development Manager in 1998. Since 2013, he is mainly responsible for attending and handling customers' queries as well as leading our sales team and is also responsible of Sin Chee Heng (Johore) Sdn Bhd overall operations.

He does not hold directorship in other public listed companies.

He does not have any family relationship with any director and/or major shareholder of the Company, nor conflict of interest with the Company.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

PROFILE OF DIRECTORS

cont'd

*Non-Independent
Non-Executive Director*

DATO' ONG CHOO MENG

40 years of age, Malaysian, Male

Dato' Ong Choo Meng was appointed to the Board as the Non-Independent Non-Executive Director of the Company on 1 August 2018.

He graduated from Royal Melbourne Institute of Australia in Bachelor Degree in Business, majoring in Business Finance and Investment.

He is highly competent and professional business leader with over seven years of valuable experience in the senior management position. Work experience includes business management of a group of companies, familiar with strategizing and driving business plans with commendable track record in directing business growth for the group. He is responsible for the overall finance, business, corporate development, and expansion strategies for the Hextar Group of Companies.

He has been in the agriculture industry for more than 10 years specializing in finance and investment activities. He was experienced in Denko Industrial Corporation Berhad where he contributed in providing independent review to ensure corporate accountability in the board decision. In addition, he was one of the personnel that ensure strategies proposed by the management were fully deliberated and examined in the long-term interest of the company. Presently, he is conversant in directing Hextar Group growth, business expansion, finance and operational affairs.

Currently, he is also a Non-Independent Executive Director of Halex Holdings Berhad.

He is the Group Managing Director of Hextar Group of Companies, a major shareholders of SCH.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

KHOO CHEE SIANG

42 years of age, Malaysian, Male

*Non-Independent
Non-Executive Director*

Khoo Chee Siang was appointed to the Board as Executive Director of the Company on 2 March 2017. He was re-designated as the Non-Independent Non-Executive Director on 1 December 2018. He is a Fellow Member of the Association of Chartered Certified Accountants (FCCA).

He was the Executive Director of UHY Advisory (KL) Sdn Bhd, a boutique financial and corporate advisory firm from 2008 to 2016. He started his career in auditing with an international medium accounting firm, Morison Anuarul Azizan Chew & Co and was subsequently promoted to Senior Consultant in Corporate Finance and Advisory Department. He later joined Finmart Alliance Sdn Bhd as an Associate Director in-charge of corporate finance and business advisory services. He has significant experience in corporate finance, initial public offerings, corporate debt restructuring as well as his external auditing experience covered various sectors.

Currently, he also an Independent Non-Executive Director of Seers Berhad, Chin Hin Group Property Berhad (formerly known as Boon Koon Group Berhad) and Green Ocean Corporation Berhad.

He does not hold any positions in any Board Committees of the Company.

He does not have any family relationship with any director and/or major shareholder of the Company, nor conflict of interest with the Company.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

PROFILE OF DIRECTORS

cont'd

SIM YEE FUAN

52 years of age, Malaysian, Male

*Independent
Non-Executive Director*

*Chairman of
Audit Committee*

*Member of
Nomination Committee and
Remuneration Committee*

Sim Yee Fuan was appointed to the Board as an Independent Non-Executive Director of the Company on 13 March 2012.

He graduated from University of Malaya with Bachelor of Accounting (Honour) and obtained his professional qualification from Malaysian Institute of Certified Public Accountants (MICPA). He holds a Master Degree in Business Administration from Northern University of Malaysia. He is a Chartered Accountant registered with the Malaysia Institute of Accountants (MIA).

He started his career with Bank Negara Malaysia ("BNM") from 1991 to 1995 and had gained the banking experience in Balance of Payment Department (now known as Foreign Exchange Administration Department) and Bank Examination 1 Department (now known as Banking Supervision Department). During 1995 to 2006, he was attached to public listed companies on the Bursa Securities where his job responsibilities were in the areas of accounting, finance and corporate management.

Currently, he is also an Executive Director of Unimech Group Berhad, a Senior Independent Non-Executive Director of Saudee Group Berhad and an Independent Non-Executive Director of Eurospan Holdings Berhad. He is also the Commissioner of PT Arita Prima Indonesia Tbk, a company listed on Indonesia Stock Exchange.

He does not have any family relationship with any director and/or major shareholder of the Company, nor conflict of interest with the Company.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

GAN KHONG AIK

49 years of age, Malaysian, Male

*Independent
Non-Executive Director*

*Chairman of
Nomination Committee and
Risk Management Committee*

*Member of
Audit Committee and
Remuneration Committee*

Gan Khong Aik was appointed to the Board as an Independent Non-Executive Director of the Company on 13 March 2012.

After completing his Sijil Pelajaran Malaysia from St. Francis Institution, Malacca in 1987, Mr Gan 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 Messrs Lee Hishammuddin Allen Gledhill in 1994 and in 2001, he became a partner of Messrs Lee Hishammuddin Allen Gledhill until 2008 where he set up his own law practice. Presently, he is a partner of Messrs Gan Partnership.

He does not hold directorship in other public listed companies.

He does not have any family relationship with any director and/or major shareholder of the Company, nor conflict of interest with the Company.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

PROFILE OF KEY SENIOR MANAGEMENT

LIM LEE POOI

62 years of age, Malaysian, Male

Chief Marketing Officer

Lim Lee Pooi was appointed as Chief Marketing Officer of the Company in 2013.

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) Sdn Bhd in April 1993 as our Branch Manager, where he was responsible for SCH (Johore) Sdn Bhd'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.

He does not hold directorship in other public listed companies.

He does not have any family relationship with any director and/or major shareholder of the Company, nor conflict of interest with the Company.

He has no convictions for any offences within the past five (5) years, nor any public sanctions or penalty imposed by regulatory bodies during the financial year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors and the Management of SCH Group Berhad ("SCH Group" or the "Company"), I am pleased to present the Company's Annual Report and Audited Financial Statements for the financial year ended 31 August 2018 ("FYE2018").

This year was a year of significant changes for the SCH Group. However, what has not changed is the ability of the Company to continue to adapt and respond to an environment that remains volatile and challenging.

THE BOARD

On behalf of the Company, I would like to first and foremost welcome our new directors who came on board with the SCH Group within this financial year. The new Board members bring a unique set of skills and experience to the Board and, together with the existing members of the Board, will bring the SCH Group to greater heights.

For the directors who left us during the year, the rest of the SCH Group family and I wish you all the best in your future endeavors and thank you for your efforts and achievements during your tenure.

BUSINESS DIVERSIFICATION

Apart from the existing business of the SCH Group, I am pleased to inform you that the Group has embarked on a journey to broaden our business and diversify into the manufacturing, merchandising, trading and distribution of fertilizers, as well as the rental and trading of mobile air conditioners, tents and event related equipment for major events in Malaysia and the region in FYE2018. We believe these new ventures will strengthen our ability to meet our growth aspirations, and more importantly, enhance value to shareholders over time.

FINANCIAL POSITION

The Group's financial position and performance will be elaborated in the Management Discussion and Analysis section on Page 10 of this Annual Report.

THE FUTURE

The new leadership team and their responsive and committed staff are tackling the challenges ahead of us with determination and renewed energy. I am confident this will improve the performance of the SCH Group for our shareholders, customers and other stakeholders over time. At the same time, our Group will continue to remain prudent in view of the current economic conditions.

Lastly, I wish thank you, the shareholders, for your continued support and the Board and our staff for their hard work and commitment to the SCH Group.

Dato' Chan Choun Sien

Independent Non-Executive Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Group's Business

SCH Group is in the business of distributing and supplying a wide range of quarry-based products ranging from quarry industrial products, new 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 Malaysia and South-East Asia.

The Group's products are categorised into four major segments namely, supply of quarry industrial products, supply of quarry machinery, supply of spare parts for quarry machinery and manufacturing and distribution of quarry grill.

FINANCIAL PERFORMANCE REVIEW

| | 2018 | 2017 | Variance | |
|--|----------|---------|----------|----------|
| | RM'000 | RM'000 | RM'000 | % |
| <u>Statements of Comprehensive Income</u> | | | | |
| Revenue | 33,248 | 44,177 | (10,929) | (24.7) |
| Gross profit | 11,756 | 13,590 | (1,834) | (13.5) |
| Other operating income | 4,074 | 1,002 | 3,072 | >100.0 |
| Administrative expenses | (20,812) | (9,663) | (11,149) | (>100.0) |
| Selling and distribution expenses | (1,848) | (1,749) | (99) | 5.7 |
| Finance cost | (662) | (445) | (217) | 48.8 |
| (Loss)/Profit before tax | (7,491) | 2,735 | (10,226) | (>100.0) |
| <u>Statements of Financial Position</u> | | | | |
| Non-current assets | 94,113 | 23,927 | 70,186 | >100.0 |
| Current assets | 83,324 | 60,536 | 22,788 | 37.6 |
| Total liabilities | 93,426 | 19,989 | 73,437 | >100.0 |
| <u>Statements of Cash Flows</u> | | | | |
| Net cashflow from/(used in) operating activities | 5,312 | (1,827) | 7,139 | (>100.0) |
| Net cashflow used in investing activities | (63,961) | (708) | (63,253) | >100.0 |
| Net cashflow from financing activities | 58,097 | 6,038 | 52,059 | >100.0 |
| Cash and cash equivalents as at 31 August | 8,603 | 9,614 | (1,011) | (10.5) |

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

FINANCIAL PERFORMANCE REVIEW (cont'd)

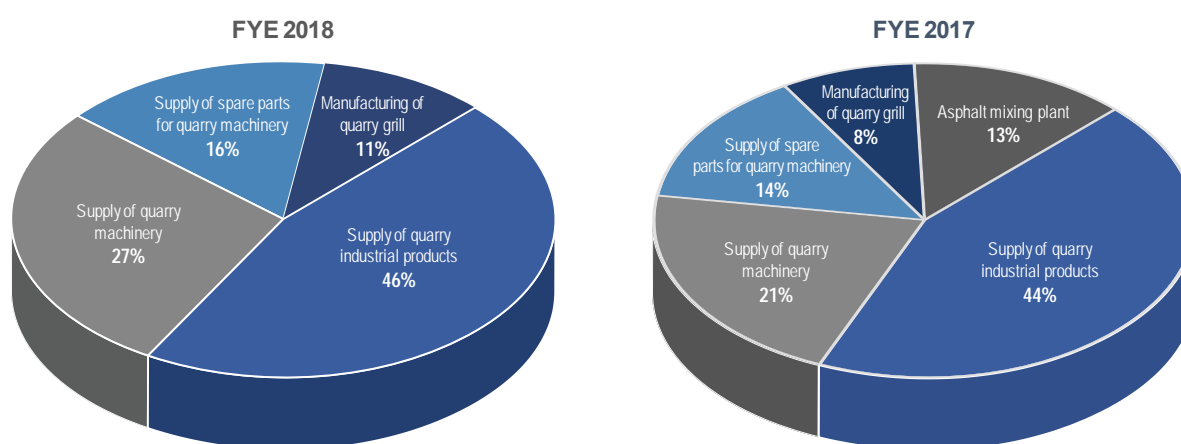
Review on Statements of Comprehensive Income

SCH Group recorded a total revenue of RM33.2 million in FYE 2018 as compared to RM44.2 million in FYE 2017, representing a decrease of RM10.9 million or 24.7%. The performance of the Group was negatively affected by the overall slowdown in the property and construction sector as well as cautious spending from quarry operators due to various market uncertainties during FYE 2018.

Supply of quarry industrial products remains the largest business segment of SCH Group, contributing 46.7% of the Group's total revenue in FYE 2018. In FYE 2018, revenue from this business segment amounts to RM15.5 million as compared to RM19.6 million in FYE 2017, representing a decrease of RM4.1 million or 20.9%. Similarly, revenue from our spare parts for quarry machinery and manufacturing and distribution of quarry grill business segments which collectively contribute 25.7% of our Group's total revenue in FYE 2018 has also decreased by 13.9% and 9.8% respectively as compared to FYE 2017.

Despite facing with less favourable market conditions, our Group managed to sell higher quantity of crawler drills machinery in FYE 2018 as compared to the previous financial year. This has mainly contributed to the increase in revenue generated from our quarry machinery, equipment and reconditioned quarry machinery business segment by 0.7% as compared to FYE 2017. In FYE 2018, revenue from this business segment amounts to RM9.2 million, representing 27.5% of our Group's total revenue.

Overall, the decrease in our Group's total revenue in FYE 2018 as compared to FYE 2017 is also contributed by the absence of revenue arising from the sale of an asphalt mixing plant in FYE 2017. Our revenue contribution by business segments are as follows:-



The overall decrease in our revenue by 24.7% in FYE 2018 has correspondingly resulted in a lower Gross Profit ("GP") by RM1.8 million or 13.5% as compared to FYE 2017. Despite lower revenue and GP, the Group's GP margin has improved to 35.4% in FYE 2018 as compared to 30.8% in FYE 2017. This is mainly attributed to lower cost of purchases resulting from the overall strengthening of Ringgit Malaysia against US Dollar during FYE 2018.

Our other operating income has increased more than 100.0% to RM4.1 million in FYE 2018 from RM1.0 million in FYE 2017 mainly due to negative goodwill of RM2.1 million for the acquisition of PK Fertilizers (Sarawak) Sdn Bhd ("PKF (Sarawak)"), gain on disposal of properties RM0.7 million, gain on disposal of motor vehicles RM0.3 million and insurance compensation of RM0.1 million.

The Group's operating expenses comprised of selling and distribution expenses, administrative expenses and other expenses. The Group's total operating expenses amounted to RM22.7 million in FYE 2018, representing an increase of 98.6% from RM11.4 million in FYE 2017. The significant increase in our operating expenses was mainly due to impairment of trade receivables and inventories amounting to RM2.6 million and RM8.0 million respectively. The increase is also due to higher commission paid for sales of quarry machinery in FYE 2018 as compared to FYE 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

FINANCIAL PERFORMANCE REVIEW (cont'd)

Review on Statements of Comprehensive Income (cont'd)

In addition, the Group also incurred professional fees amounting to RM1.2 million in relation to the various corporate exercises undertaken by the Group in FYE 2018. This includes the acquisition of two new subsidiaries, i.e. 100% equity interest in TK Rentals Sdn Bhd (formerly known as TK Tent & Air-Conditioning Rental Sdn Bhd) ("TK Rentals") which is principally involved in the business of renting and trading of mobile air conditioner, tent and event related equipment and tools and 83.3% equity interest in PKF (Sarawak) which is principally involved in the business of manufacturing, merchandising, trading and distribution of fertilizers.

Finance cost increase by 48.8% to RM0.7 million during FYE 2018 mainly due to the drawdown of a new term loan in prior year used to purchase of properties.

SCH Group recorded a loss before tax of RM7.5 million in FYE 2018 mainly due to higher impairment on trade receivables and inventories recognised amounting to RM10.6 million resulting from the cancellation of some major construction projects by the government thus affecting the outlook of construction related industries, this has also caused a decrease of 13.5% in GP due to less favourable market condition and the exclusion of revenue from the sale of an asphalt mixing plant.

Review on Statements of Financial Position

Non-current assets increased significantly by RM70.2 million to RM94.1 million as at 31 August 2018 as compared to RM23.9 million as at 31 August 2017. The increase was mainly due to the increase in property, plant and equipment amounting to RM41.4 million arising from the acquisition of TK Rentals and PKF (Sarawak). The Group also recognised a goodwill amounting to RM28.8 million in relation to the acquisition of TK Rentals.

The Group's current assets amounted to RM83.3 million as at 31 August 2018, representing an increase of 37.7% or RM22.8 million from RM60.5 million as at 31 August 2017. The increase was due to higher inventories and trade receivables balances by RM10.3 million and RM8.9 million respectively resulting mainly from the acquisition of TK Rentals and PKF (Sarawak). In addition, two units of properties located at Balakong and Johor Bahru, with an amount of RM2.1 million and RM0.4 million respectively, have been classified as held for sale as at 31 August 2018.

The Group's total liabilities increased by RM73.4 million to RM93.4 million as at 31 August 2018 from RM20.0 million as at 31 August 2017. The increase was mainly due to the drawdown of a new term loan amounting to RM43.0 million to finance the acquisition of TK Rentals and PKF (Sarawak) as well as an increase in trade payables and other term loans amounting to RM11.0 million and RM14.8 million respectively which is mainly arising from the acquisition of PKF (Sarawak).

Review on Statements of Cash Flow

The Group recorded a net cash from operating activities of RM5.3 million as at 31 August 2018 as compared to a net cash used in operating activities of RM1.8 million as at 31 August 2017. This was mainly due to improved collections from our trade receivables as well as the reduced in customers orders.

Net cash flow used in investing activities increased to RM64.0 million as at 31 August 2018 as compared to RM0.7 million as at 31 August 2017 mainly due to the acquisition of the two new subsidiary companies.

Net cash flow from financing activities increased to RM58.1 million as at 31 August 2018 as compared to RM6.0 million as at 31 August 2017 mainly due to the proceeds from issuance of shares amounting to RM23.8 million as well as the drawdown of a new term loan facility amounting to RM43.0 million. This was set-off by the decreased in foreign currency trade loans and bankers' acceptance by RM7.4 million collectively.

Capital Commitment

There were no authorised and contracted for capital commitments incurred or known to be incurred by the Group as at 31 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

cont'd

RISK RELATING TO OUR BUSINESS

Dependency on the quarry industry

SCH Group is primarily dependent on the quarry industry as most of our revenue were generated from the supply of industrial products, machinery and spare parts for the quarry industry. Our operations and financial performance may 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 in view of the major infrastructure projects mentioned in our future prospect section.

Foreign currency exchange fluctuation

SCH Group is exposed to foreign currency exchange fluctuation as most of the Group's purchases are denominated in foreign currencies such as United States Dollar ("USD"). In order to minimise the exposure to foreign currency fluctuations, the Group utilise letter of credit facility from licensed banks for larger purchases which are denominated in foreign currencies.

The 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.

Exposure to Credit Risk

The Group's exposure to credit risk arises primarily from trade and other receivables. It is the Group's objective to seek continual revenue growth while minimises any losses arising from impairment and bad debts from our trade and other receivables by dealing with creditworthy customers.

DIVIDEND

No dividend was proposed or declared in the FYE 2018.

FUTURE PROSPECT AND OUTLOOK

The Board remains optimistic with the prospect of SCH Group and sees various opportunities that the Group are able to capitalise to maintain its growth trajectory. To mitigate its dependency on its existing business portfolio and activities, the Group has put in place plans to diversify its earning base and enhance its revenue and profitability.

The recent completed acquisition of TK Rentals and 83.33% equity interest in PKF (Sarawak) is expected to contribute positively to the overall financial performance and future profitability of the enlarged Group. The positive outlook and prospect of the event equipment supply industry and fertilizer industry will augur well for the Company in expanding its services and product offerings.

Barring any unforeseen circumstances, the Board expects the relevant acquisition and diversification to contribute positively to the Group's net profit and net assets position moving forward.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“the Board”) of SCH Group Berhad strives to ensure that high standard of corporate governance practices are implemented and maintained throughout the Company and its subsidiaries in discharging its responsibilities with integrity, transparency and professionalism, to protect and enhance shareholders’ value and the financial position of the Group.

The Board recognises the importance of good corporate governance and fully supports the principles and best practices promulgated in the Malaysian Code on Corporate Governance 2017 (“MCCG 2017”) to enhance business prosperity and maximise shareholders’ value. The Board will continuously evaluate the Group’s corporate governance practices and procedures, and where appropriate will adopt and implement the best practices as enshrined in MCCG 2017 to the best interest of the shareholders of the Company.

Below is a statement and description in general on how the Group has applied the principles and complied with the best practice provisions as laid out in MCCG 2017 throughout the financial year ended 31 August 2018 pursuant to Rule 15.25 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”). The detailed application for each practice as set out in the MCCG 2017 is disclosed in the Corporate Governance Report (“CG Report”) which is available at the Company’s website at www.schgroup.com.my.

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

Part I – Board Responsibilities

1. Board’s Leadership on Objectives and Goals

1.1 Strategic Aims, Values and Standards

The respective roles and responsibilities of the Board and management are clearly set out and understood by both parties to ensure accountability.

The Board is responsible for overseeing and managing the Group which includes assessing the Group’s corporate objectives, and ensuring that the goals and targets are met by management. The Board has a formal schedule of matters reserved to itself for the decision, which includes the overall Group strategy and direction, major capital expenditures, consideration of significant financial matters and review of the financial and operating performance of the Group.

The management, including the Executive Directors of the Company, is responsible for managing the day-to-day running of the business activities in accordance with the direction and delegation of the Board. The management meets regularly to discuss and resolve operational issues. The Executive Director brief the Board on business performance and operations as well as the management initiatives during Board’s quarterly meetings. The Independent Non-Executive Directors are committed in upholding business integrity and exercising their independence between the executive and non-executive functions to ensure effectiveness of the decision-making process of the Board.

The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group’s affairs. Hence, to develop corporate objectives and job descriptions including the limits of management’s responsibilities, which the management is aware and are responsible for meeting.

The Board understands the principal risks of all aspects of the business that the Group is engaged in recognising that business decisions require the incurrance of risk. To achieve a proper balance between risks incurred and potential returns to shareholders, the Board ensures that there are systems in placed, that effectively monitor and manage these risks with a view to the long-term viability of the Group.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part I – Board Responsibilities (cont'd)

1. Board's Leadership on Objectives and Goals (cont'd)

1.1 Strategic Aims, Values and Standards (cont'd)

The principal roles and responsibility assumed by the Board are as follows:

- Review and Adopt Strategic Plans of the Group

The Board plays an active role in the development of the Group's overall corporate strategy, marketing plan and financial plan. The Board is presented with the short and long-term strategy of the Group together with its proposed business plans for the forthcoming year. The Board also monitors budgetary exercise which support the Group's business plan and budget plan.

- Oversight of the Group's Business

The day-to-day management of the business operations of the Group is led by the Executive Director and assisted by the Senior Management personnel. Their performance under the leadership of the Executive Director is assessed by the Board based on the financial and management reports tabled during its quarterly meetings. The Board is also kept updated on the Group's strategic direction initiatives, significant operational and regulatory challenges faced by the Group during these meetings.

- Review of Internal Control and Integrity of Management Information

The Board is overall responsible for maintaining a proper internal control system. The Board's responsibilities for the Group's system of internal controls include reviewing financial condition of the business, operational, regulatory compliance as well as risk management matters.

- Formulate and Put in Place an Appropriate Succession Plan

The Board is responsible to formulate and put in place an appropriate succession plan encompassing the appointment, training, and determination of compensation for the Directors and senior management of the Group, as well as assessing the performance of Directors and Committee members.

- Develop and Implement an Investor Relations Program or Shareholder Communications Policy for the Group

The Board recognises that shareholders and other stakeholders are entitled to be informed on a timely and readily accessible manner of all material information concerning the Company through a series of regular disclosure events during the financial year. Hence, the company's website is the primary medium in providing information to all shareholders and stakeholders.

1.1.1 Board Committees

In discharging its fiduciary duties, the Board has delegated specific tasks to four (4) Board Committees namely Audit Committee ("AC"), Nomination Committee ("NC"), Risk Management Committee ("RMC") and Remuneration Committee ("RC"). All the Board Committees have its own terms of reference and have the authority to act on behalf of the Board within the authority as laid out in the terms of reference and report to the Board with the necessary recommendation.

1.2 The Chairman of the Board

The Board is chaired by an Independent Non-Executive Director and half of the Board consists of Independent Non-Executive Directors. The Chairman being an Independent Non-Executive Director, is not involved in the day-to-day management of the Group's business and has no relationship that could materially interfere with his judgement. The Chairman is responsible to provide leadership for the Board so that the Board can perform its responsibilities effectively.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part I – Board Responsibilities (cont'd)

1. Board's Leadership on Objectives and Goals (cont'd)

1.3 Separation of the positions of the Chairman and Executive Director

There is a clear separation of duties and responsibilities of the Chairman and Executive Director to ensure a balance of power and authority so that no one individual has unfettered powers of decision making. The difference in the roles of the Chairman and Executive Director provides a clear segregation of responsibility and accountability.

The Chairman is not related to the Executive Director, and is responsible for leading the Board to oversee and supervise the Group's management; whilst the Executive Director is responsible for the day-to-day operations of the Group, making strategic business decisions and implement the Board's policies and decisions. There is clear separation of powers between the Chairman, who is an independent director and the Executive Director, and this further enhances the independence of the Board.

1.4 Qualified and Competent Company Secretaries

In compliance with MCGG 2017, the Board is supported by two (2) External Company Secretaries. The Company Secretaries of the Company are qualified to act as Company Secretary under Section 235 of the Companies Act, 2016 ("the Act"). The Company Secretary provides the required support to the Board in carrying out its duties and stewardship role, providing the necessary advisory role with regard to the Company's Constitution, Board's policies and procedures as well as compliance with all regulatory requirements, MCGG 2017, guidance and legislation.

The Board has ready and unrestricted access to the advice and services of the Company Secretaries, who are considered capable of carrying out the duties to which the post entails. The Directors may seek advice from the management on issues under their respective purview. The Directors may also interact directly with the management, or request further explanation, information or updates on any aspect of the Company's operations or business concerns from them.

The Company Secretaries keep the Board abreast with the latest regulatory updates and also ensure that deliberations at Board and Board Committee meetings are well documented.

The Board is satisfied with the performance and support rendered by the two (2) qualified and experienced Company Secretaries to the Board in discharge of its functions.

The Company Secretaries are accountable to the Board on all matters connected with the proper functioning of the Board and responsibility includes:

- assisting the Chairman and the Chairmen of the Board Committees in developing the agendas for the meetings;
- administering, attending and preparing the minutes of meetings of the Board, Board Committees and shareholders;
- acting as liaison to ensure good information flow within the Board, between the Board and its Committees as well as between management and the Directors;
- advising on statutory and regulatory requirements and the resultant implication of any changes that have bearing on the Company and the Directors;
- advising on matters of corporate governance and ensuring Board policies and procedures are adhered to;
- monitoring compliance with the Act, Listing Requirements and the Constitution of the Company;
- facilitating orientation of new director;
- disseminating suitable training courses and arranging for Directors to attend such courses when requested.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part I – Board Responsibilities (cont'd)

1. Board's Leadership on Objectives and Goals (cont'd)

1.5 Access to information and advice

Unless otherwise agreed, notice of each meeting confirming the venue, time, date and agenda of the meeting together with relevant Board papers will be forwarded to each director no later than seven (7) days before the date of the meeting. This is to ensure that Board papers comprising due notice of issues to be discussed and supporting information and documentations were provided to the Board sufficiently in advance. Furthermore, Directors are given sufficient time to read the Board papers and seek for any clarification as and when they may need advices or further explanation from management and Company Secretaries. The deliberations of the Board in terms of the issues discussed during the meetings and the Board's conclusions in discharging its duties and responsibilities are recorded in the minutes of meetings by the Company Secretaries.

The Board has access to all information within the Company to enable them to discharge their duties and responsibilities and is supplied on a timely basis with information and reports on financial, regulatory and audit matters by way of Board papers for informed decision making and meaningful discharge of its duties.

In addition, all Directors have direct access to the advice and services of the Company Secretaries who are responsible for ensuring the Board's meeting procedures are adhered to and that applicable rules and regulatory are complied with. External advisers are invited to attend meetings to provide insights and professional views, advice and explanation on specific items on the meeting agenda, when required. The senior management team from different business units will also be invited to participate in the Board meetings to enable all Board members to have equal access to the latest updates and developments of business operations of the Group presented by the senior management team. The Chairmen of the Board Committees, namely, the AC, NC, RMC and RC briefs the Board on matters discussed as well as decisions taken at the meetings of their respective Board Committee meetings.

When necessary, Directors may whether as a full Board or in their individual capacity, seek independent professional advice, including the internal and external auditors, at the Company's expense to enable the directors to discharge their duties with adequate knowledge on the matters being deliberated, subject to approval by the Chairman of the Board, and depending on the quantum of the fees involved.

The Board acknowledges that confidential information received remains the property of the Group, whether it relates to the Group or another entity. It will not be disclosed unless either the Chairman of the Board has so authorised in writing or disclosure is required by law.

2. Demarcation of Responsibilities

2.1 Board Charter

As part of governance process, the Board has formalised and adopted the Board Charter. The Board Charter sets out the composition and balance, roles and responsibilities, operations and processes of the Board and is to ensure that all Board members acting on behalf of the Company are aware of their duties and responsibilities as Board members.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part I – Board Responsibilities (cont'd)

2. Demarcation of Responsibilities (cont'd)

2.1 Board Charter (cont'd)

The Board Charter addresses, among others, the following matters:

- i) General outline of the Board's purpose;
- ii) An overview of the Board's roles and responsibilities;
- iii) Structure and membership;
- iv) A description of the role of the Chairman, the Executive Directors, the Non-Executive Directors as well as the Independent Directors;
- v) Board process;
- vi) Directors' remuneration;
- vii) Appointment of Board Committees;
- viii) Relationship with shareholders;
- ix) Code of Conduct and Ethics; and
- x) Whistle blowing policy.

The Board Charter is reviewed periodically to ensure that the dynamic needs of the Group are consistently met. A copy of the Board Charter is available on the Company's website at www.schgroup.com.my.

3. Good Business Conduct and Corporate Culture

3.1 Code of Conduct and Ethics

The Board is committed in maintaining a corporate culture which engenders ethical conduct through its Code of Conduct and Ethics, which summarises what the Company must endeavour to do proactively to increase corporate value, and which describes the areas in daily activities that require caution to minimise any risks that may occur.

The main thrust of the Code of Conduct and Ethics for Directors are in the following areas:

- i) Corporate Governance;
- ii) Relationship with shareholders, employees, customers and creditors; and
- iii) Social Responsibilities and the Environment

The Code of Conduct and Ethics for directors was adopted on 26 July 2016 and will be reviewed from time to time when there are significant developments requiring the Code of Conduct and Ethics for Directors to be amended. A copy of the Code of Conduct and Ethics is available at the Company's website at www.schgroup.com.my.

3.2 Whistle Blowing Policy and Procedures

The Board is committed in achieving and maintaining the highest standard of work ethics in the conduct of business in line with the Code of Conduct and Ethics and good corporate governance practices. The Group encourages its employees to report suspected and/or known misconduct, wrongdoings, corruption and instances of fraud, waste, and/or abuse involving the resources of the Group. This policy is to provide an avenue for all employees of the Group and members of the public to disclose any improper conduct in accordance with the procedures as provided for under this policy and to provide protection for employees and members of the public who report such allegations.

The policy is designed to give support to the following:

- i) Be committed to the Company's business ethics of Honesty, Integrity and Transparency;
- ii) To provide a transparent and confidential process for all parties to give information on non-compliances to the Code of Conduct and Ethics, or any misconduct regardless of his or her position, to an independent party to investigate the allegations and take the appropriate actions; and
- iii) To uphold the moral duty being a Company by protecting the interest of all its stakeholders.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part I – Board Responsibilities (cont'd)

3. Good Business Conduct and Corporate Culture (cont'd)

3.2 Whistle Blowing Policy and Procedures (cont'd)

A copy of the Whistle-Blowing Policy is available at the Company's website at www.schgroup.com.my.

Stakeholders, who have suspected fraud, misconduct or any integrity concerns, are encouraged to fill up a Whistle Blowing Report Form and email to:

Attention : Mr Sim Yee Fuan
 Designation : Audit Committee Chairman
 Email : samsim929@gmail.com

3.3 Strategies Promoting Sustainability

The Board ensures that the Company's strategies promote sustainability with attention given particularly to environmental, social and governance ("ESG") aspects of the business which underpins sustainability. The Board understands that balancing ESG aspects with the interests of various stakeholders is essential to enhance investor perception and public trust.

The Group is committed in its continuous efforts in maintaining a delicate balance between its sustainability agenda and other stakeholders' interest. The details of the sustainability efforts are set out in the "Corporate Sustainability Statement" of this Annual Report.

Part II – Board Composition

4. Board's objectivity

4.1 Composition of the Board

The current Board of Directors consists of six (6) members, comprising one (1) Executive Director, three (3) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors in consistent application with MCCG 2017. The profile of each Director is presented separately on pages 5 to 7 of this Annual Report.

The current Board consists of individuals of high calibre, experienced and are professionals in their respective fields. Together, this brings a wide range of industry specific knowledge, broad based business and commercial experience that are vital to the Board's success.

The roles and responsibilities of the Independent Non-Executive Directors and Executive Director are clearly defined and properly segregated. All the Independent Non-Executive Directors are independent of the Executive Director, management and major shareholders of the Company, and are free from any business or other relationship with the Group that could materially interfere with the exercise of their independent judgement. This offers a check and balance on the Board's deliberations.

The Executive Director is responsible for the overall performance and operations as well as the corporate affairs and administrations of the Group. He is assisted by the senior management personnel of the Group in managing the business activities of the Group in the manner that is consistent with the policies, standards, guidelines, procedures and/or practices of the Group and in accordance with the specific plans, instructions and directions set by the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

4. Board's objectivity (cont'd)

4.1 Composition of the Board (cont'd)

The Independent Non-Executive Directors of the Company play a key role in providing unbiased and independent views, advice and contributing their knowledge and experience toward the formulation of policies and in the decision making process. The Board structure ensures that no individual or group of individuals dominates the Board's decision-making process. Although all the Directors have equal responsibility for the Company and the Group's operations, the role of the Independent Non-Executive Directors are particularly important in ensuring that the strategies proposed by the Executive Director are deliberated on and have considered the interest, not only of the Company, but also that of the shareholders, employees, customers, suppliers and the community.

4.2 Re-election of Directors

The procedure on the re-election of directors by rotation is set out in the Company's Constitution. All Directors who are appointed by the Board during the year are subject to re-election by shareholders at the first meeting after their appointment. Constitution provide at least one-third (1/3) of the remaining Directors are subject to re-election by rotation at each Annual General Meeting and retiring directors can offer themselves for re-election. All Directors shall retire from office at least once in every three (3) years, but shall be eligible for re-election.

Upon the recommendation of the NC and the Board, the Directors who are standing for re-election and re-appointment at the forthcoming Annual General Meeting of the Company to be held in year 2019 are as stated in the Notice of Annual General Meeting.

4.3 Tenure of Independent Directors

As at the date of this statement, none of the independent directors have served the Company for more than nine (9) years.

4.4 Policy of Independent Director

Currently, the Board does not have a policy on the tenure for Independent Directors as the Board is of the view that a term of more than nine (9) years may not necessarily impair independence and judgement of an Independent Director and therefore the Board does not deem it appropriate to impose a fixed term limit for Independent Directors at this juncture.

However, as recommended by the MCCG 2017, the tenure of an independent director should not exceed a cumulative term of nine (9) years. Upon completion of a nine (9) years term, an independent director may continue to serve on the Board subject to the director's re-designation as a non-independent director. In the event the Board intends to retain such Director as Independent Director after the latter has served a cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval at a general meeting, normally the annual general meeting of the Company.

As at 31 August 2018, the tenure of the Independent Non-Executive Directors of the Company are as follows:

| | < 1 Year | 1-3 Years | 4-7 Years | 8-9 Years |
|-----------------------|----------|-----------|-----------|-----------|
| Sim Yee Fuan | | | √ | |
| Gan Khong Aik | | | √ | |
| Dato' Chan Choun Sien | √ | | | |

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

4. Board's objectivity (cont'd)

4.4 Policy of Independent Director (cont'd)

As at the date of this statement, none of the independent directors have served the Company for more than nine (9) years as per the recommendations of MCCG 2017.

4.5 Diverse Board and Senior Management Team

Appointment of Board and Senior Management are based on objective criteria, merit and besides gender diversity, due regard are placed for diversity in skills, experience, age and cultural background.

4.6 Gender Diversity

The Board is aware of the importance of boardroom diversity and is supportive of the recommendation of MCCG 2017 to the establishment of boardroom and workforce gender diversity policy. However, the Board does not adopt any formal boardroom diversity policy in the selection of new Board candidates and does not have specific policies on setting the target for female candidates in the Group. The Group basically evaluates the suitability of candidates as a new Board member or as a member of the workforce based on the candidates' competency, skills, character, time commitment, knowledge, experience and other qualities in meeting the needs of the Group, regardless of gender. Equal opportunity is given and does not practice discrimination of any form, whether based on age, gender, race and religion, throughout the organisation.

Currently, our Board does not comprise any female director. In line with the country's aspirational target of 30% representation of women on boards, the Board will evaluate and match the criteria of the potential candidate as well as considering the boardroom diversity for any newly proposed appointment of directors of the Company in the future.

4.7 New Candidates for Board Appointment

The proposed appointment of a new member to the Board will be deliberated on by the full Board based upon the recommendation of the NC. Before any recommendation made to the Board, the NC will ensure that an appropriate review is undertaken to ensure the requirement and qualification of the candidate nominated based on a prescribed set of criteria comprising but not limited to the following:

- a) Skills, knowledge, expertise and experience;
- b) Professionalism;
- c) Integrity;
- d) Existing number of directorships held;
- e) Confirmation of not being an undischarged bankrupt or involved in any court proceedings in connection with the promotion, formation or management of a corporation or involving fraud or dishonesty punishable on conviction with imprisonment or subject to any investigation by any regulatory authority under any legislation; and
- f) In the case of candidates being considered for the position of independent director, such potential candidates have the ability to discharge such responsibilities/functions as expected from independent non-executive directors. Amongst others, the potential candidates must fulfil the criteria used in the definition of "independent directors" prescribed by the Listing Requirements of Bursa Securities and being able to bring independent and objective judgement to the Board. Where required, the members of the Committee would meet up with potential candidates for the position of director to assess the suitability.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

4. Board's objectivity (cont'd)

4.7 New Candidates for Board Appointment (cont'd)

The appointment of new Directors is the responsibility of the full Board after considering the recommendations of the NC. As a whole, the Company maintains a very lean number of Board members. The Board appoints its members through a formal and transparent selection process which is consistent with the Constitution of the Company. This process has been reviewed, approved and adopted by the Board. The Company Secretaries are tasked to ensure all appointments are properly made and all necessary information is obtained from the Directors, for the Company's records and for the purposes of meeting statutory obligations as well as obligations arising from the Listing Requirements.

Generally, the Board adopts a flexible approach when selecting and appointing new directors depending upon the circumstances and timing of the appointment. The NC will help assess and recommend to the Board, the candidature of directors, the appointment of directors to board committees, review of Board's succession plans and training programmes for the Board.

In general, the process for the appointment of a director to the Board is as follows:

- (i) The NC reviews the Board's composition through Board assessment/evaluation;
- (ii) The NC determines skills matrix;
- (iii) The NC evaluates and matches the criteria of the candidates, and will consider diversity, including gender, where appropriate;
- (iv) The NC recommends to the Board for appointment; and
- (v) The Board approves the appointment of the candidates.

During the financial year, the Board appointed two (2) new members, namely Dato' Ong Choo Meng (Non-Independent Non-Executive Director) and Dato' Chan Choun Sien (Independent Non-Executive Chairman).

4.8 Nomination Committee

The Board has established a NC which comprised exclusively Independent Non-Executive Directors, with the responsibilities of assessing the balance composition of Board members, nominate the proposed Board member by considering his skills and expertise for contribution to the Company on an ongoing basis.

The Terms of Reference of the NC can be viewed at the Company's website at www.schgroup.com.my.

The present members of the NC of the Company are:

| Designation | Name | Directorship |
|-------------|-----------------------|------------------------------------|
| Chairman | Gan Khong Aik | Independent Non-Executive Director |
| Member | Dato' Chan Choun Sien | Independent Non-Executive Chairman |
| Member | Sim Yee Fuan | Independent Non-Executive Director |

The NC shall meet at least once a year unless otherwise determined by the NC. The quorum for a meeting shall be at least two (2) members, majority members present must be Independent Non-Executive Directors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

4. Board's objectivity (cont'd)

4.8 Nomination Committee (cont'd)

The functions of the NC are summarised as follows:

- i) to undertake an annual review of the Board's succession plans, taking into consideration, the present size, structure and composition of the Board and Board Committees as well as the required mix of skills, experience and competency required and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- ii) to facilitate the evaluation on the effectiveness of the Board as a whole, the various Committees and each individual Director's contribution to the effectiveness on the decision making process of the Board;
- iii) to consider succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future;
- iv) responsible for identifying and make the recommendation to the Board on new candidates for election/appointment to the Board or to fill board vacancies as and when they arise;
- v) to ensure that orientation and education programmes are provided for new members of the Board;
- vi) to recommend to the Board concerning the re-election/re-appointment of Director to the Board pursuant to the provisions in the Company's Constitution;
- vii) to undertake an annual review of the training programmes attended by the Directors for each financial year as well as the training programmes required to aid the Directors in the discharge of their duties as Directors and to keep abreast with industry developments and trends; and
- viii) to provide a report summarising its activities for the year in compliance with the MCGG 2017, Listing Requirements and any relevant regulations. The report can be incorporated into the corporate governance statement in the annual report or included in as a separate report.

The summary of activities undertaken by the NC during the financial year included the following:

- i) Reviewed the effectiveness of the Board, as a whole, Board Committees and individual Directors and make appropriate recommendation to the Board;
- ii) Reviewed and recommended the retirement and re-election of Directors at the forthcoming Annual General Meeting in accordance with the Company's Constitution; and
- iii) Reviewed the qualification of Directors to be appointed and made recommendation to the Board for appointment of Directors.

5. Overall Board Effectiveness

5.1 Annual evaluation

The NC will conduct an assessment of the performance of the Board, as a whole, Board Committees and individual Directors, based on a self-assessment approach on an annual basis. From the results of the assessment, including the mix of skills, experience, tenure and other core qualities possessed by Directors, the Board will consider and approve the recommendations on the re-election and re-appointment of Directors at the Company's forthcoming Annual General Meeting, with a view to meeting current and future requirements of the Group.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

5. Overall Board Effectiveness (cont'd)

5.1 Annual evaluation (cont'd)

The criteria used by the NC in evaluating the performance of an individual, including contribution to interaction, integrity, competency and time commitment of the members of the Board and Board Committees in discharging their duties, are in a set of questionnaires. Each of the Directors will perform a self assessment on an annual basis. The Board did not engage any external party to undertake an independent assessment of the Directors.

Based on the assessment conducted for the financial year 2018, the Board and the NC is satisfied with the current size, composition as well as the mix of qualifications, skills and experience among the Board members and the independence of its Independent Non-Executive Directors.

5.2 Annual Assessment of Independence

Annual assessments will be conducted by NC on annual basis and the criteria for assessment covers areas such as contributions to interaction, roles and responsibilities and quality of input to enhance the Board's effectiveness. The independence of Independent Directors is assessed based on their relationship with the Group and their involvement in any significant transactions with the Group including their ability to exercise independent judgment at all times and based on the criteria set out in the Listing Requirements of Bursa Securities.

Based on the assessment carried out during the financial year ended 31 August 2018, the Board is satisfied with the level of independence demonstrated by all the Independent Directors and their ability to act in the best interests of the Company during the financial year under review, and that each of them continues to fulfil the definition of independence as set out in the Listing Requirements of Bursa Securities.

5.3 Board Commitment

5.3.1 Time Commitment and Directorship in Other Public Listed Companies

Under the Board Charter, the directorships in other public listed companies in Malaysia held by any Board member at any one time shall not exceed any number as may be prescribed by the relevant authorities. In addition, at the time of appointment, the Board shall obtain the Director's commitment to devote sufficient time to carry out his responsibilities. Directors are required to notify the Chairman before accepting any new directorship(s). The notification would include an indication of the time that will be spent on the new appointment(s). Any Director is, while holding office, at liberty to accept other Board appointments in other companies so long as the appointment is not in conflict with the Company's business and does not affect the discharge of his/her duty as a Director of the Company. To ensure the Directors have the time to focus and fulfill their roles and responsibilities effectively, one (1) criterion as agreed by the Board is that they must not hold directorships at more than five (5) public listed companies as prescribed in Rule 15.06 of the Listing Requirements.

Each Board member is expected to achieve at least 50% attendance of total Board Meetings in any applicable financial year with appropriate leave of absence be notified to the Chairman and/or Company Secretaries, where applicable.

The Directors have demonstrated their ability to devote sufficient time and commitment to their roles and responsibilities as Directors of the Company. The Board is satisfied with the level of time and commitment given by the Directors of the Company towards fulfilling their duties and responsibilities. This is evidenced by the attendance record of the Directors as set out in the section below.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

5. Overall Board Effectiveness (cont'd)

5.3 Board Commitment (cont'd)

5.3.2 Record of Attendance at Board Meetings

The Board will normally hold meetings at least four (4) times in each financial year to consider:

- i) relevant operational reports from the management;
- ii) reports on the financial performance;
- iii) specific proposals for capital expenditure and acquisitions, if any;
- iv) major issues and opportunities for the Company, if any; and
- v) quarterly financial statements for the announcement to authorities.

In addition, the Board will, at intervals of not more than one (1) year:

- i) to approve annual financial statements and other reports to shareholders;
- ii) consider and, if appropriate, declare or recommend the payment of dividends (if any);
- iii) review the Board composition, structure and succession plan of the Board;
- iv) review the Company's audit requirements;
- v) review the performance of and composition of Board committees;
- vi) undertake Board and individual Board member evaluations;
- vii) review Board's remuneration; and
- viii) review risk assessment policies and controls and compliance with legal and regulatory requirements.

The following is the record of attendance of each of the Directors of the Company at the Board meetings held during the financial year:-

| Name of Directors | No. of Meeting Attended |
|--------------------------------------|-------------------------|
| Chan Wan Choon ⁽¹⁾ | 6/6 |
| Lau Mong Ling ⁽²⁾ | 6/6 |
| Khoo Chee Siang | 6/6 |
| Wong Kin Seng | 6/6 |
| Koh Chen Foong ⁽³⁾ | 4/6 |
| Liew Fook Meng ⁽⁴⁾ | 3/6 |
| Sim Yee Fuan | 5/6 |
| Gan Khong Aik | 5/6 |
| Dato' Ong Choo Meng ⁽⁵⁾ | N/A |
| Dato' Chan Choun Sien ⁽⁶⁾ | N/A |

Notes

- (1) Mr Chan Wan Choon resigned as director of the Company on 15 October 2018.
- (2) Mr Lau Mong Ling resigned as director of the Company on 1 November 2018.
- (3) Mr Koh Chen Foong resigned as director of the Company on 30 July 2018.
- (4) Mr Liew Fook Meng resigned as director of the Company on 30 July 2018.
- (5) Dato' Ong Choo Meng was appointed as director of the Company on 1 August 2018.
- (6) Dato' Chan Choun Sien was appointed as director of the Company on 1 August 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

5. Overall Board Effectiveness (cont'd)

5.3 Board Commitment (cont'd)

5.3.2 Record of Attendance at Board Meetings (cont'd)

The Board meets on a quarterly basis, with amongst others, review the operations, financial performance, reports from the various Board Committees and other significant matters of the Group. Where any direction or decisions are required expeditiously or urgently from the Board between the regular meetings, special Board meetings will be convened by the Company Secretaries, after consultation with the Chairman. Additionally, in between Board meetings, the Directors also approved various matters requiring the sanction of the Board by way of circular resolutions.

The tentative dates for Board and Board Committee meetings for the year will be circulated by the Company Secretaries well in advance towards the end of the previous year to ensure that each of the Directors is able to attend the planned Board and/or Board Committee meetings including that of the Annual General Meeting. At the end of each Board and AC meetings, the date of the next meetings is to be re-confirmed.

5.3.3 Continuing Education Programs

All Directors appointed to the Board have undergone the Mandatory Accreditation Program ("MAP") prescribed by Bursa Securities. Although the Board does not have a policy requiring each Director to attend a specific number and types of training sessions each year, the Directors are encouraged to attend continuous education programmes/seminars/conferences and shall as such receive further training from time to time to keep themselves abreast of the latest development in statutory laws, regulations and best practices, where appropriate, in line with the changing business environment and enhance their business acumen and professionalism in discharging their duties to the Group.

The Board has undertaken an assessment of the training needs of each Director and ensured that all the Directors undergo the necessary training programme to enable them to effectively discharge their duties.

Details of seminars/conferences/training programmes attended by the Board members during the financial year as listed below:

| Name of Director | Seminars/Conferences/Training Programmes Attended |
|-------------------------------|---|
| Chan Wan Choon ⁽¹⁾ | <ul style="list-style-type: none"> Nil |
| Lau Mong Ling ⁽²⁾ | <ul style="list-style-type: none"> Nil |
| Khoo Chee Siang | <ul style="list-style-type: none"> Advocacy session on corporate disclosure for Directors and principal officers of listed issuers Sustainability reporting workshops for Practitioners for Ace Market. |
| Wong Kin Seng | <ul style="list-style-type: none"> Nil |
| Sim Yee Fuan | <ul style="list-style-type: none"> National Tax Seminar 2017 by Inland Revenue Board of Malaysia Economic Outlook 2018 Malaysia : Outlook and Strategy 2018 2018 Market Outlook - Another year of challenges and opportunities Malaysian Code on Corporate Governance and Bursa's Listing requirements |

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part II – Board Composition (cont'd)

5. Overall Board Effectiveness (cont'd)

5.3 Board Commitment (cont'd)

5.3.3 Continuing Education Programs (cont'd)

Details of seminars/conferences/training programmes attended by the Board members during the financial year as listed below: (cont'd)

| Name of Director | Seminars/Conferences/Training Programmes Attended |
|--------------------------------------|---|
| Gan Khong Aik | <ul style="list-style-type: none"> International Bar Association Conference in Sydney Continuing Legal Education by Gan Partnership on <ul style="list-style-type: none"> (a) Handling of Financial Expert Course (b) Assessment of damages (c) Assignment International Arbitration Award Writing |
| Koh Chen Foong ⁽³⁾ | <ul style="list-style-type: none"> Mandatory Accreditation Programme (MAP). |
| Liew Fook Meng ⁽⁴⁾ | <ul style="list-style-type: none"> Directors' Continuing Education Programme 2018 |
| Dato' Ong Choo Meng ⁽⁵⁾ | <ul style="list-style-type: none"> Riding The Wave of National Transformation |
| Dato' Chan Choun Sien ⁽⁶⁾ | <ul style="list-style-type: none"> Nil |

Notes

- (1) Mr Chan Wan Choon resigned as director of the Company on 15 October 2018.
 (2) Mr Lau Mong Ling resigned as director of the Company on 1 November 2018.
 (3) Mr Koh Chen Foong resigned as director of the Company on 30 July 2018.
 (4) Mr Liew Fook Meng resigned as director of the Company on 30 July 2018.
 (5) Dato' Ong Choo Meng was appointed as director of the Company on 1 August 2018.
 (6) Dato' Chan Choun Sien was appointed as director of the Company on 1 August 2018.

Saved as disclosed above, other Directors of the Company were not able to select any suitable training programmes to attend during the financial year due to travelling for business overseas and their occupied working schedule. However, they have constantly been updated with relevant reading materials and technical updates, which will enhance their knowledge and equip them with the necessary skills to effectively discharge their duties as Directors of the Company.

The Board will on continuing basis evaluate and determine the training needs of each Director, particularly on relevant new law and regulations and essential practices for effective corporate governance and risk management to enable the Directors to effectively discharge their duties.

In addition to the above, Directors will be updated on recent developments in the areas of statutory and regulatory requirements from the briefing by the External Auditors, the Internal Auditors and Company Secretaries during the Committee and Board Meetings.

Part III – Remuneration

6. Level and Composition of Remuneration

6.1 Remuneration Policies and Procedures

The Board believes that SCH should have a fair remuneration policy to attract, retain and motivate directors. It has established a RC to review and ensure that the remuneration of its members fairly reflect the Board's and members' responsibilities, the expertise required by SCH and the complexity of its operations. The said remuneration should also be in line with the business strategy and long term objectives of SCH.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part III – Remuneration (cont'd)

6. Level and Composition of Remuneration (cont'd)

6.2 Remuneration Committee

The Board has set up a RC which comprises exclusively Independent Non-Executive Directors in order to assist the Board for determining the Director's remuneration.

The RC meets when required and is entrusted, among others, with examining the remuneration packages and other benefits of the Executive Director. The contribution, responsibilities and performance of each Executive Director is taken into account when determining their respective remuneration packages.

However, the ultimate responsibility to approve the remuneration of the Directors remains with the Board as a whole. The respective Director is not involved in any discussions and/or deliberations with regards to their own remuneration.

The Terms of Reference of the RC can be viewed at the Company's website at www.schgroup.com.my.

The present members of the RC are as follow:

| Designation | Name | Directorship |
|-------------|-----------------------|------------------------------------|
| Chairman | Dato' Chan Choun Sien | Independent Non-Executive Chairman |
| Member | Sim Yee Fuan | Independent Non-Executive Director |
| Member | Gan Khong Aik | Independent Non-Executive Director |

The functions of the RC are summarised as following:

- i) to review and recommend to the Board the framework of remuneration of the Executive Directors and Principal Officers;
- ii) to review and determine the annual salary increment, performance bonus, and short term/long term incentives (including share grant and bonus) for Executive Directors and Principal Officers depending on various performance measurements of the Group;
- iii) to review and determine the other benefits in kind for the Executive Directors and Principal Officers;
- iv) to review the Group's compensation policy and ensure alignment of compensation to corporate performance, and compensation offered in line with market practice;
- v) to review and recommend the remuneration for Non-Executive Directors taking into consideration the fee levels and trends for similar positions in the market, time commitment required from the director and any additional responsibilities undertaken by the particular Non-Executive Directors concerned; and
- vi) to recommend the engagement of external professional advisors to assist and/or advise the Committee and the Board, on remuneration matters, where necessary.

The summary of activities undertaken by the RC during the financial year included the following:

- (a) Reviewed and recommended the payment of directors' fees to the non-executive Directors; and
- (b) Reviewed and recommended the payment of Directors' fees and other benefits payable to Directors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part III – Remuneration (cont'd)

7. Remuneration of Directors and Senior Management

The remunerations of the Executive Directors are determined fairly based on the performance and the profitability of the Group as a whole. The Directors' remuneration is at the discretion of the Board, taking into account the comparative market rates that commensurate with the level of contribution, experience and participation of each Director. The overriding principle adopted in setting the remuneration packages for the Executive Directors by the RC is to ensure that the Company attracts and retains the appropriate Directors of the calibre needed to run the Group successfully.

The determination of the remuneration for Non-Executive Directors is a matter of the Board as a whole. The level of remuneration for Non-Executive Directors reflects the amount paid by other comparable organisations, adjusted for the experience and levels of responsibilities undertaken by the particular Non-Executive Directors concerned. The remuneration package of Non-Executive Directors will be a matter to be deliberated by the Board, with the Director concerned abstaining from deliberations and voting on deliberations in respect of his individual remuneration. In addition, the Company also reimburses reasonable out-of-pocket expenses incurred by all the Non-Executive Directors in the course of their duties as Directors of the Company. The aggregate annual Directors' fees and other benefits payable are to be approved by shareholders at the Annual General Meeting based on recommendations of the Board.

7.1 Details of Directors' Remuneration and Senior Management

The respective Directors are abstained from discussing and deliberating on their own remuneration and Directors' fees and it has to be approved by shareholders at the Annual General Meeting ("AGM"). The details of the remuneration of the Directors of the Company comprising remuneration received/receivable from the Company and subsidiary company during the financial year ended 31 August 2018 are as follows:-

| Directors | Fees (RM'000) | Salaries and * other emoluments (RM'000) | Total (RM'000) |
|--------------------------------------|------------------|--|-------------------|
| Chan Wan Choon ⁽¹⁾ | 42 | 4 | 46 |
| Lau Mong Ling ⁽²⁾ | - | 602 | 602 |
| Khoo Chee Siang | - | 472 | 472 |
| Wong Kin Seng | - | 472 | 472 |
| Koh Chen Foong ⁽³⁾ | 28 | 2 | 30 |
| Liew Fook Meng ⁽⁴⁾ | 28 | 2 | 30 |
| Sim Yee Fuan | 30 | 3 | 33 |
| Gan Khong Aik | 30 | 3 | 33 |
| Dato' Ong Choo Meng ⁽⁵⁾ | 2 | - | 2 |
| Dato' Chan Choun Sien ⁽⁶⁾ | 2 | - | 2 |

Notes:

* Other emoluments include the meeting allowance for the Directors' attendance in Board and Board's Committee Meetings.

(1) Mr Chan Wan Choon resigned as director of the Company on 15 October 2018.

(2) Mr Lau Mong Ling resigned as director of the Company on 1 November 2018.

(3) Mr Koh Chen Foong resigned as director of the Company on 30 July 2018.

(4) Mr Liew Fook Meng resigned as director of the Company on 30 July 2018.

(5) Dato' Ong Choo Meng was appointed as director of the Company on 1 August 2018.

(6) Dato' Chan Choun Sien was appointed as director of the Company on 1 August 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS (cont'd)

Part III – Remuneration (cont'd)

7 Remuneration of Directors and Senior Management (cont'd)

7.2 Remuneration of Top Five Senior Management

The remuneration paid to the top five senior management during the financial year ended 31 August 2018 analyzed into bands of RM50,000 are as follows:-

| Range of Remuneration | Number of Senior Management |
|------------------------|-----------------------------|
| RM150,001 to RM200,000 | 1 |
| RM200,001 to RM250,000 | 1 |
| RM250,001 to RM300,000 | - |
| RM300,001 to RM350,000 | 2 |
| RM350,001 to RM400,000 | - |
| RM400,001 to RM450,000 | 1 |

Details of total remuneration received by the senior management are not disclosed in this report as the Board is of the view that the above remuneration disclosure by band satisfies the accountability and transparency aspects of the MCCG.

B. EFFECTIVE AUDIT AND RISK MANAGEMENT

Part I – Audit Committee

8.1 Chairman of Audit Committee

The AC is chaired by an Independent Director who is distinct from the Chairman of the Board.

8.2 Former Key Audit Partner

None of the Board member is the former key audit partner of the External Auditors, Messrs ECOVIS AHL PLT and the Directors do not foresee any new appointment of former key audit partner to the Board. However, the Board will observe the cooling-off period before appointing the former key audit partner, if any.

8.3 Assessment of Suitability and Independence of External Auditors

The Company has established a transparent and appropriate relationship with the Company's External Auditors. The Auditors will highlight to the Audit Committee and the Board on matters that require the Board's attention.

The AC is responsible for reviewing the audit, recurring audit-related and non-audit services provided by the External Auditors. The AC has been explicitly accorded the power to communicate directly with both the External Auditors and Internal Auditors. The terms of engagement for services provided by the External Auditors are reviewed by the AC prior to submission to the Board for approval. The effectiveness and performance of the External Auditors are reviewed annually by the AC.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

B. EFFECTIVE AUDIT AND RISK MANAGEMENT (cont'd)

Part I – Audit Committee (cont'd)

8.3 Assessment of Suitability and Independence of External Auditors (cont'd)

To assess or determine the suitability and independence of the External Auditors, the AC has taken into consideration of the following:

- i) the adequacy of the experience and resources of the External Auditors;
- ii) the External Auditor's ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan;
- iii) the nature of the non-audit services provided by the External Auditors and fees paid for such services relative to the audit fee; and
- iv) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the External Auditors.

Annual appointment or re-appointment of the External Auditors is via shareholders' resolution at the Annual General Meeting on the recommendation of the Board. The External Auditors are being invited to attend the Annual General Meeting of the Company to response and reply to the Shareholders' enquiries on the conduct of the statutory audit and the preparation and contents of the audited financial statement.

Where necessary, the AC will meet with the External Auditors without the presence of Executive Director and members of management to ensure that the independence and objectivity of the External Auditors are not compromised and matters of concerns expressed by the AC are duly recorded by the Company Secretaries.

In presenting the Audit Planning Memorandum to the AC, the External Auditors have highlighted their internal policies and procedures with respect to their audit independence and objectivity which include safeguards and procedures and independent policy adopted by them. The External Auditors have also provided the required independence declaration to the AC and the Board for the financial year ended 31 August 2018.

The AC is satisfied with the competence and independence of the External Auditors for the financial year under review. Having regard to the outcome of the annual assessment of the External Auditors, the Board approved the AC's recommendation for the shareholders' approval to be sought at the Annual General Meeting on the re-appointment of Messrs ECOVIS AHL PLT as the External Auditors of the Company for the financial year ending 31 August 2019.

8.4 Composition of the Audit Committee

The AC comprises three (3) Non-Executive Directors and all of the AC members are Independent Directors. The present members of the AC are:

| Designation | Name | Directorship |
|-------------|-----------------------|------------------------------------|
| Chairman | Sim Yee Fuan | Independent Non-Executive Director |
| Member | Dato' Chan Choun Sien | Independent Non-Executive Chairman |
| Member | Gan Khong Aik | Independent Non-Executive Director |

In the financial year, the AC had three (3) meetings with the External Auditors during the audit planning, presentation of the interim and final audit results. In these meetings, the External Auditors also advised the AC on the new accounting standards and internal control issues relating to financial reporting.

The terms of reference and summary of activities of the AC are set out in the Audit Committee Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

B. EFFECTIVE AUDIT AND RISK MANAGEMENT (cont'd)

Part II – Risk Management and Internal Control Framework

9. Effective Risk Management and Internal Control Framework

The Board is entrusted with the overall responsibility of continually maintaining a sound system of internal controls, which covers not only financial controls but also operational and compliance controls as well as risk management, and the need to review its effectiveness regularly in order to safeguard shareholders' investments and the Company's assets. The internal control system is designed to access current and emerging risks and respond appropriately to the risks encountered.

As an effort to enhance the system of internal controls, the Board together with the assistance of external professional Internal Audit firm adopted on-going monitoring and review the existing of risk management process in place within the various business operations, with the aim of formalising the risk management functions across the Group. This function also acts as a source to assist the AC and the Board to strengthen and improve current management and operating style in pursuit of best practices.

As an ongoing process, significant business risks faced by the Group are identified and evaluated and consideration is given to the potential impact of achieving the business objectives. This includes examining principal business risks in critical areas, assessing the likelihood of material exposures and identifying the measures taken to mitigate, avoid or eliminate these risks.

Another initiative done by the Company in effectively progressing in monitoring effective risk management and internal control within the Company, the Board has set up a Risk Management Committee (RMC) comprises three (3) members of the RMC that are:

| Designation | Name | Directorship |
|-------------|-----------------------|------------------------------------|
| Chairman | Gan Khong Aik | Independent Non-Executive Director |
| Member | Dato' Chan Choun Sien | Independent Non-Executive Chairman |
| Member | Wong Kin Seng | Executive Director |

The information on the Group's internal control is further elaborated in page 40 on the Statement on Risk Management and Internal Control of this Annual Report.

10. Internal Audit Function

The Board has engaged a professional service provider to assume the Internal Audit Function of the Group. The Internal Auditors conduct regular audit reviews and assess the effectiveness and adequacy of the governance, risk management and internal controls in the Group. These reviews are reported to the AC directly by the Internal Auditors.

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Part I – Communication with Stakeholders

11. Continuous Communication between Company and Stakeholders

11.1 Corporate Disclosure Policies and Procedures

The Board recognises the need for transparency and accountability to the Company's shareholders as well as regular communication with its shareholders, stakeholders and investors on the performance and major developments in the Company. The Company ensures that timely releases of the quarterly financial results, press releases and corporate announcements are made to its shareholders and investors, which are clear, unambiguous, succinct, accurate, and contains sufficient and relevant information.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (cont'd)

Part I – Communication with Stakeholders (cont'd)

11. Continuous Communication between Company and Stakeholders (cont'd)

11.1 Corporate Disclosure Policies and Procedures (cont'd)

In order to maintain its commitment to effective communication with shareholders, the Group embraces the practice of comprehensive, timely and continuing disclosures of information to its shareholders as well as the general investing public.

The practice of disclosure of information is to adopt the best practices recommended in the MCCG 2017 with regard to strengthening engagement and communication with shareholders, it is not only established just to comply with the Listing Requirements.

The Group also endeavours to provide additional disclosures of information on a voluntary basis, where necessary. The management believes that consistently maintaining a high level of disclosure and extensive communication is vital to shareholders and investors in making informed investment decisions.

Besides the above, the Company's Annual Report and financial results are dispatched on an annual basis to the shareholders to provide an overview of the Group's business activities and performances. The Share Registrar is available to attend to administrative matters relating to shareholders' interests. The Company strives to provide a high level of transparency reporting in order to provide value for users.

11.2 Leverage on Information Technology for Effective Dissemination of Information

The Company's website at www.schgroup.com.my incorporates an Investor Relations section which provides all relevant information on the Company accessible to the public. This section enhances the investor relations function by including all the corporate information and profile of the Group business activities, financial information, stock information, annual report, quarterly reports, company announcements, corporate governance including the Board Charter, Code of Conduct and Ethics for Directors and terms of reference of Board Committees.

The quarterly financial results are announced to Bursa Securities after the Board's approval. This is important in ensuring equal and fair access to information by the investing public.

Shareholders and investors may also forward their queries to the Company via email to mary.schgroup@gmail.com.

11.3 Dialogue with Shareholders

In addition to the dissemination of information to shareholders and other interested parties via announcements to Bursa Securities, its website, circulars and press releases, the Board views that the annual and any extraordinary general meetings as ideal opportunities to communicate with shareholders.

The Chairman or the Executive Director of the Company will brief shareholders on the Company's projects and elaborate further on proposals for which the approval of shareholders is being sought at the general meeting.

Whilst the Company aims to provide as much information as possible to its shareholders, it is also mindful of the legal and regulatory framework governing the release of material and price-sensitive information.

11.4 Financial Reporting

The Board strives to provide shareholders with a balanced and meaningful evaluation of the Group's financial performance, financial position and prospects through the annual audited financial statements, interim financial reports, annual report and announcements to Bursa Securities.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (cont'd)

Part I – Communication with Stakeholders (cont'd)

11. Continuous Communication between Company and Stakeholders (cont'd)

11.4 Financial Reporting (cont'd)

The interim financial reports, annual audited financial statements and annual report of the Group for the financial year ended 31 August 2018 are prepared in accordance with the Malaysian Financial Reporting Standards, Listing Requirements and the Companies Act, 2016. The Board is assisted by the AC in overseeing the financial reporting processes and ensuring the quality of its financial reporting.

The statement by the Board pursuant to Rule 15.26(a) of the Listing Requirements on its responsibilities in preparing the financial statements is set out as below in this Annual Report.

11.5 Statement of Directors' Responsibility In Relation to the Financial Statements

The Directors are required by the Companies Act 2016 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards so as to give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group for the financial year ended 31 August 2018, the Group has used the appropriate accounting policies and applied them consistently and supported by reasonable and prudent judgments and estimates. The Directors also consider that all applicable approved accounting standards have been complied with and further confirm that the financial statements have been prepared on a going concern basis.

The Directors are responsible for ensuring that the Company keeps proper accounting records with reasonable accuracy of the financial position of the Company. The Directors are to ensure that the financial statements comply with mandatory provisions of the Companies Act, 2016, the Malaysian Financial Reporting Standards and the Listing Requirements of Bursa Securities. The Directors are also responsible for taking such reasonable steps to safeguard the assets of the Group and to minimise fraud and other irregularities.

Part II – Conduct of General Meetings

12.1 Annual General Meeting

The Annual General Meeting ("AGM") is the principal forum for dialogue with the shareholders. The Annual Report together with the Notice of AGM is sent to registered shareholders at least twenty-one (28) days before the meeting. The Notice of AGM, which sets out the business to be transacted at the AGM, is also published in a major local newspaper. Where special business items appear in the Notice of AGM, an explanatory note will be included as a footnote to enlighten shareholders on the significance and impact when shareholders deliberate on a resolution. At the AGM, shareholders are encouraged to participate, speak, vote and to demand a poll vote. Shareholders are given the opportunity to seek clarification on any matters pertaining to the business activities and financial performance of the Group. Shareholders are also encouraged to make their views known to the Board and to raise directly any matters of concern. Members of the Board as well as management are present to answer questions raised at these meetings. Apart from contacts at general meetings, currently there is no other formal program or schedule of meetings with investors, shareholders, stakeholders and the public generally. However, the management has the option of calling for meetings with investors/analysts if it deems necessary. Thus far, the management is of the opinion that the existing arrangement has been satisfactory.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (cont'd)

Part II – Conduct of General Meetings (cont'd)

12.2 Poll Voting

In line with Rule 8.31A of the Listing Requirements, the Company will ensure that any resolution set out in the notice of any general meeting, or in any notice of resolution which may properly be moved and is intended to be moved at any general meeting, is voted by poll. At the same time, the Company will appoint at least one (1) scrutineer to validate the votes cast at the general meeting.

12.3 Effective Communication and Proactive Engagement

The Group maintains its effective communication with shareholders by adopting timely, comprehensive, and continuing disclosures of information to its shareholders as well as the general investing public and adopts the best practices recommended by the MCCG 2017 with regards to strengthening engagement and communication with shareholders.

To this end, the Group relies on the following channels for effective communication with the shareholders and stakeholders:

- i) Interim financial reports to provide updates on the Group's operations and business developments on a quarterly basis;
- ii) Annual audited financial statements and annual report to provide an overview of the Group's state of governance, state of affairs, financial performance and cash flows for the relevant financial year;
- iii) Corporate announcements to Bursa Securities on material developments of the Group, as and when necessary and mandated by the Listing Requirements; and
- iv) Annual General Meetings.

Shareholders and stakeholders may raise their concerns and queries by contacting the Registered Office of the Group, the details of which as provided under the "Corporate Information" section of this Annual Report. The Share Registrar is also available to attend to administrative matters relating to shareholder interests.

COMPLIANCE STATEMENT

Saved as disclosed above, the Board is of the view that the Group has complied with and shall remain committed to attaining the highest possible standards through the continuous adoption of the principles and best practices set out in MCGG 2017 and all other applicable laws, where applicable and appropriate.

CORPORATE SUSTAINABILITY STATEMENT

SCH Group is committed in creating long term value for the shareholders, environment and society through innovation and overall operational excellence as our initiative on sustainability.

Being wary of the need to be a corporately responsible organisation, the Group undertook various steps to play its part in contributing to the welfare of the society and communities in the environment it operates. The Group recognises that for long term sustainability, its strategic orientation will need to look beyond the financial parameters. Hence, the Group supports important causes such as donation to the needy, community services, promoting a healthy and safety culture within the organisation.

Welfare within the Organisation

Constant review of our workplace and policies to provide a conducive working environment and ensure proper development and utilisation of its human resources. We continuously place high emphasis on health and safety issues at our work sites. Necessary tools and protective gears are provided to our employees to ensure that they are adequately protected. We also enforce stringent compliance requirements so that health and safety issues are not compromised. Personal development is important and employees are encouraged to improve their knowledge through attendance at relevant seminars and workshops.

Social Awareness

The Group continues its social roles to support the community by contributing to several needy and charitable organisations through donations. Employees are encouraged and supported to actively participate in social work and community service.

The Environment

The Group is accountable for the impact of its business operations on the environment. We constantly review and monitor our operations to make positive contribution to the environment, economic and social wellbeing of our stakeholders, employees and the broader community. We also work very closely with environment enforcement agency with periodic consultation arrangements and visits so that our manufacturing activities are always in line with environmental standards and legislation. In the office, we continuously encourage employees to recycle and/or reduce wastage on the consumption of raw materials so that waste disposals are kept to the minimum.

The Market

SCH Group maintains high integrity of corporate governance practices as well as enhancing the shareholders' value. We believe in conducting business fairly, impartially and in full compliance with all laws and regulations. Honesty and integrity underlie all of our relationships, including those with customers, vendors, contractors, business community at large and among employees.

AUDIT COMMITTEE REPORT

The primary objective of the Audit Committee is to establish a documented, formal and transparent procedure to assist the Board in fulfilling its fiduciary responsibilities relating to corporate accounting, financial reporting practices, a system of risk management and internal control, the audit process and the process of monitoring compliance with laws and regulations.

The present members of the Audit Committee are as follows:

| Designation | Name | Directorship |
|-------------|-----------------------|------------------------------------|
| Chairman | Sim Yee Fuan | Independent Non-Executive Director |
| Member | Dato' Chan Choun Sien | Independent Non-Executive Chairman |
| Member | Gan Khong Aik | Independent Non-Executive Director |

Terms of Reference

The terms of reference of the Audit Committee which laid down its duties and responsibilities are accessible via the Company's website at www.schgroup.com.my.

Attendance of Meetings

During the financial year ended 31 August 2018, the Audit Committee held five (5) meetings. Details of the attendance of committee members are as follow:

| Members | Meeting Attendance |
|--------------------------------------|--------------------|
| Sim Yee Fuan | 5/5 |
| Dato' Chan Choun Sien ⁽¹⁾ | N/A |
| Gan Khong Aik | 4/5 |
| Chan Wan Choon ⁽²⁾ | 5/5 |

Notes:

(1) Dato' Chan Choun Sien was appointed as director of the Company on 1 August 2018.

(2) Chan Wan Choon resigned as director of the Company on 15 October 2018.

Summary Activities of the Audit Committee during the Year

In line with the term of reference of the Audit Committee, the following activities were carried out by the Audit Committee in the discharge of its functions and duties during the financial year:

- i) Reviewed the quarterly unaudited financial results and audited financial statements of the Group and the Company including the announcements pertaining thereto, before recommending to the Board for their approval and release of the Group's unaudited financial results and audited financial statements to Bursa Securities;
- ii) Reviewed with external auditors of their audit planning memorandum on the statutory audit of the Group for the financial year ended 31 August 2018;
- iii) Reviewed and discussed with the external auditors of their audit findings inclusive of system evaluation, audit fees, issues raised, audit recommendations and management's response to these recommendations;
- iv) Reviewed and assessed the adequacy of the scope and functions of the Internal Audit plan;
- v) Reviewed the effectiveness of the Group's system of internal controls;
- vi) Reviewed the proposed final audit fees for the External Auditors and Internal Auditors in respect of their audit of the Company and the Group;

AUDIT COMMITTEE REPORT

cont'd

Summary Activities of the Audit Committee during the Year (cont'd)

In line with the term of reference of the Audit Committee, the following activities were carried out by the Audit Committee in the discharge of its functions and duties during the financial year: (cont'd)

- vii) Evaluated the performance of the External Auditors for the financial year ended 31 August 2018 covering areas such as calibre, quality processes, audit team, audit scope, audit communication, audit governance and independence as well as the audit fees of the External Auditors and considered and recommended the re-appointment of the External Auditors;
- viii) Reviewed related party transactions and conflict of interest situation that may arise within the Company or the Group;
- ix) Reviewed the Company's compliance with the Listing Requirements, applicable Approved Accounting Standards and other relevant legal and regulatory requirements;
- x) Report to the Board on its activities and significant findings and results; and
- xi) Reviewed and recommended to the Board for approval, the Audit Committee Report, Corporate Governance Overview Statement and Statement on Risk Management and Internal Control for inclusion in the 2018 Annual Report.

Internal Audit Functions

The Group has appointed an established external professional Internal Audit firm namely ECO Asia Advisory Sdn. Bhd., headed by Mr Woon Soon Fai, Fellow Members of the Association of Chartered Certified Accountants (FCCA). He has vast experience and exposure in the Internal Audit field. He was assisted by one other Internal Auditor professional staff in this assignment during the financial year under review. The Internal Audit firm appointed by the Company is independent of activities related to business operations and performs its duties in accordance with standards set by relevant professional bodies.

The Internal Auditors assist the Audit Committee in reviewing the effectiveness of the internal control systems whilst ensuring that there is an appropriate balance of controls and risks throughout the Group in achieving its business objectives. With the internal audit function being put in place, remedial actions can be taken in relation to weaknesses identified and noted in the systems and controls of the respective operating units. The setting up of the internal audit function is geared towards increasing efficiency and better management of resources in all aspects of the Group's operations.

The costs incurred for the internal audit function in respect of the financial year under review is approximately RM10,000.00.

The functions of the outsourced Internal Auditors are to:

- i) Perform audit work in accordance with the pre-approved internal audit plan, which covers reviews of the internal control system, risk management and follow up audits to address observations reported in preceding internal audit visits;
- ii) Carry out reviews on the systems of internal control of the Group;
- iii) Review and comment on the effectiveness and adequacy of the existing internal control policies and procedures; and
- iv) Provide recommendations, if any, for the improvement of the internal control policies and procedures.

AUDIT COMMITTEE REPORT

cont'd

Internal Audit Functions *(cont'd)*

During the financial year under review, the following activities were carried out by the internal auditors in discharge of its responsibilities on the audit planned for the year:

- i) to review the inventory management process for Sin Chee Heng Sdn Bhd; and
- ii) to review the inventory management process for Sin Chee Heng (Johore) Sdn Bhd.

The findings of the activities carried out by the internal auditors is set out in item 3 of the Statement on Risk Management and Internal Control.

The Audit Committee and the Board are satisfied with the performance of the outsourced Internal Auditors and have in the interest of greater independence and continuity in the internal audit function, taken the decision to continue with the outsourcing of the Internal Audit function.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors of SCH is pleased to provide the following Statement on Risk Management and Internal Control pursuant to Rule 15.26(b) of the Listing Requirements and as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (“the Guidelines”).

BOARD’S RESPONSIBILITIES

The Board recognises the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibility for maintaining a sound system of risk management and internal control, and for reviewing its adequacy and integrity. In addition, the Board has also received assurance from the Executive Director that the Group’s risk management and internal control system is operating adequately and effectively, in all material aspects.

Due to inherent limitations in any risk management and internal control system, such system put into effect by management is designed to manage rather than eliminate risks that may impede the achievement of the Group’s business objectives. Therefore, the risk management and internal control system can only provide reasonable and not absolute assurance against material misstatements or errors.

The Board through its Audit Committee has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes enhancing the risk management and internal control system as and when there are changes to the business environment and regulatory requirements. The process is reviewed by the Board and the Audit Committee on a periodic basis.

Management assists the Board in the implementation of the Board’s policies and procedures on risk and control by identifying and assessing the risks faced by the Group, and in the design and operation of suitable internal controls to mitigate these risks identified.

The Board is of the view that the risk management and internal control system is in place for the year under review and up to the date of issuance of the annual report is adequate and effective to safeguard the shareholders’ investment, the interests of customers, regulators, employees and the Group’s assets.

KEY FEATURES OF THE GROUP’S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Key elements that have been established in the Group’s risk management and internal control system are described below:

1. Risk Management System

Risk management is firmly embedded in the Group’s management system as the Board firmly believes that risk management is critical for the Group’s sustainability and the enhancement of shareholder value. Key management staff and Heads of Department are delegated with the responsibility to manage identified risks within standards. Significant risks affecting the Group’s strategic and business plans are escalated to the Board at their scheduled meetings.

2. Internal Control System

- i) A well-defined organisational structure with clear lines of accountability and responsibilities provide a sound framework within the organisation in facilitating check and balance for proper decision making at the appropriate authority levels of management including matters that require the Board’s approval.
- ii) A documented delegation of authority that sets out decisions that need to be taken and the appropriate levels of management involved including matters that require the Board’s approval.
- iii) The Board of Directors and Audit Committee meet at least once on a quarterly basis to review and deliberate on financial reports, annual financial statements, internal audit reports and etc. Discussions with management were held to deliberate on the actions that are required to be taken to address internal control issues identified.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (cont'd)

2. Internal Control System (cont'd)

- iv) Internal policies and procedures had been established for key business units within the Group.
- v) The Internal Audit function reports directly to the Audit Committee. Findings are communicated to Management and the Audit Committee with recommendations for improvements and follow-up to confirm all agreed recommendations are implemented. The Internal Audit plan is reviewed and approved by the Audit Committee; and
- vi) Scheduled operational and management meetings are held internally from time to time to discuss and review the business plans, budgets, financial and operational performances of the Group. The quarterly financial statements are presented to the Audit Committee and Board for their review and approval. The Board also plays an active role in discussing and reviewing the business plans, strategies, performance and risks faced by the Group.

3. Internal Audit Function

The Group's internal audit function is outsourced to an independent professional firm, to assist the Board and Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

During the financial year ended 31 August 2018, internal audit visits were carried out based on the approved audit plan to review the inventory management process for Sin Chee Heng Sdn Bhd and Sin Chee Heng (Johore) Sdn Bhd. The findings of the internal audit, including the recommended corrective actions, were presented directly to the Audit Committee.

In addition, follow up review will be conducted to ensure that corrective actions have been implemented on a timely manner. Based on the internal audit review conducted, certain weaknesses surrounding the assessment of slow-moving inventories for the companies under review was highlighted to the management. In FYE 2018, the Group has provided a provision on slow-moving inventories.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the annual report of the Group for the financial year ended 31 August 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the Group's risk management and internal control system.

MANAGEMENT'S ASSURANCE

The Executive Director, representing the management, has given reasonable assurance to the Board that the Group's risk management and internal control systems are adequate and effective, in all material aspects, based on the risk management and internal controls adopted by the Group and similar assurance given by the respective heads of operations.

CONCLUSION

For the financial year under review, there were no significant internal control deficiencies or material weaknesses resulting in material losses or contingencies requiring disclosure in the Annual Report. The Board is of the view that the existing Group's system of risk management and internal control is adequate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognisant of the fact that the Group's system of risk management and internal control practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the Group's system of internal control and risk management framework.

OTHER DISCLOSURE REQUIREMENTS

Pursuant to the Listing Requirements of Bursa Securities

1. UTILISATION OF PROCEEDS FROM PRIVATE PLACEMENT

On 18 July 2018 and 25 July 2018, the Company had completed its Private Placement exercise following the listing and quotation of 103,000,000 new ordinary shares on the Ace Market of Bursa Malaysia Securities Berhad.

The total proceeds received from the private placement was RM17,550,000 and utilization of proceeds are stated below:

| Purpose | Notes | Proposed Utilisation (RM) | Actual Utilisation (RM) | Balance Utilisation (RM) | Time frame for utilisation of proceeds from the date of listing of the Placement Shares |
|---|-------|------------------------------|----------------------------|-----------------------------|---|
| Acquisition of new businesses | (a) | 14,000,000 | 14,000,000 | - | Within 18 months |
| Working capital requirements | (b) | 3,200,000 | 2,337,000 | - | Within 12 months |
| Estimated expenses relating to the Proposed Private Placement | (c) | 350,000 | 350,000 | 863,000 | Within 1 month |
| Total | | 17,550,000 | 16,687,000 | 863,000 | |

Notes:

- (a) The proceeds raised was for the acquisition of two new subsidiaries Companies comprises of TK Rentals Sdn Bhd (formerly known as TK Tent & Air-Conditioning Rental Sdn. Bhd.) and PK Fertilizers (Sarawak) Sdn. Bhd.
- (b) Relates to the funding of acquisition of additional inventories of quarry machineries and equipment for trading business activities.
- (c) The estimated expenses relating to the Private Placement consist of professional fees and fees payable to the relevant authorities. Any excess or shortfall of the actual proceeds raised will be adjusted against the utilization of the working capital of the Company.

2. AUDIT AND NON-AUDIT FEE PAID TO EXTERNAL AUDITORS

During the financial year, the amount of audit and non-audit fees paid/payable to the external auditors by the Company and the Group respectively for the financial year ended 31 August 2018 were as follows:

| | Company (RM) | Group (RM) |
|---|-----------------|---------------|
| Audit Services Rendered | 59,000 | 184,788 |
| Non-Audit Services Rendered | | |
| (a) Review of Statement of Risk Management & Internal Control | 2,000 | 2,000 |
| (b) Due Diligence | 85,000 | 85,000 |

OTHER DISCLOSURE REQUIREMENTS

Pursuant to the Listing Requirements of Bursa Securities
cont'd

3. MATERIAL CONTRACTS

Save as disclosed below, there are no other material contracts (including contracts not reduced into writing), entered into in the ordinary course of business which have been entered into by the Company and/or its subsidiaries involving Directors' and major shareholders' interests during the financial year under review:

- a. On 2 February 2018, the Company entered into a share sale agreement with Hextar Holdings Sdn Bhd for the acquisition of the entire equity interest in TK Rentals Sdn Bhd (formerly known as TK Tent & Air-Conditioning Rental Sdn Bhd) for a cash consideration of RM50,000,000. The said share sale agreement was completed on 28 August 2018.
- b. On 5 March 2018, the Company entered into a share sale agreement with PK Fertilizers Sdn Bhd for the acquisition of 83.33% equity interest in PK Fertilizers (Sarawak) Sdn Bhd for a purchase consideration of RM19,054,811. The said share sale agreement was completed on 28 August 2018.
- c. On 5 June 2018, a subsidiary company, Sin Chee Heng Sdn. Bhd. entered into a sale and purchase agreement with Top Good Properties Holdings Sdn Bhd, to dispose a freehold property, held under Geran 118306 Lot 37285 Pekan Kajang, District of Ulu Langat State of Selangor, bearing the postal address as 3 Jalan Teras 3, Kawasan Perindustrian Teras, Balakong, 43300 Cheras, Selangor for a total consideration of RM 4,600,000. The said sale and purchase agreement is pending completion.

4. MATERIAL CONTRACTS RELATING TO LOANS

During the financial year, there were no material contracts relating to loans entered into by the Company and its subsidiaries involving Directors', chief executive's and/or major shareholders' interests.

5. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE AND TRADING NATURE ("RRPT")

The Company is seeking approval from the shareholders for the proposed new shareholders' mandate for SCH Group to enter into RRPT(s) of a revenue or trading nature pursuant to Rule 10.09 and Guidance Note 8 of the Listing Requirements at the forthcoming Annual General to be convened on Tuesday, 22 January 2019.



Financial Statements

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DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 August 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of investment holding. The principal activities of the subsidiary companies are disclosed in Note 6 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

| | Group RM | Company RM |
|---|-------------|---------------|
| Loss for the financial year, attributable to owners of the parent | (8,057,870) | (1,485,992) |

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

The Directors do not recommend the payment of any dividend for the financial year ended 31 August 2018.

ISSUE OF SHARES AND DEBENTURES

On 22 June 2018, the issued and paid up share capital of the Company was increased from RM52,129,101 to RM52,156,721 by way of issuance of 276,200 new ordinary shares each pursuant to the exercise of the free detachable warrants issued by the Company to entitled shareholders on 8 December 2016 ("Warrants 2016/2021") for RM0.10 per share. Details of Warrants 2016/2021 are disclosed in Note 14 to the financial statements.

On 18 July 2018, the issued and paid up share capital of the Company was increased from RM52,156,721 to RM63,256,721 by way of issuance of 60,000,000 new ordinary shares each pursuant to the proposed private placement for RM0.185 per shares.

On 25 July 2018, the issued and paid up share capital of the Company was increased from RM63,256,721 to RM69,706,721 by way of issuance of 43,000,000 new ordinary shares each pursuant to the proposed private placement for RM0.15 per shares.

On 3 August 2018, the issued and paid up share capital of the Company was increased from RM69,706,721 to RM76,506,721 by way of issuance of 40,000,000 new ordinary shares each pursuant to the placement of shares for the acquisition of new subsidiary at fair value of RM0.17 per share.

The new ordinary shares issued during the financial year rank pari passu in all respects with existing ordinary shares of the Company.

There was no issuance of debentures during the financial year.

The total number of unexercised Warrants as at 31 August 2018 amounted to 205,839,310.

DIRECTORS' REPORT

cont'd

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

DIRECTORS

The Directors in office since the date of the last report up to the date of this report are:

| | |
|-----------------------|-------------------------------|
| Gan Khong Aik | |
| Sim Yee Fuan | |
| Khoo Chee Siang | |
| Wong Kin Seng | |
| Dato' Chan Choun Sien | (Appointed on 1 August 2018) |
| Dato' Ong Choo Meng | (Appointed on 1 August 2018) |
| Koh Chen Foong | (Resigned on 30 July 2018) |
| Liew Fook Meng | (Resigned on 30 July 2018) |
| Chan Wan Choon | (Resigned on 15 October 2018) |
| Lau Mong Ling | (Resigned on 1 November 2018) |

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholding required to be kept under Section 59 of the Companies Act, 2016, the interests and deemed interests of Directors in office at the end of the financial year in the shares of the Company or its subsidiaries during the financial year (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) are as follows:

| | ← Number of ordinary shares in the Company → | | | |
|-------------------------|--|-------------|-----------|------------------|
| | At 01.09.2017 | Acquired | Disposed | At 31.08.2018 |
| Direct Interest | | | | |
| Chan Wan Choon | 8,120,700 | - | 4,000,000 | 4,120,700 |
| Lau Mong Ling | 23,873,224 | - | - | 23,873,224 |
| Sim Yee Fuan | 50,000 | - | - | 50,000 |
| Gan Khong Aik | 420,000 | - | - | 420,000 |
| Khoo Chee Siang | 27,217,900 | - | - | 27,217,900 |
| Wong Kin Seng | 360,000 | 20,090,083 | - | 20,450,083 |
| Dato' Chan Choun Sien | - | 400,000 | - | 400,000 |
| Deemed interest | | | | |
| Dato' Ong Choo Meng # | - | 151,733,900 | - | 151,733,900 |
| Dato' Chan Choun Sien * | - | 200,000 | - | 200,000 |

| | ← Number of warrant 2016/2021 in the Company → | | | |
|-----------------|--|----------|------------------------|------------------|
| | At 01.09.2017 | Acquired | Exercised/ Disposed | At 31.08.2018 |
| Chan Wan Choon | 4,060,350 | - | - | 4,060,350 |
| Gan Khong Aik | 210,000 | - | - | 210,000 |
| Sim Yee Fuan | 25,000 | - | - | 25,000 |
| Khoo Chee Siang | 3,101,450 | - | 3,101,450 | - |
| Wong Kin Seng | 75,000 | - | - | 75,000 |

Deemed interest for the shares held by Hextar Holdings Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016.

* Deemed interest for the shares held by his family members.

DIRECTORS' REPORT

cont'd

DIRECTORS' INTERESTS IN SHARES *(cont'd)*

By virtue of their interests in the shares of the Company, the above Directors are also deemed interested in the shares of all the subsidiary companies during the financial year to the extent that the Company has interest.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than the aggregate amount of Directors' remuneration due and receivable by Directors as shown in Note 26 to the financial statements) by reason of a contract made by the Company or a related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain Directors received remuneration from the Company's related corporations.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INDEMNITY AND INSURANCE FOR DIRECTORS, OFFICERS AND AUDITORS

The Group and the Company did not maintain Directors', officers' and auditors' liability insurance or provide indemnity thereof for purpose of Section 289 to the Companies Act 2016 throughout the financial year.

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:
 - (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to be realised in the accounting records in the ordinary course of business including the value of current assets as shown in the accounting records of the Company had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances:
 - (i) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
 - (iii) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading; or
 - (iv) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (c) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
 - (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.

DIRECTORS' REPORT

cont'd

OTHER STATUTORY INFORMATION *(cont'd)*

(d) In the opinion of the Directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due;
- (ii) the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature;
- (iii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

SUBSIDIARIES

The details of the Company's shareholding in its subsidiaries are disclosed in Note 6 to the financial statements.

SIGNIFICANT EVENTS

The significant events are disclosed in Note 32 to the financial statements.

AUDITORS' REMUNERATION

The details of auditors' remuneration are disclosed in Note 25 to the financial statements.

AUDITORS

The auditors, ECOVIS AHL PLT, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors on 10 December 2018,

WONG KIN SENG

Director

KHOO CHEE SIANG

Director

Kuala Lumpur

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act, 2016

We, **Wong Kin Seng** and **Khoo Chee Siang**, being two of the Directors of **SCH Group Berhad**, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 54 to 116 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 August 2018 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors on 10 December 2018,

WONG KIN SENG

Director

KHOO CHEE SIANG

Director

Kuala Lumpur

STATUTORY DECLARATION

Pursuant To Section 251(1) of the Companies Act, 2016

I, **Khoo Chee Siang**, being the Director primarily responsible for the financial management of **SCH Group Berhad**, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 54 to 116 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the)
abovenamed at Kuala Lumpur in the)
Federal Territory on 10 December 2018)

KHOO CHEE SIANG (21553)

Before me,

COMMISSIONER FOR OATHS
YM TENGKU FARIDDUDIN BIN TENGKU SULAIMAN
No. W533

INDEPENDENT AUDITORS' REPORT

To the Members of **SCH Group Berhad**

(Company No. 972700-P)

(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of **SCH Group Berhad** ("the Company") and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 August 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 54 to 116.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 August 2018, and of their financial performance and their cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) issued by the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

How our audit addressed the key audit matters

Impairment review on goodwill

Refer to Note 7 – Impairment test for goodwill.

The Group recorded goodwill of RM28,756,903 as at 31 August 2018, arising from the acquisition of a subsidiary, TK Rentals Sdn. Bhd. (formerly known as TK Tent & Air Conditioning Rental Sdn. Bhd.).

We considered this to be an area of focus for our audit as the amount involved are significant, the assessment process is complex and involves significant management's judgements about future market and economic conditions and changes in key assumptions may lead to a significant change in the recoverable amount of the CGU.

Our audit procedures included, among others, the following:

- Agreed the cash flow projection to the financial budgets approved by the Directors;
- Discussed with management the key assumptions used in the cash flows forecast;
- Assessed and discussed with management on the reasonableness of the discount rate and growth rates;
- Analysed the sensitivity of key assumption by assessing the impact of changes to key assumption to recoverable amount of CGU.

Based on the procedure performed, no material exceptions were noted.

INDEPENDENT AUDITORS' REPORT

To the Members of **SCH Group Berhad**
(Company No. 972700-P)
(Incorporated in Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd)

Key Audit Matters (cont'd)

Key audit matters

How our audit addressed the key audit matters

Inventories

Refers to Note 8 – Inventories.

As at 31 August 2018, the Group's inventories amounted to RM32,580,352 and is representing 18.4% of total assets of the Group.

The Group's inventories are measured at the lower of cost or net realisable value. Valuation of inventories is a key audit matter due to the demand and ability of the Group to sell the inventories in the future may be adversely affected by changes in customer demand and construction industry. There is judgement involved in assessing the level of inventory provision required in respect of slow moving inventories.

Our audit procedures included, among others, the following:

- obtaining an understanding of:
 - the Group's inventory management process; and
 - how the Group identified and assessed slow-moving or obsolete inventories;
- reviewing the stock movement report and stock aging report to identify slow moving aged items;
- attending year end physical inventory count to observe physical existence and condition of raw material and finished goods and assessing the implementation of controls during the count.; and
- reviewing the net realisable value on selected samples of inventory items to test management's evaluation and ensuring that the inventories have been written down.

Based on the procedure performed, no material exceptions were noted.

Impairment of trade receivables

Refer to Note 9 – Trade receivables.

As at 31 August 2018, the Group's trade receivables amounted to RM29,359,069, representing 16.5% of total assets of the Group. The Group has material credit exposure in its trade receivables and the amount of trade receivables that are past due but not impaired amounted to RM13,624,177.

The impairment of trade receivables involved judgement in the assessment of the recoverability of trade receivables and assumptions when assessing the level of allowance for doubtful debts required to write down the value of trade receivables. Management's assumptions involve specific known facts or circumstances on customers' ability to pay and by reference to past default experience.

Our audit procedures included, among others, the following:

- reviewing the ageing analysis of trade receivables and testing the accuracy of the ageing;
- enquiring management regarding action plans to recover overdue amounts;
- reviewing subsequent collection from major and overdue trade receivables; and
- evaluating the reasonableness and adequacy of the impairment of trade receivables.

Based on the procedure performed, no material exceptions were noted.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises Chairman's Statement, Management Discussion & Analysis, Corporate Sustainability Statement, Corporate Governance Overview Statement, Audit Committee Report and Statement on Risk Management and Internal Control which obtained prior to the date of this auditors' report, and other sections in 2018 Annual Report, which is expected to be made available to us after that date. Other information does not included the financial statements of the Group and of the Company and our auditors' report thereon.

INDEPENDENT AUDITORS' REPORT

To the Members of **SCH Group Berhad**

(Company No. 972700-P)

(Incorporated in Malaysia)

cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd)

Information Other than the Financial Statements and Auditors' Report Thereon (cont'd)

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group and of the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole that free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and of the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

INDEPENDENT AUDITORS' REPORT

To the Members of **SCH Group Berhad**
(Company No. 972700-P)
(Incorporated in Malaysia)
cont'd

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 6 to the financial statements.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ECOVIS AHL PLT
AF 001825
Chartered Accountants

Kuala Lumpur
10 December 2018

CHUA KAH CHUN
No. 02696/09/2019 J
Chartered Accountant

STATEMENTS OF FINANCIAL POSITION

As at 31 August 2018

| | Note | Group | | Company | |
|--|------|-------------|------------|-------------|------------|
| | | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Non-current assets | | | | | |
| Property, plant and equipment | 5 | 65,355,797 | 23,926,510 | - | - |
| Investment in subsidiary companies | 6 | - | - | 99,513,411 | 31,258,600 |
| Goodwill on consolidation | 7 | 28,756,903 | - | - | - |
| | | 94,112,700 | 23,926,510 | 99,513,411 | 31,258,600 |
| Current assets | | | | | |
| Inventories | 8 | 32,580,352 | 22,232,334 | - | - |
| Trade receivables | 9 | 29,359,069 | 20,475,065 | - | - |
| Other receivables | 10 | 2,152,076 | 3,396,401 | 23,700 | 1,518,700 |
| Amount due from subsidiary companies | 11 | - | - | 16,000,000 | 16,543,967 |
| Tax recoverable | | 2,934,229 | 1,925,317 | 13,240 | 18,611 |
| Fixed deposits with financial institutions | 12 | 8,367,109 | 9,085,364 | - | 2,035,611 |
| Cash and bank balances | | 5,476,851 | 3,044,118 | 1,168,521 | 26,142 |
| | | 80,869,686 | 60,158,599 | 17,205,461 | 20,143,031 |
| Assets classified as held for sale | 13 | 2,454,622 | 376,960 | - | - |
| | | 83,324,308 | 60,535,559 | 17,205,461 | 20,143,031 |
| Total assets | | 177,437,008 | 84,462,069 | 116,718,872 | 51,401,631 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 August 2018
cont'd

| | Note | Group | | Company | |
|---|------|--------------|--------------|-------------|-------------|
| | | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Equity | | | | | |
| Share capital | 14 | 75,917,971 | 52,129,101 | 75,917,971 | 52,129,101 |
| Merger deficit | 15 | (23,858,598) | (24,514,828) | - | - |
| Foreign currency translation reserve | 16 | 10,108 | 276,150 | - | - |
| Retained earnings/(accumulated losses) | | 27,868,823 | 36,582,923 | (2,614,843) | (1,128,851) |
| Total equity attributable to shareholders of the Company | | 79,938,304 | 64,473,346 | 73,303,128 | 51,000,250 |
| Non-controlling interest | | 4,072,416 | - | - | - |
| Total equity | | 84,010,720 | 64,473,346 | 73,303,128 | 51,000,250 |
| Non-current liabilities | | | | | |
| Finance lease payables | 17 | 1,143,621 | 316,415 | - | - |
| Bank borrowings | 18 | 55,449,696 | 4,110,671 | 37,507,794 | - |
| Deferred tax liabilities | 19 | 6,530,430 | 108,143 | - | - |
| | | 63,123,747 | 4,535,229 | 37,507,794 | - |
| Current liabilities | | | | | |
| Trade payables | 20 | 12,953,824 | 1,950,165 | - | - |
| Other payables | 21 | 3,398,628 | 1,254,178 | 84,074 | 97,505 |
| Amount due to a subsidiary company | 11 | - | - | 303,876 | 303,876 |
| Amount due to Directors | 22 | - | 19,000 | - | - |
| Finance lease payables | 17 | 423,567 | 161,398 | - | - |
| Bank borrowings | 18 | 13,494,488 | 12,031,534 | 5,520,000 | - |
| Tax payable | | 32,034 | 37,219 | - | - |
| | | 30,302,541 | 15,453,494 | 5,907,950 | 401,381 |
| Total liabilities | | 93,426,288 | 19,988,723 | 43,415,744 | 401,381 |
| Total equity and liabilities | | 177,437,008 | 84,462,069 | 116,718,872 | 51,401,631 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Financial Year Ended 31 August 2018

| | Note | Group | | Company | |
|--|------|--------------------|------------------|--------------------|------------------|
| | | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Revenue | 23 | 33,248,323 | 44,177,466 | - | - |
| Cost of sales | | (21,491,887) | (30,587,695) | - | - |
| Gross profit | | 11,756,436 | 13,589,771 | - | - |
| Other income | | 4,074,121 | 1,002,283 | 272,557 | 81,674 |
| Administrative expenses | | (20,811,625) | (9,663,401) | (1,730,667) | (704,603) |
| Selling and distribution expenses | | (1,848,182) | (1,748,714) | - | - |
| (Loss)/profit before operations | | (6,829,250) | 3,179,939 | (1,458,110) | (622,929) |
| Finance costs | 24 | (661,581) | (445,247) | (27,794) | - |
| (Loss)/profit before tax | 25 | (7,490,831) | 2,734,692 | (1,485,904) | (622,929) |
| Taxation | 27 | (567,039) | (912,366) | (88) | 28 |
| (Loss)/profit for the financial year | | (8,057,870) | 1,822,326 | (1,485,992) | (622,901) |
| Other comprehensive income | | | | | |
| <i>Items that are or may be reclassified subsequently to profit or loss</i> | | | | | |
| - Exchange translation differences for foreign operations | | (266,042) | 71,439 | - | - |
| Total comprehensive (loss)/income for the financial year | | (8,323,912) | 1,893,765 | (1,485,992) | (622,901) |
| (Loss)/profit for the financial year attributable to: | | | | | |
| Owners of the parent | | (8,057,870) | 1,822,326 | - | - |
| Total comprehensive (loss)/income for the financial year attributable to: | | | | | |
| Owners of the parent | | (8,323,912) | 1,893,765 | - | - |
| Earnings per share attributable to owners of the parent: | | | | | |
| Basic (Sen) | 28 | (1.92) | 0.44 | - | - |
| Diluted (Sen) | 28 | (1.40) | 0.32 | - | - |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Financial Year Ended 31 August 2018

| | Attributable to owners of the parent | | | | | | |
|--|--------------------------------------|----------------------|--|-------------------------|-------------|--------------------------------|--------------------|
| | Non-distributable | | | Distributable | | | |
| | Share capital RM | Merger deficit RM | Foreign currency translation reserve RM | Retained earnings RM | Total RM | Non-controlling interest RM | Total equity RM |
| Group | | | | | | | |
| At 1 September 2017 | 52,129,101 | (24,514,828) | 276,150 | 36,582,923 | 64,473,346 | - | 64,473,346 |
| Loss for the financial year | - | - | - | (8,057,870) | (8,057,870) | - | (8,057,870) |
| Other comprehensive loss for the financial year | - | - | (266,042) | - | (266,042) | - | (266,042) |
| Total comprehensive loss for the financial year | - | - | (266,042) | (8,057,870) | (8,323,912) | - | (8,323,912) |
| Strike off of a subsidiary acquired under common control business combination in prior years | - | 656,230 | - | (656,230) | - | - | - |
| <i>Transaction with owners:</i> | | | | | | | |
| Effect arising from the acquisition of the subsidiaries | 6,800,000 | - | - | - | 6,800,000 | 4,072,416 | 10,872,416 |
| Private placement of shares | 17,550,000 | - | - | - | 17,550,000 | - | 17,550,000 |
| Conversion of warrants | 27,620 | - | - | - | 27,620 | - | 27,620 |
| Share issue expenses | (588,750) | - | - | - | (588,750) | - | (588,750) |
| At 31 August 2018 | 75,917,971 | (23,858,598) | 10,108 | 27,868,823 | 79,938,304 | 4,072,416 | 84,010,720 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Financial Year Ended 31 August 2018
cont'd

| | Attributable to owners of the parent | | | | | |
|--|--------------------------------------|------------------------|-------------------------|---|----------------------------|-----------------------|
| | Non-distributable | | | Foreign currency translation reserve | Distributable | |
| | Share capital RM | Share premium RM | Merger deficit RM | RM | Retained earnings RM | Total equity RM |
| Group | | | | | | |
| At 1 September 2016 | 41,223,402 | 10,905,549 | (24,514,828) | 204,711 | 34,760,597 | 62,579,431 |
| Profit for the financial year | - | - | - | - | 1,822,326 | 1,822,326 |
| Other comprehensive income for the financial year | - | - | - | 71,439 | - | 71,439 |
| Total comprehensive income for the financial year | - | - | - | 71,439 | 1,822,326 | 1,893,765 |
| <i>Transaction with owners:</i> | | | | | | |
| Conversion of warrants | 150 | - | - | - | - | 150 |
| Effect of adoption of Companies Act, 2016 | 10,905,549 | (10,905,549) | - | - | - | - |
| At 31 August 2017 | 52,129,101 | - | (24,514,828) | 276,150 | 36,582,923 | 64,473,346 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Financial Year Ended 31 August 2018
cont'd

| | ← Non-Distributable → | | Distributable | |
|---|-----------------------|---------------|--------------------|--------------|
| | Share capital | Share premium | Accumulated losses | Total equity |
| | RM | RM | RM | RM |
| Company | | | | |
| At 1 September 2016 | 41,223,402 | 10,905,549 | (505,950) | 51,623,001 |
| Loss for the financial year, representing total comprehensive loss for the financial year | - | - | (622,901) | (622,901) |
| <i>Transactions with owners:</i> | | | | |
| Conversion of warrants | 150 | - | - | 150 |
| Effect of adoption of Companies Act, 2016 | 10,905,549 | (10,905,549) | - | - |
| At 31 August 2017 | 52,129,101 | - | (1,128,851) | 51,000,250 |
| At 1 September 2017 | 52,129,101 | - | (1,128,851) | 51,000,250 |
| Loss for the financial year, representing total comprehensive loss for the financial year | - | - | (1,485,992) | (1,485,992) |
| <i>Transactions with owners:</i> | | | | |
| Private placement of shares | 17,550,000 | - | - | 17,550,000 |
| Effect arising from the acquisition of the subsidiaries | 6,800,000 | - | - | 6,800,000 |
| Conversion of warrants | 27,620 | - | - | 27,620 |
| Share issue expenses | (588,750) | - | - | (588,750) |
| At 31 August 2018 | 75,917,971 | - | (2,614,843) | 73,303,128 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the Financial Year Ended 31 August 2018

| | Group | | Company | |
|--|-------------|-------------|-------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Cash flow from operating activities | | | | |
| (Loss)/profit before tax | (7,490,831) | 2,734,692 | (1,485,904) | (622,929) |
| Adjustment for: | | | | |
| Bad debts written off | 6,544 | 6,622 | - | - |
| Depreciation of property, plant and equipment | 1,081,559 | 700,438 | - | - |
| Impairment on trade receivables | 2,559,538 | 30,480 | - | - |
| Impairment on investment in subsidiary companies | - | - | - | 208,125 |
| Interest expenses | 661,581 | 445,247 | 27,794 | - |
| Inventories written down | - | 43,059 | - | - |
| Loss on strike off of a subsidiary | 239,370 | - | - | - |
| Provision for slow-moving inventories | 8,034,284 | - | - | - |
| Property, plant and equipment written off | 32,779 | 3,624 | - | - |
| Realised (gain)/loss on foreign exchange | (267,541) | 393,976 | - | - |
| Unrealised loss/(gain) on foreign exchange | 131,414 | (144,006) | - | - |
| Bad debts recovered | - | (1,420) | - | - |
| Gain on disposal of property, plant and equipment | (996,939) | (145,959) | - | - |
| Gain on bargain purchase | (2,107,270) | - | - | - |
| Interest income | (250,850) | (273,194) | (51,395) | (81,674) |
| Reversal of impairment on trade receivables | (97,348) | (72,681) | - | - |
| Operating profit/(loss) before working capital changes | 1,536,290 | 3,720,878 | (1,509,505) | (496,478) |
| Change in working capital: | | | | |
| Inventories | (1,570,282) | 4,966,927 | - | - |
| Trade receivables | 5,293,725 | (7,273,448) | - | - |
| Other receivables | 1,858,845 | (1,779,426) | 1,495,000 | (1,501,664) |
| Trade payables | (455,645) | (294,129) | - | - |
| Other payables | 84,112 | 77,708 | (13,431) | (1,404,782) |
| Amount due to Directors | (19,000) | - | - | - |
| Amount due from/(to) subsidiaries | - | - | 543,967 | 1,500,000 |
| | 5,191,755 | (4,302,368) | 2,025,536 | (1,406,446) |
| Cash generated from/(used in) operations | 6,728,045 | (581,490) | 516,031 | (1,902,924) |
| Interest received | 250,850 | 273,194 | 51,395 | 81,674 |
| Interest paid | (633,787) | (442,415) | - | - |
| Tax refund | 166,667 | 436,179 | 20,000 | 12,628 |
| Tax paid | (1,200,200) | (1,512,025) | (14,717) | (18,611) |
| | (1,416,470) | (1,245,067) | 56,678 | 75,691 |
| Net cash from/(used in) operating activities | 5,311,575 | (1,826,557) | 572,709 | (1,827,233) |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the Financial Year Ended 31 August 2018
cont'd

| | Note | Group | | Company | |
|--|------|--------------|-------------|--------------|-------------|
| | | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Cash flow from investing activities | | | | | |
| Acquisition of subsidiaries, net of cash acquired | 6 | (63,966,322) | - | (68,254,811) | (188,235) |
| Dividend received | | - | - | - | - |
| Purchase of property, plant and equipment | 5(c) | (1,680,246) | (833,645) | - | - |
| Proceeds from disposal of property, plant and equipment | | 1,685,277 | 125,962 | - | - |
| Net cash used in investing activities | | (63,961,291) | (707,683) | (68,254,811) | (188,235) |
| Cash flow from financing activities | | | | | |
| Issuance of shares | | 23,788,870 | 150 | 23,788,870 | 150 |
| Drawdown of term loans | | 43,000,000 | 2,000,000 | 43,000,000 | - |
| Net drawdown/(repayment) of bankers' acceptance | | (5,479,000) | 5,618,000 | - | - |
| Dividend paid | | - | (1,442,819) | - | - |
| (Increase)/Decrease in fixed deposits pledged | | (861,418) | (76,027) | - | - |
| Net drawdown/(repayment) of foreign currency trade loan | | (1,938,630) | 96,059 | - | - |
| Net repayment of finance lease payables | | (297,271) | (109,925) | - | - |
| Repayment of term loans | | (115,812) | (47,582) | - | - |
| Net cash from financing activities | | 58,096,739 | 6,037,856 | 66,788,870 | 150 |
| Net (decrease)/increase in cash and cash equivalents | | (552,977) | 3,503,616 | (893,232) | (2,015,318) |
| Effects on foreign exchange rate | | (458,150) | 95,586 | - | - |
| Cash and cash equivalents at beginning of the financial year | | 9,614,409 | 6,015,207 | 2,061,753 | 4,077,071 |
| Cash and cash equivalents at end of the financial year | | 8,603,282 | 9,614,409 | 1,168,521 | 2,061,753 |
| Cash and cash equivalents at the end of the financial year comprises: | | | | | |
| Fixed deposits with licensed banks | | 8,367,109 | 9,085,364 | - | 2,035,611 |
| Cash and bank balances | | 5,476,851 | 3,044,118 | 1,168,521 | 26,142 |
| Bank overdraft | | (1,864,187) | - | - | - |
| | | 11,979,773 | 12,129,482 | 1,168,521 | 2,061,753 |
| Less: Fixed deposits pledged with licensed banks | | (3,376,491) | (2,515,073) | - | - |
| | | 8,603,282 | 9,614,409 | 1,168,521 | 2,061,753 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

For the Financial Year Ended 31 August 2018
cont'd

(a) Changes in liabilities arising from financing activities

| | At 1 September 2017 RM | Acquisition of subsidiaries RM | Financing cash flows | | Net movement RM | Foreign exchange movement RM | At 31 August 2018 RM |
|-----------------------------|---------------------------------|--------------------------------------|----------------------|-----------------|-----------------------|---------------------------------------|-------------------------------|
| | | | Drawdown RM | Repayment RM | | | |
| Finance lease payables | 477,813 | 91,034 | 1,295,612 | (297,271) | 998,341 | - | 1,567,188 |
| Bankers' acceptance | 6,780,000 | 513,000 | 4,796,000 | (10,275,000) | (5,479,000) | - | 1,814,000 |
| Foreign currency trade loan | 5,059,955 | - | 11,424,099 | (13,362,729) | (1,938,630) | 41,568 | 3,162,893 |
| Term loans | 4,302,250 | 14,916,666 | 43,000,000 | (115,812) | 42,884,188 | - | 62,103,104 |
| | 16,620,018 | 15,520,700 | 60,515,711 | (24,050,812) | 36,464,899 | 41,568 | 68,647,185 |

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the ACE Market of the Bursa Malaysia Securities Berhad.

The principal place of business of the Company is located at had been changed from No. 3, Jalan Teras 3, Taman Perindustrian Teras Balakong, Taman Industri Selesa Jaya, 43300 Balakong, Selangor Darul Ehsan to Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan.

The registered office of the Company is located at Suite 10.03, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiary companies are disclosed in Note 6 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 10 December 2018.

2. BASIS OF PREPARATION

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies as disclosed in Note 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM") which is the Group's and the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest RM except when otherwise stated.

(a) Adoptions of standards and amendments to published standards during the current financial year

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following standards and amendments to published standards:

| | | Applicable for annual periods beginning on or after |
|------------------------|--|---|
| Amendments to MFRS 12 | Annual Improvements to MFRSs 2014-2016 Cycle | 1 January 2017 |
| Amendments to MFRS 112 | Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| Amendments to MFRS 107 | Disclosure Initiative | 1 January 2017 |
| Amendments to MFRS 128 | Annual Improvements to MFRSs 2014 – 2016 Cycle | 1 January 2017 |

Adoption of the above standards, amendments to existing standards and interpretations did not have any material effect on the financial performance or position of the Group and of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

2. BASIS OF PREPARATION (cont'd)

(b) New and amended standards and interpretations issued but not yet effective

The following are standards, amendments to published standards and IC interpretations issued by Malaysian Accounting Standard Board (MASB), but not yet effective, up to the date of issuance of the Group's and of the Company's financial statements. The Group and the Company intend to adopt these standards, amendments to published standards and IC interpretations, if applicable, when they become effective in the following annual periods:

| | | Applicable for annual periods beginning on or after |
|------------------------------------|--|---|
| MFRS 9 | Financial Instruments (IFRS 9 issued by IASB in July 2014) | 1 January 2018 |
| MFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to MFRS 2 | Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| Amendments to MFRS 128 | Annual Improvements to MFRSs (2014 – 2016 Cycle) | 1 January 2018 |
| Amendments to MFRS 140 | Transfer of Investment Property | 1 January 2018 |
| IC Interpretation 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| MFRS 16 | Leases | 1 January 2019 |
| Amendments to MFRS 3 | Annual Improvements to MFRSs 2015 – 2017 Cycle | 1 January 2019 |
| Amendments to MFRS 9 | Prepayments Features with Negative Compensation | 1 January 2019 |
| Amendments to MFRS 11 | Annual Improvements to MFRSs 2015 – 2017 Cycle | 1 January 2019 |
| Amendments to MFRS 112 | Annual Improvements to MFRSs 2015 – 2017 Cycle | 1 January 2019 |
| Amendments to MFRS 119 | Plan Amendments, Curtailment or Settlement | 1 January 2019 |
| Amendments to MFRS 123 | Annual Improvements to MFRSs 2015 – 2017 Cycle | 1 January 2019 |
| Amendments to MFRS 128 | Long-term Interest in Associates and Joint Ventures | 1 January 2019 |
| IC Interpretation 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to MFRS 2 | Share-based payment | 1 January 2020 |
| Amendments to MFRS 3 | Business Combinations | 1 January 2020 |
| Amendments to MFRS 101 | Presentation of Financial Statements | 1 January 2020 |
| Amendments to MFRS 108 | Accounting Policies, Changes in Accounting Estimates and Error | 1 January 2020 |
| Amendments to MFRS 134 | Interim Financial Reporting | 1 January 2020 |
| Amendments to MFRS 137 | Provisions, Contingent Liabilities and Contingent Assets | 1 January 2020 |
| Amendments to MFRS 138 | Intangible Assets | 1 January 2020 |
| Amendments to IC Interpretation 12 | Service Concession Arrangements | 1 January 2020 |
| Amendments to IC Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 January 2020 |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

2. BASIS OF PREPARATION (cont'd)

(b) New and amended standards and interpretations issued but not yet effective (cont'd)

| | | Applicable for annual periods beginning on or after |
|-------------------------------------|--|---|
| Amendments to IC Interpretation 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2020 |
| Amendments to IC Interpretation 132 | Intangible Assets – Web Site Costs | 1 January 2020 |
| MFRS 17 | Insurance Contracts | 1 January 2021 |
| Amendments to MFRS 10 and MFRS 128 | Sales or Contribution of Assets between an Investor and its Associates or Joint Ventures | Deferred |

MFRS 9, 'Financial Instruments'

In November 2014, the MASB issued the final version of MFRS 9, 'Financial Instruments' replacing MFRS 139. This standard made changes to the requirements for classification and measurement, impairment and hedge accounting. The adoption of this MFRS 9 will have an effect on the classification and measurement of the Group's and the Company's financial assets, but no impact on the classification and measurement of the Group's and the Company's financial liabilities.

MFRS 9, 'Financial Instruments' also requires impairment assessments to be based on an expected loss model, replacing the incurred loss model in MFRS 139. Finally, MFRS 9 aligns hedge accounting more closely with risk management to establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the previous model.

This standard will come into effect on or after 1 January 2018 with early adoption permitted. Retrospective application is required, but restatement of comparative information is not compulsory. The impact of the adoption of this standard in relation to the new requirements for classification and measurement and impairment are still being assessed, but the requirements for hedge accounting is not relevant to the Group and the Company.

MFRS 15, 'Revenue from Contracts with Customers'

MFRS 15 introduces a new model for revenue recognition arising from contracts with customers. MFRS 15 will replace MFRS 111, 'Construction contracts', MFRS 118, 'Revenue', IC 13, 'Customer Loyalty Programmes', IC 15, 'Agreements for the Construction of Real Estate', IC 18, 'Transfers of Assets from Customers' and IC 31, 'Revenue - Barter Transactions Involving Advertising Services'. The application of MFRS 15 may result in difference in timing of revenue recognition as compared with current accounting policies.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group and the Company will adopt MFRS 15 on the required effective date.

MFRS 16, 'Leases'

Currently under MFRS 117, leases are classified either as finance leases or operating leases. A lessee recognises on its statement of financial position assets and liabilities arising from the former but not the latter. As a result, many users have resorted to adjust the lessees' financial statements for the effects of operating leases commitments to enable comparison with entities that borrow to buy assets.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018

cont'd

2. BASIS OF PREPARATION (cont'd)

(b) New and amended standards and interpretations issued but not yet effective (cont'd)

MFRS 16, 'Leases' (cont'd)

MFRS 16 eliminates the distinction between finance and operating leases for lessees. All leases will be brought onto its statement of financial position as recording certain leases as off-balance sheet leases will no longer be allowed except for some limited practical exemptions. In other words, for a lessee that has material operating leases, the assets and liabilities reported on its statement of financial position are expected to increase substantially.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of MFRS 16 and will adopt the new standard on the required effective date.

The Directors are currently assessing the impact of the adoption of the above standards, amendments to existing standards and interpretations on the financial statements in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group and the Company apply the significant accounting policies set out below, consistently throughout all periods presented in the financial statements unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiary companies

Subsidiary companies are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiary companies are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Unrealised losses are eliminated only if there is no indication of impairment. Where necessary, accounting policies of subsidiary companies have been changed to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiary companies are stated at cost less accumulated impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts are recognised in profit or loss. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 3(l)(i) to the financial statements on impairment of non-financial assets.

Acquisition of subsidiaries are accounted for using the acquisition method other than those acquisition of subsidiaries accounted for using merger accounting principles which is outside the scope MFRS 3. The merger accounting is used by the Group to account for business combination involving entities under common control.

Merger method

Under the merger method of accounting, the results of subsidiary companies are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any difference between the consideration paid and the share capital of the subsidiaries is reflected within equity as merger reserve.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of consolidation (cont'd)

(i) Subsidiary companies (cont'd)

Acquisition method

Under the acquisition method of accounting, subsidiary companies are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed off in profit or loss as incurred.

If the business combination is achieved in stages, previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instruments and within the scope of MFRS 139, 'Financial Instruments: Recognition and Measurement', is measured at fair value with the changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

(ii) Changes in ownership interests in subsidiary companies without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiary companies

If the Group loses control of a subsidiary company, the assets and liabilities of the subsidiary company, including any goodwill, non-controlling interests and other components if equity related to the former subsidiary company are derecognised at their carrying value on the date that control is lost. Any remaining investment in the entity is recognised at fair value. The difference between the fair value of consideration received and the amounts derecognised and the remaining fair value of the investment is recognised as a gain or loss on disposal in profit or loss. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(b) Foreign currency translation

(i) Foreign currency transactions and balances

Transactions in foreign currency are recorded in the functional currency of the respective Group entities using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Foreign currency translation (cont'd)

(i) Foreign currency transactions and balances (cont'd)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are included in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. These are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the reporting period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations denominated in functional currencies other than RM, are translated to RM at the rate of exchange prevailing at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary company, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed off such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary company that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The policy of recognition and measurement of impairment losses is in accordance with Note 3(1)(i).

(i) Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. All other repair and maintenance costs are recognised in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Property, plant and equipment (cont'd)

(i) Recognition and measurement (cont'd)

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of property, plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss.

Capital work-in-progress consists of buildings and plant and machinery under construction or installation for intended use as production facilities. The amount is stated at cost and includes capitalisation of interest incurred on borrowings related to property, plant and equipment under construction or installation until the property, plant and equipment are ready for their intended use.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the profit or loss on straight line basis to write off the cost of each asset to its residual value over its estimated useful life. Freehold land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

Property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:

| Leasehold land | Remaining lease period |
|------------------------|------------------------|
| Buildings | 50 years |
| Furniture and fittings | 8 - 12 years |
| Motor vehicles | 5 years |
| Office equipment | 8 - 9 years |
| Plant and machinery | 8 - 9 years |
| Renovation | 10 years |
| Tools and equipment | 8 - 20 years |
| Mould and blocks | 5 years |

The residual values, useful lives and depreciation method are reviewed at each reporting period end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Goodwill

Goodwill arises on the acquisition of subsidiaries and it represents the excess of the cost of the acquisition over the Group's interest in the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree at the date of acquisition.

Gain and losses on the disposal of an entity included the carrying amount of goodwill relating to the entity sold.

Goodwill acquired in a business combination is allocated to cash-generating unit for the purpose of impairment testing and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of fair values less cost of disposal and value-in-use. Any impairment is recognised immediately as an expenses and is not subsequently reversed.

The policy of recognition and measurement of impairment losses is in accordance with Note 3(l)(i).

(e) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or asset and the arrangement conveys a right to use the asset, even if that right is not explicitly specific in an arrangement.

As lessee

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using fair value model.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Leases (cont'd)

As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(f) Financial assets

Financial assets are recognised on the statements of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The Group and the Company classify their financial assets depends on the purpose for which the financial assets were acquired at initial recognition, and the categories included financial assets at fair value through profit and loss, loan and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial assets are either held for trading, including derivatives or are designated into this category upon initial recognition.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised as other gains or losses in profit or loss.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that are primarily for trading purpose are presented as current whereas financial assets that are not held primarily for trading purpose are presented as current or non-current based on settlement date.

Loan and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(l)(ii) to the financial statements. Gains and losses are recognised in profit or loss through the amortisation process.

Loans and receivables financial assets are classified as current assets, except for those maturing later than 12 months after the end of the reporting period which are classified as non-current assets.

Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group or the Company has the positive intention and ability to hold them to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(l)(ii) to the financial statements. Gains and losses are recognised in profit or loss through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Financial assets (cont'd)

Held-to-maturity investments (cont'd)

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the end of the reporting period which are classified as current assets.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except impairment losses, foreign exchange gains and losses arising from monetary items and interest income calculated using the effective interest method, which are recognised in profit or loss.

The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss or loss as a reclassification adjustment when the financial asset is derecognised. Dividends on an available-for-sale financial assets are recognised in profit or loss when the Group's or the Company's right to receive payment is established.

Investment in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets, except for those that are expected to be realised within 12 months after the end of the reporting period which classified as current assets.

Regular way purchase or sale of financial assets

A regular way purchase or sale are purchase or sales of financial assets that require delivery of assets within the period generally established by regulations or convention in the marketplace concerned. All regular way purchase and sales of financial assets are recognised and derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset.

Derecognition

A financial assets is derecognised when the contractual rights to receive cash flows from the financial asset has expired or has been transferred and the Group or the Company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount and the sum of consideration received and any cumulative gains or loss that had been recognised in equity is recognised in profit or loss.

(g) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of financial liabilities.

Financial liabilities are recognised on the statements of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the financial instrument.

The Group and the Company classify their financial liabilities at initial recognition, into financial liabilities at fair value through profit or loss and other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Financial liabilities (cont'd)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at financial liabilities at fair value through profit or loss.

Financial liabilities held for trading include derivatives (except for a derivative that is a financial guarantee contract) entered into by the Group and the Company that does not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resulted gain or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

Other financial liabilities

The Group's and the Company's other financial liabilities comprise trade and other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group or the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Gains and losses on financial liabilities measured at amortised cost are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(h) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(i) Financial guarantee contracts

Financial guarantee contracts are contracts that require the Group and the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137, 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation, where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Financial guarantee contracts (cont'd)

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Company for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

(j) Inventories

Raw materials and finished goods are stated at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdraft and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(l) Impairment of assets

(i) Non-financial assets

The carrying amounts of non-financial assets, except for inventories are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(I) Impairment of assets (cont'd)

(i) Non-financial assets (cont'd)

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognised in profit or loss, unless the asset is carried at a revalued amount, in which such impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indication that the loss has decreased or no longer exists. An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

(ii) Financial assets

All financial assets, other than those categorised at fair value through profit or loss are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset.

Financial assets carried at amortised cost

To determine whether there is objective evidence that impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivable and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with defaults on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in profit or loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised in profit or loss, the impairment loss is reversed, to the extent that the carrying amount of the asset does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments. Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the period they are approved by the Board of Directors except for the final dividend which is subject to approval by the Company's shareholders.

(n) Employee benefits

(i) Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the reporting period in which the associated services are rendered by employees of the Group. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur.

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Defined contribution plans

As required by law, companies in Malaysia contribute to the state pension scheme, the Employee Provident Fund ("EPF"). Some of the Group's foreign subsidiary companies also make contributions to their respective countries' statutory pension schemes. Such contributions are recognised as an expense in the profit or loss as incurred. Once the contributions have been paid, the Group has no further payment obligations

(o) Revenue

(i) Sale of goods

Revenue is measured at the fair value of consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Rendering of services

Revenue from services rendered is recognised in the profit or loss based on the value of services performed and invoiced to customers during the period.

(iii) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Revenue (cont'd)

(iv) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(v) Interest income

Interest income is recognised on accruals basis using the effective interest method.

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the assets which necessarily take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group or the Company incurred in connection with the borrowing of funds.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(q) Income taxes

Tax expense in profit or loss comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity or other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Income taxes (cont'd)

(ii) Deferred tax (cont'd)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Goods and services tax ("GST")

Revenue, expenses and assets are recognised net of GST, unless the GST is not recoverable from the tax authority. The amount of GST not recoverable from the tax authority is recognised as an expense or as part of cost of acquisition of an asset. Receivables and payables that relate to such revenue, expenses or acquisitions of assets are presented in the statements of financial position inclusive of GST recoverable or GST payable.

GST recoverable from or payable to the tax authority may be presented on net basis should such amounts relate to GST levied by the same tax authority and the taxable entity has a legally enforceable right to set off such amounts.

(s) Contingencies

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

(t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period. Diluted EPS is determined by adjusting the profit or loss attributable to owners of the parent and the weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares, which comprise the free warrants issued to shareholders.

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and make overall strategic decisions. The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) Related parties

A party is related to an entity if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - control, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the entity that gives it significant influence over the entity; or
 - has joint control over the entity;
- (ii) the party is an associate of the entity;
- (iii) the party is a joint venture in which the entity is a venturer;
- (iv) the party is a member of the key management personnel of the entity or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, joint controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v);
- (vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity; or
- (viii) the party, or any member of a group of which the party is a part of, provides key management personnel services to the Company.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market's participant's ability to generate economic participant that would use the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purpose, the fair value measurements are analysed into level 1 to level 3 as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or in indirectly; and

Level 3: Inputs are unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(x) Non-current asset held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sales rather than through continuing use, are classified as held for sales.

Immediately before classification as held for sales, the assets or components of a disposal group are measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group are measurement at the lower of their carrying amount and fair value less cost of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rate basis, except that no loss is allocated to inventories and financial assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sales and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sales are not depreciated. In addition, equity accounting of equity-accounted associates ceased once classified as held for sale.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's and the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

There are no significant areas of critical judgement in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are set out below:

(a) Useful lives of property, plant and equipment

The Group regularly reviews the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment.

(b) Provisional goodwill and gain on bargain purchases

Goodwill is the excess of cost of business combination over the Group's interest in the fair value of the identifiable assets acquired and liabilities assumed in a business combination. The identifiable assets and liabilities shall be measured at their acquisition date fair values. If a purchase price allocation exercise is not completed as at the reporting date, the Group shall report a provisional goodwill on acquisition.

The provisional goodwill on acquisition of TK Rentals Sdn. Bhd. (formerly known as TK Tent & Air Conditioning Rental Sdn. Bhd.) of RM28,756,903 is arrived at the excess of cost of business combination over the carrying amount of the identified assets and liabilities as at the date of acquisition. The carrying amounts of the identified assets and liabilities are estimated to approximate its fair value as at the acquisition date as disclosed in Note 6. The Group is currently undertaking the purchase price allocation exercise to determine the fair values of identifiable assets and liabilities and to identify and measure intangible assets, if any.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

Key sources of estimation uncertainty (cont'd)

(b) Provisional goodwill and gain on bargain purchases (cont'd)

The Group has performed the impairment test on the provisional goodwill and concluded that no impairment is required at the reporting date.

The gain on bargain purchase on acquisition of PK Fertilizers (Sarawak) Sdn. Bhd. of RM2,107,270 is arrived at the excess of the fair value of the identified assets and liabilities over the cost of business combination as at the date of acquisition. The Group is currently undertaking the purchase price allocation exercise to determine the fair values of identifiable assets and liabilities and to identify and measure intangible assets, if any.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to include recognition of additional assets and/or liabilities, to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of the date. However, the measurement period shall not exceed one year from the acquisition date.

(c) Inventories valuation

Inventories are measured at the lower of cost and net realisable value. The Group estimates the net realisable value of inventories based on an assessment of expected selling prices. Demand levels and pricing competition could change from time to time. If such factors result in an adverse effect on the Group's products, the Group might be required to reduce the value of its inventories.

(d) Impairment of receivables

The Group assesses at end of each reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivable, default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(e) Income taxes

Judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

5. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land and buildings | Leasehold land and building | Furniture and fittings | Motor vehicles | Office equipment | Plant and machinery | Renovation | Tools and equipment | Moulds and blocks | Total |
|---|-----------------------------|-----------------------------|------------------------|----------------|------------------|---------------------|------------|---------------------|-------------------|-------------|
| 2018 | RM | RM | RM | RM | RM | RM | RM | RM | RM | RM |
| Cost | | | | | | | | | | |
| At 1 September 2017 | 6,402,356 | 17,687,583 | 240,560 | 4,466,210 | 623,904 | 3,778,717 | 539,154 | 7,826 | 855,653 | 34,601,963 |
| Additions | - | - | 424,118 | 1,462,903 | 454,818 | 29,130 | 598,589 | - | 6,300 | 2,975,858 |
| Disposals | (270,000) | - | - | (1,392,172) | (5,900) | - | - | - | - | (1,668,072) |
| Written off | - | - | (96,045) | - | (134,964) | (886,576) | (52,185) | - | - | (1,169,770) |
| Acquisition of subsidiaries | - | 19,200,000 | 233,055 | 2,529,684 | 545,799 | 30,836,268 | 146,079 | 5,454,141 | - | 58,945,026 |
| Exchange differences | - | - | (575) | (2,673) | (926) | - | - | - | - | (4,174) |
| Reclassified to asset held for sale (Note 13) | (2,333,180) | (530,000) | - | - | - | - | - | - | - | (2,863,180) |
| At 31 August 2018 | 3,799,176 | 36,357,583 | 801,113 | 7,063,952 | 1,482,731 | 33,757,539 | 1,231,637 | 5,461,967 | 861,953 | 90,817,651 |
| Accumulated depreciation | | | | | | | | | | |
| At 1 September 2017 | 645,314 | 1,051,530 | 220,866 | 3,808,013 | 433,917 | 3,535,154 | 326,838 | 7,789 | 646,032 | 10,675,453 |
| Charge for the financial year | 58,603 | 280,505 | 28,770 | 413,002 | 75,548 | 77,130 | 53,197 | 25 | 94,779 | 1,081,559 |
| Disposals | (21,960) | - | - | (1,330,165) | (4,569) | - | - | - | - | (1,356,694) |
| Written off | - | - | (91,933) | - | (110,071) | (884,917) | (50,070) | - | - | (1,136,991) |
| Acquisition of subsidiaries | - | - | 203,568 | 1,348,798 | 379,579 | 12,482,005 | 79,823 | 2,115,837 | - | 16,609,610 |
| Exchange differences | - | - | (1,654) | (331) | (540) | - | - | - | - | (2,525) |
| Reclassified to asset held for sale (Note 13) | (275,315) | (133,243) | - | - | - | - | - | - | - | (408,558) |
| At 31 August 2018 | 406,642 | 1,198,792 | 359,617 | 4,239,317 | 773,864 | 15,209,372 | 409,788 | 2,123,651 | 740,811 | 25,461,854 |
| Carrying amount | | | | | | | | | | |
| At 31 August 2018 | 3,392,534 | 35,158,791 | 441,496 | 2,824,635 | 708,867 | 18,548,167 | 821,849 | 3,338,316 | 121,142 | 65,355,797 |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

| Group | Freehold land and buildings | Leasehold land and building | Furniture and fittings | Motor vehicles | Office equipment | Plant and machinery | Renovation | Tools and equipment | Moulds and blocks | Total |
|--|-----------------------------------|-----------------------------------|------------------------------|-------------------|---------------------|------------------------|------------|------------------------|-------------------------|------------|
| 2017 | RM | RM | RM | RM | RM | RM | RM | RM | RM | RM |
| Cost | | | | | | | | | | |
| At 1 September 2016 | 5,290,491 | 16,367,583 | 246,251 | 4,820,125 | 620,443 | 3,728,392 | 325,345 | 7,826 | 923,955 | 32,330,411 |
| Additions | 1,587,865 | 1,320,000 | 857 | 211,381 | 10,209 | 168,120 | 213,809 | - | 16,790 | 3,529,031 |
| Disposals | - | - | - | (473,819) | (17,150) | - | - | - | - | (490,969) |
| Written off | - | - | - | (95,107) | (170) | (117,795) | - | - | (85,092) | (298,164) |
| Reclassification | - | - | (8,740) | - | 8,740 | - | - | - | - | - |
| Exchange differences | - | - | 2,192 | 3,630 | 1,832 | - | - | - | - | 7,654 |
| Reclassified to asset held for sale (Note 13) | (476,000) | - | - | - | - | - | - | - | - | (476,000) |
| At 31 August 2017 | 6,402,356 | 17,687,583 | 240,560 | 4,466,210 | 623,904 | 3,778,717 | 539,154 | 7,826 | 855,653 | 34,601,963 |
| Accumulated depreciation | | | | | | | | | | |
| At 1 September 2016 | 1,088,855 | 714,278 | 219,151 | 3,933,698 | 394,449 | 3,593,889 | 317,075 | 7,660 | 608,496 | 10,877,551 |
| Charge for the financial year | (344,501) | 337,252 | 8,039 | 463,408 | 48,282 | 58,599 | 9,763 | 129 | 119,467 | 700,438 |
| Disposals | - | - | - | (493,816) | (17,150) | - | - | - | - | (510,966) |
| Written off | - | - | - | (95,106) | (169) | (117,334) | - | - | (81,931) | (294,540) |
| Reclassification | - | - | (8,275) | - | 8,275 | - | - | - | - | - |
| Exchange differences | - | - | 1,951 | (171) | 230 | - | - | - | - | 2,010 |
| Reclassified to asset held for sale (Note 13) | (99,040) | - | - | - | - | - | - | - | - | (99,040) |
| At 31 August 2017 | 645,314 | 1,051,530 | 220,866 | 3,808,013 | 433,917 | 3,535,154 | 326,838 | 7,789 | 646,032 | 10,675,453 |
| Carrying amount | | | | | | | | | | |
| At 31 August 2017 | 5,757,042 | 16,636,053 | 19,694 | 658,197 | 189,987 | 243,563 | 212,316 | 37 | 209,621 | 23,926,510 |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) Assets held under finance leases

The carrying amount of property, plant and equipment acquired under finance lease are as follows:

| | Group | |
|---------------------|-----------|---------|
| | 2018 | 2017 |
| | RM | RM |
| Motor vehicles | 1,592,172 | 365,382 |
| Plant and machinery | 126,090 | 159,714 |
| | 1,718,262 | 525,096 |

(b) Assets pledged as securities to financial institutions

The carrying amount of property, plant and equipment of the Group and the Company pledged as securities for bank borrowings as disclosed in Note 18 to the financial statements are:

| | Group | |
|------------------------------|------------|------------|
| | 2018 | 2017 |
| | RM | RM |
| Freehold land and buildings | 3,033,802 | 5,146,786 |
| Leasehold land and buildings | 35,158,792 | 16,636,053 |
| | 38,192,594 | 21,782,839 |

(c) Addition of property, plant and equipment of the Group during the year was acquired by the following means:

| | Group | |
|---|-------------|-------------|
| | 2018 | 2017 |
| | RM | RM |
| Addition of property, plant and equipment | 2,975,858 | 3,529,031 |
| Less: Acquired with finance lease | (1,295,612) | (348,386) |
| Less: Acquired with term loans | - | (2,347,000) |
| Acquired by cash payments | 1,680,246 | 833,645 |

(d) Remaining lease period

The remaining lease period of the leasehold land and buildings ranges from 57 to 905 years (2017: 58 to 906 years).

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

6. INVESTMENT IN SUBSIDIARY COMPANIES

| | Company | |
|-------------------------------------|------------|-------------|
| | 2018 RM | 2017 RM |
| In and outside of Malaysia | | |
| Unquoted shares, at cost | 32,362,325 | 32,174,090 |
| Additions | 68,254,811 | 188,235 |
| Disposal | (895,600) | - |
| Less: Accumulated impairment losses | (208,125) | (1,103,725) |
| | 99,513,411 | 31,258,600 |

The movement in the allowance for impairment losses is as follows:

| | Company | |
|------------------------------|------------|------------|
| | 2018 RM | 2017 RM |
| At 1 September | 1,103,725 | 895,600 |
| Impairment losses recognised | - | 208,125 |
| Disposal | (895,600) | - |
| At 31 August | 208,125 | 1,103,725 |

Details of the subsidiary companies are as follows:

| Name of company | Country of incorporation | Effective interest | | Principal activities |
|--|--------------------------|--------------------|------|--|
| | | 2018 | 2017 | |
| | | % | % | |
| Direct interest: | | | | |
| SCH Corporation Sdn. Bhd. ("SCH Corporation") | Malaysia | 100 | 100 | Investment holding |
| SCH Wire-Mesh Manufacturing Sdn. Bhd. | Malaysia | 100 | 100 | Manufacturing, distributing and supplying of quarry grill |
| SCH Machinery & Equipment Sdn. Bhd. | Malaysia | 100 | 100 | 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 Pte Ltd ** | Singapore | - | 100 | Sales of industrial electrical appliance, quarry machinery and equipment. |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

6. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

Details of the subsidiary companies are as follows: (cont'd)

| Name of company | Country of incorporation | Effective interest | | Principal activities |
|---|--------------------------|--------------------|-----------|--|
| | | 2018 % | 2017 % | |
| Direct interest: (cont'd) | | | | |
| Sin Chee Heng (Cambodia) Co., Ltd * | Cambodia | 100 | 100 | 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 |
| TK Rentals Sdn. Bhd. * (formerly known as TK Tent & Air-Conditioning Rental Sdn. Bhd.) | Malaysia | 100 | - | Business of renting and trading of mobile air conditioner, tent and event related equipment and tools |
| PK Fertilizers (Sarawak) Sdn. Bhd. * | Malaysia | 83.33 | - | Carrying on business of manufacturing, merchandising, trading and distribution of fertilizers |
| Indirect interest: Held through SCH Corporation | | | | |
| Sin Chee Heng Sdn. Bhd. ("Sin Chee Heng") | Malaysia | 100 | 100 | Supplying and distributing all kinds of quarry industrial products and quarry machinery |
| Sin Chee Heng (Butterworth) Sdn. Bhd. | Malaysia | 100 | 100 | Distributing all kinds of quarry products to the quarry industry |
| Sin Chee Heng (Kuantan) Sdn. Bhd. | Malaysia | 100 | 100 | Distributing all kinds of quarry products to the quarry industry |
| Sin Chee Heng (Johore) Sdn. Bhd. ^ | Malaysia | 50 | 50 | Distributing all kinds of quarry products to the quarry industry |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

6. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

Details of the subsidiary companies are as follows: (cont'd)

| Name of company | Country of incorporation | Effective interest | | Principal activities |
|-------------------------------------|--------------------------|--------------------|------|--|
| | | 2018 | 2017 | |
| | | % | % | |
| Indirect interest: (cont'd) | | | | |
| Held through Sin Chee Heng | | | | |
| Sin Chee Heng (Sabah) Sdn. Bhd. | Malaysia | 100 | 100 | Distributing all kinds of quarry products to the quarry industry |
| Sin Chee Heng (Sarawak) Sdn. Bhd. ^ | Malaysia | 100 | 100 | Distributing all kinds of quarry products to the quarry industry |
| Sin Chee Heng (Johore) Sdn. Bhd. ^ | Malaysia | 50 | 50 | Distributing all kinds of quarry products to the quarry industry |

* Subsidiary companies not audited by ECOVIS AHL PLT.

Subsidiary company strike off during the year.

^ The auditors' report of these subsidiaries contains an emphasis of matter relating the appropriateness of the going concern basis used in the preparation of its financial statements. The holding Company has confirmed to provide continued financial support to these subsidiaries to continue its business without any significant curtailment of its operations.

The statutory financial year end of TK Rentals Sdn. Bhd. (formerly known as TK Tent & Air Conditioning Rental Sdn. Bhd.) and PK Fertilizers (Sarawak) Sdn. Bhd., newly acquired subsidiaries were 30 June 2018 and 31 December 2017 respectively and it did not coincide with the Group. Both of newly acquired subsidiaries are in the midst of changing their statutory financial year end to conform with the Group.

The merger method of accounting was adopted for consolidation in which the result of the subsidiary companies are presented as if the merger had been effected throughout the current year and previous financial years. The assets and liabilities combined are accounted for based on their carrying amounts from the perspective of the common control shareholders at the date of transfer.

There are no restrictions in the ability of the Group to access and use the assets or settle the liabilities of the subsidiaries.

(a) Impairment loss

During the year, the Company had conducted a review of the recoverable amount of its investment in certain subsidiary companies at the reporting date.

The review gave rise to the recognition of an impairment loss of investment in subsidiary companies of Nil (2017: RM208,125). The recoverable amounts are determined adjusted net assets of the respective subsidiary companies as at the end of the reporting period less cost of investment.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

6. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

(b) Acquisition of a subsidiary

The Group had completed the acquisition of 100% of the issued and paid-up share capital of TK Rentals Sdn. Bhd. (formerly known as TK Tent & Air Conditioning Rental Sdn. Bhd.) ("TK Rentals") for a total consideration of RM 50.00 million on 28 August 2018.

| | Group RM |
|---|-------------|
| Identifiable assets acquired and liabilities assumed | |
| Property, plant and equipment | 16,581,680 |
| Inventories | 432,286 |
| Trade and other receivables | 4,204,416 |
| Tax recoverable | 218,831 |
| Cash and cash equivalents | 3,470,243 |
| Trade and other payables | (772,359) |
| Deferred tax liabilities | (2,892,000) |
| Net assets acquired | 21,243,097 |
| Goodwill | 28,756,903 |
| Consideration paid by the Group | 50,000,000 |
| Net cash outflow arising from acquisition of a subsidiary are as follows: | |
| Fair value of the consideration paid by the Group | 50,000,000 |
| Less: Cash and cash equivalents acquired | (3,470,243) |
| | 46,529,757 |

(i) Acquisition-related costs

The Group incurred acquisition-related costs of RM452,500 related to external legal fees, professional services and due diligence costs. The legal fees, professional services and due diligence costs have been included in administrative expenses in the Group's consolidated statement of profit or loss and other comprehensive income.

(ii) Provisional accounting of acquisition

The fair value adjustments as at 28 August 2018 and the goodwill on acquisition are provisional as the Group is currently undertaking a purchase price allocation exercise to determine the identifiable assets and liabilities, and to identify and measure intangible assets, if any. The goodwill on acquisition is now provisionally estimated to be RM28.76 million. Any adjustments arising will be adjusted accordingly on a retrospective basis when the purchase price allocation is finalised.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

6. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

(c) Acquisition of a subsidiary

The Group had completed the acquisition of 83.33% of the issued and paid-up share capital of PK Fertilizers (Sarawak) Sdn. Bhd. ("PKF") for a total fair value consideration of RM 18.25 million on 28 August 2018.

| | Group RM |
|---|---------------------|
| Identifiable assets acquired and liabilities assumed | |
| Property, plant and equipment | 25,753,736 |
| Inventories | 16,379,734 |
| Trade and other receivables | 13,234,401 |
| Tax recoverable | 446,337 |
| Cash and cash equivalents | 818,246 |
| Trade and other payables | (13,056,827) |
| Bank borrowings | (15,429,666) |
| Finance lease payables | (91,034) |
| Deferred tax liabilities | (3,620,430) |
| Non-controlling interest | (4,072,416) |
| Net assets acquired | 20,362,081 |
| Gain on bargain purchase | (2,107,270) |
| Consideration paid by the Group | <u>18,254,811</u> |
| Net cash outflow arising from acquisition of a subsidiary are as follows: | |
| Fair value of the consideration paid by the Group | 18,254,811 |
| Less: Cash and cash equivalents acquired | <u>(818,246)</u> |
| | <u>17,436,565</u> |

(i) Acquisition-related costs

The Group incurred acquisition-related costs of RM339,668 related to external legal fees, professional services and due diligence costs. The legal fees, professional services and due diligence costs have been included in administrative expenses in the Group's consolidated statement of profit or loss and other comprehensive income.

(ii) Provisional accounting of acquisition

The fair value adjustments as at 28 August 2018 and the gain on bargain purchase are provisional as the Group is currently undertaking a purchase price allocation exercise to determine the identifiable assets and liabilities, and to identify and measure intangible assets, if any. The gain on bargain purchase is now provisionally estimated to be RM2.1 million. Any adjustments arising will be adjusted accordingly on a retrospective basis when the purchase price allocation is finalised.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

6. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

(d) Strike off of a subsidiary

On 8 August 2018, the Singapore Accounting and Corporate Regulatory Authority had approved the application for the striking off of Italiaworld Pte Ltd.

| | Group RM | Company RM |
|---|-------------|---------------|
| Summary of the financial information | | |
| Total net liabilities derecognised | (452,029) | - |
| Foreign exchange translation reserve | 212,659 | - |
| Loss on strike off of the subsidiary | 239,370 | - |
| Consideration received | - | - |

(e) Non-controlling interest in subsidiaries

The Group's subsidiaries that have material non-controlling interests ("NCI") are as follows:

| | PKF RM |
|--|--------------|
| 2018 | |
| NCI percentage of ownership interest and voting interest | 16.67% |
| Carrying amount of NCI | 4,072,416 |
| Profit/(loss) allocated to NCI | - |
| Summarised financial information before intra-group elimination | |
| | PKF RM |
| As at 31 August | |
| Non-current assets | 25,753,736 |
| Current assets | 30,878,718 |
| Non-current liabilities | (17,646,907) |
| Current liabilities | (14,551,050) |
| Net assets | 24,434,497 |
| Year ended 31 August | |
| Revenue | 26,750,723 |
| Loss for the period | (200,131) |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

7. GOODWILL ON CONSOLIDATION

| | Group | |
|-----------------------------|------------|------|
| | 2018 | 2017 |
| | RM | RM |
| At 1 September | - | - |
| Acquisition of a subsidiary | 28,756,903 | - |
| At 31 August | 28,756,903 | - |

Impairment test for goodwill

The provisional goodwill on consolidation at the end of the FYE 2018 was arising from the acquisition of TK Rentals Sdn. Bhd. (formerly known as TK Tent & Air-Conditioning Rental Sdn Bhd) as disclose in Note 6(b) in this report. The goodwill had been allocated to the cash-generating unit ("CGU") of this subsidiary.

No impairment loss was required for the carrying amount of goodwill assessed as at 31 August 2018 as the recoverable amount of the CGU were in excess of the carrying amount.

The recoverable amount of the CGU are determined based on the value-in-use ("VIU") calculations. Cash flows are derived from financial budgets approved by the Directors covering over ten-year period that reflects the majority of the assets' useful life. The projection reflects management's expectation of revenue growth for the CGU based on the expectations of market growth.

Key assumptions used in VIU calculations are as follows:

| | 2018 |
|-----------------------|--|
| Revenue growth rate | Range from 0% to 16% for the first five-year period and -10% for next five-year period |
| Pre-tax discount rate | 6.9% |

The Group's review includes an impact assessment of changes in key assumptions. Based on the sensitivity analysis performed, the Directors concluded that no reasonable possible changes in the assumptions would cause the carrying amount of the CGU to exceed their recoverable amounts.

8. INVENTORIES

| | Group | |
|---|------------|------------|
| | 2018 | 2017 |
| | RM | RM |
| At cost/net realisable value | | |
| Raw materials | 16,523,201 | 87,206 |
| Finished goods | 16,057,151 | 22,145,128 |
| | 32,580,352 | 22,232,334 |
| Recognised in profit or loss: | | |
| Inventories written down | - | 43,059 |
| Provision for slowing stocks | 8,034,284 | - |
| Cost of inventories included in cost of sales | 21,491,887 | 30,587,695 |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

9. TRADE RECEIVABLES

| | Group | |
|-------------------------------------|-------------|------------|
| | 2018 | 2017 |
| | RM | RM |
| Trade receivables | 31,982,326 | 20,603,299 |
| Less: Accumulated impairment losses | (2,623,257) | (128,234) |
| | 29,359,069 | 20,475,065 |

Trade receivables are non-interest bearing and are generally on credit term of 30 to 120 days (2017: 30 to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Movement in the allowance for impairment losses of trade receivables is as follows:

| | Group | |
|------------------------------|-----------|----------|
| | 2018 | 2017 |
| | RM | RM |
| At 1 September | 128,234 | 201,220 |
| Impairment losses recognised | 2,559,538 | 30,480 |
| Amount recovered | (97,348) | (72,681) |
| Amount written off | - | (30,785) |
| Acquisition of subsidiaries | 32,833 | - |
| At 31 August | 2,623,257 | 128,234 |

Analysis of trade receivables ageing at end of the financial year is as follows:

| | Group | |
|-----------------------------------|------------|------------|
| | 2018 | 2017 |
| | RM | RM |
| Neither past due nor impaired | 15,734,892 | 4,572,474 |
| <i>Past due but not impaired:</i> | | |
| Less than 30 days | 2,896,270 | 5,140,680 |
| 31 to 60 days | 4,749,037 | 2,100,068 |
| 61 to 365 days | 5,978,870 | 8,661,843 |
| More than 365 days | - | - |
| | 13,624,177 | 15,902,591 |
| | 29,359,069 | 20,475,065 |
| Impaired | 2,623,257 | 128,234 |
| | 31,982,326 | 20,603,299 |

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

As at 31 August 2018, trade receivables of RM13,624,177 (2017: RM15,902,591) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

9. TRADE RECEIVABLES (cont'd)

The trade receivables of the Group that are individually assessed to be impaired amounting to RM2,623,257 (2017: RM128,234) relate to customers that are in financial difficulties, have defaulted on payments and/or have over the credit terms. These balances are expected to be recovered through debts recovery process.

10. OTHER RECEIVABLES

| | Group | | Company | |
|-------------------|-----------|-----------|---------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Other receivables | 940,444 | 533,547 | - | - |
| Deposits | 399,891 | 1,661,007 | 1,000 | 1,501,000 |
| Prepayments | 811,741 | 1,201,847 | 22,700 | 17,700 |
| | 2,152,076 | 3,396,401 | 23,700 | 1,518,700 |

11. AMOUNT DUE FROM/(TO) SUBSIDIARY COMPANIES

Amount due from/(to) subsidiary companies are non-interest bearing, unsecured and repayable on demand.

12. FIXED DEPOSITS WITH FINANCIAL INSTITUTIONS

Fixed deposits of the Group amounting to RM3,376,491 (2017: RM2,515,073) has been pledged with financial institutions as securities for credit facilities granted to subsidiaries as disclosed in Note 18 to the financial statements.

The interest rates and maturities of the fixed deposits range from 3.03% to 3.90% (2017: 2.85% to 3.90%) per annum and 30 to 365 days (2017: 90 to 365 days), respectively.

13. ASSET CLASSIFIED AS HELD FOR SALE

| | Group | |
|--|-----------|---------|
| | 2018 | 2017 |
| | RM | RM |
| As at 1 September | 376,960 | - |
| Reclassified from property, plant and equipment (Note 5) | 2,454,622 | 376,960 |
| Disposal during the year | (376,960) | - |
| As at 31 August | 2,454,622 | 376,960 |

- (a) On 5 June 2018, a subsidiary company Sin Chee Heng Sdn. Bhd. entered into a sales and purchase agreement with third party to dispose a freehold land and building for a total consideration of RM 4,600,000.

To date, a deposit of RM460,000 has been received from the buyer. Management estimates the disposal to complete in the subsequent financial year.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

13. ASSET CLASSIFIED AS HELD FOR SALE (cont'd)

- (b) On 29 January 2018, a subsidiary Company Sin Chee Heng (Johore) Sdn. Bhd. entered into a sales and purchase agreement with third party to disposed a freehold land and building for a total consideration of RM434,000.

To date, a deposit of RM43,400 has been received from the buyer. The Management estimates the disposal to complete in the subsequent financial year.

14. SHARE CAPITAL

| | Group and Company | | | |
|---|---------------------------|-------------|------------|------------|
| | Number of Ordinary Shares | | Amount | |
| | 2018 | 2017 | 2018 | 2017 |
| | Units | Units | RM | RM |
| Issued and fully paid | | | | |
| At beginning of the financial year | 412,235,520 | 412,234,020 | 52,129,101 | 41,223,402 |
| Conversion of warrants | 276,200 | 1,500 | 27,620 | 150 |
| Effect arising from the acquisition of the subsidiaries | 40,000,000 | - | 6,800,000 | - |
| Private placement of shares | 103,000,000 | - | 17,550,000 | - |
| Share issue expenses | - | - | (588,750) | - |
| Effect of adoption of Companies Act, 2016* | - | - | - | 10,905,549 |
| At end of the financial year | 555,511,720 | 412,235,520 | 75,917,971 | 52,129,101 |

* The new Companies Act, 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purpose as set out in Section 618(2) of the Act. There is no impact on the number of ordinary shares in issued or the relative entitlement of any of the members as a result of this transition.

On 22 June 2018, the issued and paid up share capital of the Company was increased from RM52,129,101 to RM52,156,721 by way of issuance of 276,200 new ordinary shares each pursuant to the exercise of the free detachable warrants issued by the Company to entitled shareholders on 8 December 2016 ("Warrants 2016/2021") for RM0.10 per share.

On 18 July 2018, the issued and paid up share capital of the Company was increased from RM52,156,721 to RM63,256,721 by way of issuance of 60,000,000 new ordinary shares each pursuant to the proposed private placement for RM0.185 per shares.

On 25 July 2018, the issued and paid up share capital of the Company was increased from RM63,256,721 to RM69,706,721 by way of issuance of 43,000,000 new ordinary shares each pursuant to the proposed private placement for RM0.15 per shares.

On 3 August 2018, the issued and paid up share capital of the Company was increased from RM69,706,721 to RM76,506,721 by way of issuance of 40,000,000 new ordinary shares each pursuant to the placement of shares for the acquisition of new subsidiary at fair value of RM0.17 per share.

The new ordinary shares issued during the financial year rank pari passu in all respects with existing ordinary shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

14. SHARE CAPITAL (cont'd)

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

Warrants 2016/2021

On 8 December 2016, the Company completed a bonus issue of 206,117,010 free detachable warrants ("Warrants") on the basis of one warrant for every two ordinary shares held by the entitled shareholders on 29 November 2016.

The Warrants are constituted by the Deed Poll dated 14 November 2016 ("Deed Poll").

Salient features of the Warrants are as follow:

- (i) Each Warrant entitles the Warrant holder to subscribe for one new ordinary shares in the Company at the exercise price of RM0.10 during the 5-year period expiring on 4 December 2021 ("exercise period"), subject to the adjustments in accordance with Deed Poll constituting the Warrants;
- (ii) At the expiry of the exercise period, any Warrants which have not been exercised shall automatically lapse and cease to be valid for any purpose;
- (iii) The Warrant holders are not entitled to any voting rights or participation in any distribution and/or offer of securities in the Company, until and unless the warrant holders are issued with new ordinary shares of the Company arising from their exercise of the Warrants; and
- (iv) The new ordinary shares to be issued upon exercise of the Warrants shall, upon issue and allotment, rank pari passu in all respects with existing ordinary shares of the Company except that they will not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid by the Company prior to the date of allotment of the new ordinary shares to be issued arising from the exercise of the Warrants.

| | Group and Company | |
|---------------------------------------|-------------------|-------------|
| | 2018 | 2017 |
| | Number | Number |
| Balance unexercised as at 1 September | 206,115,510 | - |
| Bonus issue | - | 206,117,010 |
| Conversion of warrants | (276,200) | (1,500) |
| Balance unexercised as at 31 August | 205,839,310 | 206,115,510 |

At the end of the financial year, 205,839,310 (2017: 206,115,510) Warrants remained unexercised.

15. MERGER DEFICIT

Merger deficit arises from the difference between the nominal value of shares issued by the Company and the nominal value of shares of subsidiaries acquired under the merger method of accounting.

16. FOREIGN CURRENCY TRANSLATION RESERVE

Foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

17. FINANCE LEASE PAYABLES

| | Group | |
|--|------------|------------|
| | 2018 RM | 2017 RM |
| Minimum lease payments | | |
| Within one year | 501,648 | 187,685 |
| Later than one year and not later than two years | 622,318 | 146,444 |
| Later than two years and not later than five years | 613,099 | 195,224 |
| | 1,737,065 | 529,353 |
| Less: Future finance charges | (169,877) | (51,540) |
| Present value of minimum lease payments | 1,567,188 | 477,813 |
| Present value of minimum lease payments | | |
| Within one year | 423,567 | 161,398 |
| Later than one year and not later than two years | 539,433 | 130,003 |
| Later than two years and not later than five years | 604,188 | 186,412 |
| | 1,567,188 | 477,813 |
| Analysed as: | | |
| Repayable within twelve months | 423,567 | 161,398 |
| Repayable after twelve months | 1,143,621 | 316,415 |
| | 1,567,188 | 477,813 |

Finance lease interest of the Group ranges from 3.28% to 4.76% (2017: 3.28% to 4.76%) per annum.

18. BANK BORROWINGS

| | Group | | Company | |
|-----------------------------|------------|------------|------------|------------|
| | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Secured | | | | |
| Bankers' acceptance | 1,814,000 | 6,780,000 | - | - |
| Bank overdraft | 1,864,187 | - | - | - |
| Foreign currency trade loan | 3,162,893 | 5,059,955 | - | - |
| Term loans | 62,103,104 | 4,302,250 | 43,027,794 | - |
| | 68,944,184 | 16,142,205 | 43,027,794 | - |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

18. BANK BORROWINGS (cont'd)

| | Group | | Company | |
|-----------------------------|------------|------------|------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Analysed as: | | | | |
| Current | | | | |
| Bankers' acceptances | 1,814,000 | 6,780,000 | - | - |
| Bank overdrafts | 1,864,187 | - | - | - |
| Foreign currency trade loan | 3,162,893 | 5,059,955 | - | - |
| Term loans | 6,653,408 | 191,579 | 5,520,000 | - |
| | 13,494,488 | 12,031,534 | 5,520,000 | - |
| Non-current | | | | |
| Term loans | 55,449,696 | 4,110,671 | 37,507,794 | - |
| | 68,944,184 | 16,142,205 | 43,027,794 | - |

The bank borrowings are secured by the following:

- Legal charge over certain freehold and leasehold land and buildings of the Group as disclosed in Note 5 to the financial statements;
- Pledge of fixed deposits of a subsidiary company as disclosed in Note 12 to the financial statements; and
- Corporate guarantee by the Company and a subsidiary company, Sin Chee Heng Sdn. Bhd.
- Pledge of ordinary shares of two subsidiaries, TK Rentals Sdn. Bhd. (formerly known as TK Tent & Air-Conditioning Rental Sdn Bhd) and PK Fertilizers (Sarawak) Sdn. Bhd. by way of first party Open All Monies Memorandum of Deposits.

Maturity of bank borrowings is as follows:

| | Group | | Company | |
|----------------------------|------------|------------|------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Within one year | 13,494,488 | 12,031,534 | 5,520,000 | - |
| Between one and two years | 6,667,266 | 200,603 | 5,520,000 | - |
| Between two and five years | 22,249,783 | 660,300 | 18,720,000 | - |
| After five years | 26,532,647 | 3,249,768 | 13,267,794 | - |
| | 55,449,696 | 4,110,671 | 37,507,794 | - |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

18. BANK BORROWINGS (cont'd)

The range of effective interest rates per annum on bank borrowings of the Group as at reporting date are as follows:

| | Group | | Company | |
|-----------------------------|-------------|-------------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | % | % | % | % |
| Bankers' acceptances | 3.72 - 5.44 | 3.15 - 4.71 | - | - |
| Bank overdrafts | 7.22 - 8.75 | 7.22 - 8.75 | - | - |
| Foreign currency trade loan | 3.06 - 5.10 | 1.43 - 4.15 | - | - |
| Term loans | 4.55 - 6.28 | 4.30 - 4.75 | 5.89 | - |

19. DEFERRED TAX LIABILITIES

| | Group | |
|--|-----------|----------|
| | 2018 | 2017 |
| | RM | RM |
| At 1 September | 108,143 | 127,100 |
| Recognised in profit or loss (Note 27) | (90,143) | (18,957) |
| Acquisition of subsidiaries | 6,512,430 | - |
| At 31 August | 6,530,430 | 108,143 |

The net deferred tax assets and liabilities shown on the statements of financial position after appropriate offsetting are as follow:

| | Group | |
|--------------------------|-----------|----------|
| | 2018 | 2017 |
| | RM | RM |
| Deferred tax liabilities | 6,530,430 | 122,364 |
| Deferred tax assets | - | (14,221) |
| | 6,530,430 | 108,143 |

The components and movement of deferred tax liabilities and assets are as follows:

| | Group | |
|---|-----------|----------|
| | 2018 | 2017 |
| | RM | RM |
| <u>Deferred tax liabilities</u> | | |
| Differences between the carrying amount of property, plant and equipment and its tax base | 6,530,430 | 122,364 |
| <u>Deferred tax assets</u> | | |
| Other deductible temporary differences | - | (14,221) |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

19. DEFERRED TAX LIABILITIES (cont'd)

Deferred tax assets have not been recognised in respect of the following temporary differences:

| | Group | |
|---|---------|-----------|
| | 2018 | 2017 |
| | RM | RM |
| Differences between the carrying amount of property, plant and equipment and its tax base | - | 4,218 |
| Unabsorbed capital allowances | 200,048 | 96,560 |
| Unused tax losses | 730,042 | 1,284,606 |
| | 930,090 | 1,385,384 |

Deferred tax assets have not been recognised in respect of those items as those companies in the Group may not have sufficient future taxable profits from which the above can be utilised or they have arisen in subsidiary companies that have a recent history of losses.

20. TRADE PAYABLES

Credit terms of trade payables of the Group range from 30 to 180 (2017: 30 to 180) days, depending on the term of the contracts.

21. OTHER PAYABLES

| | Group | | Company | |
|----------------|-----------|-----------|---------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Other payables | 1,776,282 | 806,646 | 4,674 | 32,405 |
| Accruals | 1,004,612 | 333,130 | 79,400 | 65,100 |
| Deposits | 617,734 | 114,402 | - | - |
| | 3,398,628 | 1,254,178 | 84,074 | 97,505 |

22. AMOUNT DUE TO DIRECTORS

Amount due to Directors are represents unsecured, interest free advances which are repayable on demand.

23. REVENUE

| | Group | | Company | |
|-----------------------------|------------|------------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Sales of goods and services | 33,248,323 | 44,177,466 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

24. FINANCE COSTS

| | Group | | Company | |
|-------------------------------------|---------|---------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Interest expenses on: | | | | |
| Bank overdrafts | 23,744 | 58,705 | - | - |
| Bankers' acceptances | 161,680 | 126,575 | - | - |
| Foreign currency trade loan | 177,475 | 132,014 | - | - |
| Finance lease | 56,566 | 22,644 | - | - |
| Trust receipts and letter of credit | 21,058 | 40,956 | - | - |
| Term loans | 221,058 | 64,353 | 27,794 | - |
| | 661,581 | 445,247 | 27,794 | - |

25. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax is determined after charging/(crediting) amongst other, the following items:

| | Group | | Company | |
|--|-----------|-----------|---------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Auditors' remuneration | | | | |
| - Statutory | | | | |
| - Current year | 184,788 | 138,983 | 59,000 | 25,000 |
| - Under provision in prior years | 20,770 | 19,800 | 10,500 | 2,500 |
| - Non-statutory audit fee | 87,000 | - | 87,000 | - |
| Bad debts written off | 6,544 | 6,622 | - | - |
| Depreciation of property, plant and equipment | 1,081,559 | 700,438 | - | - |
| Foreign exchange loss/(gain) | | | | |
| - realised | (267,541) | 393,976 | - | - |
| - unrealised | 131,414 | (144,006) | - | - |
| Impairment on trade receivables | 2,559,538 | 30,480 | - | - |
| Impairment on investment in subsidiaries | - | - | - | 208,125 |
| Inventories written down | - | 43,059 | - | - |
| Loss on strike off of a subsidiary | 239,370 | - | - | - |
| Provision for slow moving inventories | 8,034,284 | - | - | - |
| Property, plant and equipment written off | 32,779 | 3,624 | - | - |
| Rental of factory | 2,500 | 104,832 | - | - |
| Rental of premises | 134,553 | 169,176 | - | - |
| Staff cost (excluding Directors' remuneration) | | | | |
| - salaries, wages and allowance | 4,148,553 | 4,568,243 | - | - |
| - contribution to defined contribution plan | 537,847 | 524,415 | - | - |
| - other employee benefits | 67,576 | 168,893 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

25. (LOSS)/PROFIT BEFORE TAX (cont'd)

| | Group | | Company | |
|---|-------------|-----------|-----------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Bad debts recovered | - | (1,420) | - | - |
| Fixed deposit interest income | (250,850) | (273,194) | (51,395) | (81,674) |
| Gain on disposal of property, plant and equipment | (996,939) | (145,959) | - | - |
| Gain on bargain purchase | (2,107,270) | - | - | - |
| Reversal of impairment on trade receivables | (97,348) | (72,681) | - | - |
| Insurance claims | (147,968) | (3,286) | - | - |
| Rental income | (99,000) | (297,800) | - | - |
| Management fees received | - | - | (216,803) | - |
| Other income | (59,299) | (43,959) | - | - |

26. DIRECTORS' REMUNERATION

| | Group | | Company | |
|--|-----------|-----------|---------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Directors of the Group and of the Company Executive: | | | | |
| - Salary and other emoluments | 1,353,754 | 1,203,938 | 10,500 | 7,000 |
| - Contribution to defined plan | 191,837 | 165,648 | - | - |
| | 1,545,591 | 1,369,586 | 10,500 | 7,000 |
| Non-executive: | | | | |
| - Fees | 162,000 | 134,500 | 162,000 | 134,500 |
| - Salary and other emoluments | 14,000 | 9,000 | 14,000 | 9,000 |
| | 1,721,591 | 1,513,086 | 186,500 | 150,500 |

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26. DIRECTORS' REMUNERATION (cont'd)

The number of Directors of the Group and of the Company whose total remuneration fall within the following bands for the financial year ended 31 August 2018 is as follows:

| | Group No. of Directors | | Company No. of Directors | |
|-----------------------|---------------------------|---------------|-----------------------------|---------------|
| | Executive | Non-executive | Executive | Non-executive |
| Range of remuneration | | | | |
| Below RM50,000 | - | 7 | 3 | 6 |
| RM50,001 - RM100,000 | - | - | - | - |
| RM100,001 - RM150,000 | - | - | - | - |
| RM150,001 - RM200,000 | - | - | - | - |
| RM200,001 - RM250,000 | - | - | - | - |
| RM250,001 - RM300,000 | - | - | - | - |
| RM300,001 - RM350,000 | - | - | - | - |
| RM350,001 - RM400,000 | - | - | - | - |
| RM400,001 - RM450,000 | 2 | - | - | - |
| RM450,001 - RM500,000 | - | - | - | - |
| RM500,001 - RM550,000 | 1 | - | - | - |

27. TAXATION

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2018 RM | 2017 RM | 2018 RM | 2017 RM |
| Tax expense recognised in profit or loss | | | | |
| Current tax: | | | | |
| Malaysian income tax | 768,309 | 1,016,275 | 88 | - |
| Under provision in prior years | (111,127) | (84,952) | - | (28) |
| | 657,182 | 931,323 | 88 | (28) |
| Deferred tax (Note 19): | | | | |
| Origination and reversal of temporary differences | (90,143) | (18,957) | - | - |
| | 567,039 | 912,366 | 88 | (28) |

Malaysian income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable (loss)/profit for the financial year. Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

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27. TAXATION (cont'd)

A reconciliation of income tax expenses applicable to (loss)/profit before tax at the statutory tax rate to income tax expenses at the effective income tax of the Group and the Company are as follows:

| | Group | | Company | |
|---|-------------|-----------|-------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| (Loss)/profit before tax | (7,490,831) | 2,734,692 | (1,485,904) | (622,929) |
| Taxation at statutory tax rate of 24% (2017: 24%) | (1,797,799) | 656,326 | (356,617) | (149,503) |
| Effects of tax rates in other countries | (40,801) | (45,631) | - | - |
| Expenses not deductible for tax purposes | 2,739,747 | 473,767 | 356,705 | 149,503 |
| Income not subject to tax | (237,882) | (69,592) | - | - |
| Deferred tax assets not recognised | 45,820 | 77,484 | - | - |
| Utilisation of previously unrecognised tax losses and capital allowances | - | (474) | - | - |
| Utilisation of current year capital allowances | (30,919) | (94,562) | - | - |
| (Over)/under provision of income tax expense in prior years | (111,127) | (84,952) | - | (28) |
| Tax expense for the financial year | 567,039 | 912,366 | 88 | (28) |

The Group has estimated unused tax losses and unabsorbed capital allowances of RM730,042 and RM200,048 (2017: RM1,284,606 and RM96,560) respectively available for set-off against future taxable profit.

28. EARNINGS PER SHARE ("EPS")

(a) Basis EPS

The basic EPS are calculated based on the consolidated profit for the financial year attributable to the owners of the parent and the weighted average number of ordinary shares in issue during the financial year as follows:

| | Group | |
|---|-------------|-------------|
| | 2018 | 2017 |
| | RM | RM |
| (Loss)/profit attributable to owners of the parent | (8,057,870) | 1,822,326 |
| Weighted average number of ordinary shares at 31 August | 420,414,500 | 412,235,020 |
| Basic EPS (sen) | (1.92) | 0.44 |

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28. EARNINGS PER SHARE ("EPS") (cont'd)

(b) Diluted EPS

| | Group | |
|--|-------------|-------------|
| | 2018 | 2017 |
| | RM | RM |
| (Loss)/profit attributable to owners of the parent | (8,057,870) | 1,822,326 |
| (Loss)/profit used to determine diluted EPS | (8,057,870) | 1,822,326 |
| Weighted average number of ordinary shares in issue | 420,414,500 | 412,235,020 |
| Adjustment for: | | |
| - Conversion of Warrants | 154,112,050 | 154,587,758 |
| Weighted average number of ordinary shares for diluted EPS | 574,526,550 | 566,822,778 |
| Diluted EPS (sen) | (1.40) | 0.32 |

As at 31 August 2018, the Company has 205,839,310 (2017: 206,115,510) unexercised warrants, whose terms of conversion are set out in Note 14 to the financial statements. MFRS 133, 'Earnings Per Share' prescribes that warrants are dilutive when they are issued for no consideration or when they would result in the issue of ordinary shares for less than its fair value. For the diluted EPS calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

29. COMMITMENTS AND NON-CANCELLABLE OPERATING LEASE AGREEMENTS

(a) Capital commitment

| | Group | |
|--------------------------------|-------|---------|
| | 2018 | 2017 |
| | RM | RM |
| Authorised and contracted for: | | |
| Property, plant and equipment | - | 908,000 |

(b) Operating lease arrangements

The Group as lessee

The future minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities are analysed as follows:

| | Group | |
|----------------------------|-------|--------|
| | 2018 | 2017 |
| | RM | RM |
| Leased rental of premises: | | |
| Within one year | - | 64,247 |

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29. COMMITMENTS AND NON-CANCELLABLE OPERATING LEASE AGREEMENTS (cont'd)

(c) Bank guarantee

| | Group | |
|---|--------|--------|
| | 2018 | 2017 |
| | RM | RM |
| Bank guarantee given to a utilities Company | 39,000 | 36,000 |

30. RELATED PARTY DISCLOSURES

(a) Identifying related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group and certain members of senior management and chief executive officers of major subsidiary companies of the Group.

The Group has related party relationships with its subsidiary companies and key management personnel.

(b) Compensation of key management personnel

Remuneration of key management personnel (inclusive of the Directors' remuneration as disclosed in Note 26 to the financial statements) are as follows:

| | Group | | Company | |
|-------------------------------|-----------|-----------|---------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Key management compensations: | | | | |
| - Salaries, wages and bonus | 1,270,810 | 1,091,226 | - | - |
| - Defined contribution plan | 217,973 | 188,640 | - | - |
| - Other emoluments * | 301,941 | 326,492 | 10,500 | 7,000 |
| | 1,790,724 | 1,606,358 | 10,500 | 7,000 |

* Other emoluments included socso, allowances, meeting allowance and etc.

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30. RELATED PARTY DISCLOSURES (cont'd)

(c) Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal terms and conditions negotiated among the related parties. In addition to the related party balances disclosed in Notes 11 and 22 to the financial statements, the significant related party transactions of the Company are as follows:

| | Group | | Company | |
|---------------------------|-------|------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Subsidiary company | | | | |
| Management fees received | - | - | 216,803 | - |

31. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 3 to the financial statements describe how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statements of financial position at reporting date by the class of financial instruments to which they are assigned, and therefore by the measurement basis:

| | Loans and receivables | Financial liabilities measured at amortised cost | Total |
|--|--------------------------|---|------------|
| | RM | RM | RM |
| Group | | | |
| 2018 | | | |
| Financial assets | | | |
| Trade receivables | 29,359,069 | - | 29,359,069 |
| Other receivables | 1,340,335 | - | 1,345,035 |
| Fixed deposits with financial institutions | 8,367,109 | - | 8,367,109 |
| Cash and bank balances | 5,476,851 | - | 5,476,851 |
| | 44,543,364 | - | 44,548,064 |
| Financial liabilities | | | |
| Trade payables | - | 12,953,824 | 12,953,824 |
| Other payables | - | 3,398,628 | 3,398,628 |
| Finance lease payables | - | 1,567,188 | 1,567,188 |
| Bank borrowings | - | 68,944,184 | 68,944,184 |
| | - | 86,863,824 | 86,863,824 |

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
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31. FINANCIAL INSTRUMENTS (cont'd)

(a) Classification of financial instruments (cont'd)

| | Loans and receivables RM | Financial liabilities measured at amortised cost RM | Total RM |
|--|--------------------------------|---|-------------------|
| Group | | | |
| 2017 | | | |
| Financial assets | | | |
| Trade receivables | 20,475,065 | - | 20,475,065 |
| Other receivables | 2,194,554 | - | 2,194,554 |
| Fixed deposits with financial institutions | 9,085,364 | - | 9,085,364 |
| Cash and bank balances | 3,044,118 | - | 3,044,118 |
| | 34,799,101 | - | 34,799,101 |
| Financial liabilities | | | |
| Trade payables | - | 1,950,165 | 1,950,165 |
| Other payables | - | 1,254,178 | 1,254,178 |
| Amount due to Directors | - | 19,000 | 19,000 |
| Finance lease payables | - | 477,813 | 477,813 |
| Bank borrowings | - | 16,142,205 | 16,142,205 |
| | - | 19,843,361 | 19,843,361 |
| Company | | | |
| 2018 | | | |
| Financial assets | | | |
| Other receivables | 1,000 | - | 1,000 |
| Amount due from subsidiary companies | 16,000,000 | - | 16,000,000 |
| Cash and bank balances | 1,168,521 | - | 1,168,521 |
| | 17,169,521 | - | 17,169,521 |
| Financial liabilities | | | |
| Other payables | - | 84,074 | 84,074 |
| Amount due to a subsidiary company | - | 303,876 | 303,876 |
| Bank borrowings | - | 43,027,794 | 43,027,794 |
| | - | 43,415,744 | 43,415,744 |

NOTES TO THE FINANCIAL STATEMENTS

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31. FINANCIAL INSTRUMENTS (cont'd)

(a) Classification of financial instruments (cont'd)

| | Loans and receivables RM | Financial liabilities measured at amortised cost RM | Total RM |
|--|--------------------------------|---|-------------------|
| Company | | | |
| 2017 | | | |
| Financial assets | | | |
| Other receivables | 1,501,000 | - | 1,501,000 |
| Amount due from subsidiary companies | 16,543,967 | - | 16,543,967 |
| Fixed deposits with financial institutions | 2,035,611 | - | 2,035,611 |
| Cash and bank balances | 26,142 | - | 26,142 |
| | <u>20,106,720</u> | <u>-</u> | <u>20,106,720</u> |
| Financial liabilities | | | |
| Other payables | - | 97,505 | 97,505 |
| Amount due to a subsidiary company | - | 303,876 | 303,876 |
| | <u>-</u> | <u>401,381</u> | <u>401,381</u> |

(b) Financial risk management objectives and policies

The Group's and the Company's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group's and the Company's operations whilst managing its credit, liquidity, foreign currency, interest rate and market risks. The Group and the Company operates within clearly defined guidelines that are approved by the Board and the Group's and the Company's policy is not to engage in speculative transactions.

The following sections provide details regarding the Group's and the Company's exposure to the abovementioned financial risks and the objectives, policies and processes for the management of these risks.

(i) Credit risk

Credit risk is the risk of a financial loss to the Group or the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and deposits with financial institutions. The Company's exposure to credit risk arises principally from loans and advances to subsidiary companies and financial guarantees given to financial institutions for credit facilities granted to subsidiary companies.

The Group has adopted a policy of only dealing with creditworthy counterparties. Management has a credit policy in place to control credit risk by dealing with creditworthy counterparties and deposit with financial institutions with good credit rating. The exposure to credit risk is monitored on an ongoing basis and action will be taken for long outstanding debts.

The Company provides unsecured loans and advances to subsidiary companies. It also provides unsecured financial guarantees to banks for banking facilities granted to certain subsidiary companies. The Company monitors on an ongoing basis the results of the subsidiary companies and repayments made by the subsidiary companies.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018

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31. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(i) Credit risk (cont'd)

The carrying amounts of the financial assets recorded on the statements of financial position at the end of the financial year represents the Group's and the Company's maximum exposure to credit risk. For financial guarantees to bank for banking facilities granted to certain subsidiary companies, the maximum exposure to credit risk amounts to RM25,215,740 (2017: RM16,138,594) representing the outstanding banking facilities of the subsidiaries at the reporting date. At the end of the reporting period, there was no indication that any subsidiary company would default on repayment. The financial guarantees have not been recognised since the fair value on initial recognition was not material.

The Group has no significant concentration of credit risk as its exposure spread over a large number of customers. The Company has no significant concentration of credits risks except for loans to its subsidiary companies where risks of default have been assessed to be low.

(ii) Liquidity risk

Liquidity risk refers to the risk that the Group or the Company will encounter difficulty in meeting its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group's and the Company's funding requirements and liquidity risk are managed with the objective of meeting business obligations on a timely basis. The Group and the Company finances its liquidity through internally generated cash flows and minimises liquidity risk by keeping committed credit lines available.

The following table analyses the maturity profile of the Group's and the Company's financial liabilities as at reporting date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company are required to pay.

| | On demand or within 1 year RM | 1 to 2 years RM | 2 to 5 years RM | After 5 years RM | Total contractual undiscounted cash flows RM | Total carrying amount RM |
|------------------------------|--|-----------------------|-----------------------|------------------------|--|-----------------------------------|
| Group | | | | | | |
| 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Trade payables | 12,953,824 | - | - | - | 12,953,824 | 12,953,824 |
| Other payables | 3,398,628 | - | - | - | 3,398,628 | 3,398,628 |
| Finance lease payables | 501,648 | 622,318 | 613,099 | - | 1,737,065 | 1,567,188 |
| Bank borrowings | 16,137,131 | 8,970,868 | 26,999,560 | 28,414,077 | 80,521,636 | 68,944,184 |
| | 32,991,231 | 9,593,186 | 27,612,659 | 28,414,077 | 98,611,153 | 86,863,824 |

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31 August 2018
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31. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(ii) Liquidity risk (cont'd)

| | On demand or within 1 year RM | 1 to 2 years RM | 2 to 5 years RM | After 5 years RM | Total contractual undiscounted cash flows RM | Total carrying amount RM |
|---------------------------------------|--|-----------------------|-----------------------|------------------------|--|-----------------------------------|
| Group | | | | | | |
| 2017 | | | | | | |
| Financial liabilities | | | | | | |
| Trade payables | 1,950,165 | - | - | - | 1,950,165 | 1,950,165 |
| Other payables | 1,254,178 | - | - | - | 1,254,178 | 1,254,178 |
| Amount due to Directors | 19,000 | - | - | - | 19,000 | 19,000 |
| Finance lease payables | 187,685 | 146,444 | 195,224 | - | 529,353 | 477,813 |
| Bank borrowings | 12,225,701 | 385,746 | 1,157,238 | 4,140,458 | 17,909,143 | 16,142,205 |
| | 15,636,729 | 532,190 | 1,352,462 | 4,140,458 | 21,661,839 | 19,843,361 |
| Company | | | | | | |
| 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Other payables | 84,074 | - | - | - | 84,074 | 84,074 |
| Amount due to a subsidiary company | 303,876 | - | - | - | 303,876 | 303,876 |
| Bank borrowings | 7,905,725 | 7,580,542 | 22,828,583 | 14,085,794 | 52,400,644 | 43,027,794 |
| | 8,293,675 | 7,580,542 | 22,828,583 | 14,085,794 | 52,788,594 | 43,415,744 |
| 2017 | | | | | | |
| Financial liabilities | | | | | | |
| Other payables | 97,505 | - | - | - | 97,505 | 97,505 |
| Amount due to a subsidiary company | 303,876 | - | - | - | 303,876 | 303,876 |
| | 401,381 | - | - | - | 401,381 | 401,381 |

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31. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(iii) Market risks

- Foreign currency exchange risk

The Group is exposed to foreign currency exchange risk on transactions that are denominated in currencies other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Singapore Dollar (SGD), United States Dollar (USD) and Japanese Yen (JPY). The Group has investment in foreign operation whose net assets are exposed to foreign currency translation risk. Such exposures are mitigated through bank borrowings denominated in the respective functional currencies.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

| Group | Denominated in | | | Total RM |
|----------------------------------|----------------|-----------|-----------|-------------|
| | USD RM | SGD RM | JPY RM | |
| 2018 | | | | |
| Deposits, cash and bank balances | 696,316 | - | - | 696,316 |
| Trade receivables | 128,413 | - | - | 128,413 |
| Other receivables | 10,178 | - | - | 10,178 |
| Other payables | (38,467) | - | - | (38,467) |
| Bank borrowings | (2,576,930) | (585,963) | - | (3,162,893) |
| | (1,780,490) | (585,963) | - | (2,366,453) |
| 2017 | | | | |
| Deposits, cash and bank balances | 638,040 | 213,235 | - | 851,275 |
| Trade receivables | 53,053 | 1,116 | - | 54,169 |
| Other receivables | 6,114 | 3,782 | - | 9,896 |
| Trade payables | - | (4,097) | - | (4,097) |
| Bank borrowings | (4,229,279) | (523,138) | (345,176) | (5,097,593) |
| | (3,532,072) | (309,102) | (345,176) | (4,186,350) |

Foreign currency sensitivity analysis

Foreign currency risk arises from Group entities which have a RM functional currency. The exposure to currency risk of Group entities which do not have a RM functional currency is not material and hence, sensitivity analysis is not presented.

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31. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(iii) Market risks (cont'd)

- Foreign currency exchange risk (cont'd)

| Group | Change in currency rate RM | 2018 | 2017 |
|-------|-------------------------------|---|---|
| | | Effect on profit before tax RM | Effect on profit before tax RM |
| USD | Strengthened 10% | 783,104 | 346,650 |
| | Weakened 10% | (783,104) | (346,650) |
| SGD | Strengthened 10% | 175,784 | 30,391 |
| | Weakened 10% | (175,784) | (30,391) |
| JPY | Strengthened 10% | - | 34,284 |
| | Weakened 10% | - | (34,284) |

- Interest rate risk

The Group's and the Company's fixed rate deposits placed with financial institutions and bank borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates.

The Group manages the interest rate risk of its deposits with financial institutions by placing them at the most competitive interest rates obtainable, which yield better returns than cash at bank and maintaining a prudent mix of short and long-term deposits.

The Group manages its interest rate risk exposure from interest bearing borrowings by obtaining financing with the most favourable interest rates in the market. The Group constantly monitors its interest rate risk by reviewing its debts portfolio to ensure favourable rates are obtained. The Group does not utilise interest swap contracts or other derivative instruments for trading or speculative purposes.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

31. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial risk management objectives and policies (cont'd)

(iii) Market risks (cont'd)

• Interest rate risk (cont'd)

The carrying amounts of the Group's and of the Company's financial instruments that are exposed to interest rate risk are as follows:

| | Group | | Company | |
|--|--------------|--------------|--------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | RM | RM | RM | RM |
| Fixed rate instruments | | | | |
| Fixed deposits with financial institutions | 8,367,109 | 9,085,364 | - | 2,035,611 |
| Finance lease payables | (1,567,188) | (477,813) | - | - |
| | 6,799,921 | 8,607,551 | - | 2,035,611 |
| Variable rate instruments | | | | |
| Bankers' acceptance | (1,814,000) | (6,780,000) | - | - |
| Bank overdrafts | (1,864,187) | - | - | - |
| Foreign currency trade loan | (3,162,893) | (5,059,955) | - | - |
| Term loans | (62,103,104) | (4,302,250) | (43,027,794) | - |
| | (68,944,184) | (16,142,205) | (43,027,794) | - |

Interest rate sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group and the Company do not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change in 1% interest rate at the end of the reporting period, with all other variable being held constant, would have increased/(decreased) the Group' and the Company's profit before tax by RM689,442 and RM430,278 (2017: RM161,422 and nil) respectively, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. This analysis assumes that all other variables remain constant. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

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31. FINANCIAL INSTRUMENTS (cont'd)

(c) Fair value of financial instruments

The Group and the Company measure fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or in directly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

The carrying amounts of short term receivables and payables, cash and cash equivalents and short-term bank borrowings approximate their fair value due to the relatively short term nature of these financial instruments and insignificant impact of discounting.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their carrying amounts shown in the statements of financial position.

| | Fair value of financial instruments not carried at fair value | | | Carrying amount RM |
|------------------------|--|---------------|---------------|--------------------------|
| | Level 1 RM | Level 2 RM | Level 3 RM | |
| Group | | | | |
| 2018 | | | | |
| Finance lease payables | - | - | 1,256,249 | 1,143,621 |
| 2017 | | | | |
| Finance lease payables | - | - | 324,059 | 316,415 |

The fair value of finance lease payables is determined with discounted cash flow method using current market rate of borrowings of the respective Group entities at the reporting date.

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32. SIGNIFICANT EVENT DURING THE YEAR

Private placement and acquisition of subsidiaries

On 3 March 2017, the Group had entered into:

- (i) Proposed private placement up to 103,000,000 new ordinary shares of SCH Group Berhad at an indicative issue price of RM0.185;
- (ii) Proposed acquisition of the entire equity interest in TK Rentals Sdn. Bhd. (formerly known as TK Tent Air-Conditioning Rental Sdn. Bhd.) ("TK Tent") comprising 11,800,000 ordinary shares in TK Tent, for a purchase consideration of RM50,000,000 to be satisfied by, which RM10,500,000 from proceeds from Proposed Private Placement, RM4,500,000 from internal funds, and bank borrowings amounting RM35,000,000;
- (iii) Proposed acquisition of 83.33% equity interest in PK Fertilizers (Sarawak) Sdn. Bhd. ("PKF Sarawak") comprising 15,000,000 ordinary shares in PKF Sarawak, for a purchase consideration of RM19,054,811, to be satisfied via a combination of cash consideration of RM11,454,811, which maximum of RM8,000,000 from bank borrowings and RM3,454,811 from proceeds from Proposed Private Placement, and issuance of 40,000,000 new ordinary shares in SCH shares at an issue price of RM0.19 for Consideration Shares.

On 28 August 2018, the Group had completed the proposed private placement and proposed acquisition.

Details of the subsidiaries acquired are disclosed in Note 6 to the financial statement.

33. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital using a gearing ratio. The Group's policy is to maintain a prudent level of gearing ratio that complies with debt covenants. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowings (including 'current and non-current borrowings' as shown in the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt. The gearing ratios at end of the reporting period are as follows:

| | Group | |
|--|--------------|--------------|
| | 2018 | 2017 |
| | RM | RM |
| Total bank borrowings | 70,511,372 | 16,620,018 |
| Less: Cash and cash equivalents (including fixed deposits pledged to financial institutions) | (11,979,773) | (12,129,482) |
| Net debts | 58,531,599 | 4,490,536 |
| Total equity | 79,938,304 | 64,473,346 |
| Gearing ratio (times) | 0.73 | 0.07 |

There were no changes in the Group's approach to capital management during the financial year.

The Group and the Company are not subject to any externally imposed capital requirement.

NOTES TO THE FINANCIAL STATEMENTS

31 August 2018
cont'd

34. SEGMENT INFORMATION

For management purposes, the Group reported its revenue into the following business segments as presented below. For each business segment, the client operating decision maker (i.e. the Group's Managing Director) reviews management reports at least on a quarterly basis.

| | Group | |
|---|-------------------|-------------------|
| | 2018 | 2017 |
| | RM | RM |
| Revenue | | |
| Quarry industrial products | 15,536,913 | 19,642,524 |
| Quarry machinery, quarry equipment and reconditioned quarry machinery | 9,150,000 | 9,088,356 |
| Spare parts for quarry machinery, quarry equipment and reconditioned quarry machinery | 5,375,405 | 6,240,666 |
| Manufacturing and distribution of quarry grill | 3,186,005 | 3,533,309 |
| Asphalt mixing plant (batch and drum mix) | - | 5,672,611 |
| | 33,248,323 | 44,177,466 |

Except as indicated above, no operating segments have been aggregated to form the above reportable business segments.

No other segmental information such as segment assets, liabilities and results are presented as the Group is principally engaged in one industry that is the quarry industry.

No geographical segmental information are presented as the Group currently operate and derived revenue in Malaysia, the revenue from the foreign subsidiary is immaterial and less than 10% to the Group.

The Group have no single external customer that contribute more than 10% or more to the Group's revenue.

LIST OF PROPERTIES

As at 31 August 2018

| No. | Title Details/Postal Address | Description of property/ Existing use | Land area/ Built-up area sq m | Approximate age of building (Years) | Tenure | Audited net book value as at 31.08.2018 |
|-----|--|---|--|--|--|--|
| 1. | 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 | Open sided single storey detached factory currently used as warehouse and manufacturing factory by SCH Group | 1,115 (Land) 990 (Built-up area) | 17 | Freehold | 1,469,755 |
| 2. | Individual title held under industrial H.S.(M) 13156, PT 23677, Mukim Ceras, Tempat Cheras Jaya, Daerah Hulu Langat, Negeri Selangor Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan | 4 storey building with offices and warehouse | 8,510 (Land) 3,579 (Built-up area) | 3 | 99 years lease expiring on 30 December 2098 | 14,018,188 |
| 3. | 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 | 1 ½ storey terrace factory currently used as regional office and warehouse by SCH Group | 149 (Land) 188 (Built-up area) | 21 | 99 years lease expiring on 3 October 2075 | 141,862 |

LIST OF PROPERTIES

As at 31 August 2018
cont'd

| No. | Title Details/Postal Address | Description of property/ Existing use | Land area/ Built-up area sq m | Approximate age of building (Years) | Tenure | Audited net book value as at 31.08.2018 |
|-----|--|---|--|--|--|--|
| 4. | Individual title held under PN 4662, Lot 44676, Mukim Kuala Kuantan, Daerah Kuantan, Negeri Pahang No. 1, Jalan Industri Tanah Putih Baru 5, Batu 3, Kawasan Perindustrian Perdana Jaya, Tanah Putih, Jalan Gambang, 25150 Kuantan, Pahang Darul Makmur | 1 ½ storey terrace factory currently used as regional office and warehouse by SCH Group | 177 (Land) 244 (Built-up area) | 21 | 99 years lease expiring on 3 October 2075 | 152,959 |
| 5. | Master title held under Parent Title Lot No. 33 (MPKK No. 6) Title Country Lease No. Industrial 015022769, District of Kota Kinabalu, Sabah Lot 6, Lorang Makat 3, Perindustrian, Makat Kolombong, 88450 Kolombong, Sabah | Double storey terrace light industrial warehouse cum office currently used as regional office and warehouse by SCH Group | 439 (Land) 418 (Built-up area) | 18 | 999 years lease expiring on 17 August 2923 | 325,782 |
| 6. | Individual title held under HSD 15745, PT 578, Mukim 06, Daerah Seberang Perai Tengah, Negeri Pulau Pinang No. 1, Lorang Nagasari 23, Taman Nagasari, Seberang Perai 13600 Pulau Pinang | Double storey semi-detached light industrial factory currently used as regional office and warehouse by SCH Group | 374 (Land) 129 (Built-up area) | 22 | Freehold | 358,732 |
| 7. | Master title held under Parent Lot 594, Block 238, Kuching North Land District, Sarawak. Sublot No. 10, Wismacom Industrial Park, 8 ½ Mile, Jalan Batu Kitang 93250 Kuching, Sarawak. | 2-storey semi-detached industrial building | 681 (Land) 279 (Built-up area) | 2 | 60 years lease expiring on 30 November 2038 | 1,320,000 |

LIST OF PROPERTIES

As at 31 August 2018
cont'd

| No. | Title Details/Postal Address | Description of property/ Existing use | Land area/ Built-up area sq m | Approximate age of building (Years) | Tenure | Audited net book value as at 31.08.2018 |
|-----|--|--|---|--|--|--|
| 8. | Individual title held under HSD 62727, PTD 107429, Mukim of Kulai, District of Kulai, State of Johor. | Single-storey clustered factory with mezzanine floor | 863 (Land) | 2 | Freehold | 1,564,047 |
| | No. 106, Jalan Lagenda 6, Taman Lagenda Putra, 81000 Kulai, Johor Darul Ta'zim | | 446 (Built-up area) | | | |
| 9. | Title held under No. Lot 4061 Block 26 Kemena Land District | Single-storey detached industrial warehouse | 15,822 (Land) | | 60 years lease expiring on 7 July 2058 | 19,200,000 |
| | Lot 4061, Kidurong Light Industrial Estate (KLIE), Jalan Kidurong, 97000 Bintulu, Sarawak. | | 6,918 (Warehouse built-up area) | 25 | | |
| | | | 8,506 (Warehouse extension, office & store block and guard house built up area) | 9 | | |

STATISTICS OF SHAREHOLDINGS

As at 19 November 2018

SHARE CAPITAL

Issued and Paid-up Capital : RM75,917,971
 Class of Shares : Ordinary Shares
 Voting Rights : One vote for each ordinary share held

DISTRIBUTION OF SHAREHOLDINGS AS AT 19 NOVEMBER 2018

| Size of Holding | No. of shareholders | % of shareholders | No. of holdings | % of shares |
|-------------------------|---------------------|-------------------|--------------------|----------------|
| 1 – 99 | 3 | 0.14 | 103 | 0.00 |
| 100 – 1,000 | 134 | 6.24 | 59,410 | 0.01 |
| 1,001 – 10,000 | 542 | 25.22 | 3,952,400 | 0.71 |
| 10,001 – 100,000 | 1,087 | 50.58 | 46,931,100 | 8.45 |
| 100,001 – 27,775,585* | 381 | 17.73 | 292,834,807 | 52.71 |
| 27,775,586 AND ABOVE ** | 2 | 0.09 | 211,733,900 | 38.12 |
| Total | 2,149 | 100.000 | 555,511,720 | 100.000 |

Remark:

* - Less than 5% of Issued Shares
 ** - 5% and above of Issued Shares

SUBSTANTIAL SHAREHOLDERS AS AT 19 NOVEMBER 2018

| No. | Name of Substantial Shareholder | No. of Shares held | | No. of Shares held | |
|-----|--|--------------------|-------|--------------------|---|
| | | Direct | % | Indirect | % |
| 1 | MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HEXTAR HOLDINGS SDN BHD | 171,733,900 | 30.91 | - | - |
| 2 | PRISTINE ACRES SDN BHD | 40,000,000 | 7.20 | - | - |

DIRECTORS' INTERESTS IN SHARES AS AT 19 NOVEMBER 2018

| No. | Name of Director | No. of Shares held | | No. of Shares held | |
|-----|-----------------------|--------------------|------|----------------------------|-------|
| | | Direct | % | Indirect | % |
| 1 | DATO' CHAN CHOUN SIEN | 400,000 | 0.07 | - | - |
| 2 | DATO' ONG CHOO MENG | - | - | 171,733,900 ^(a) | 30.91 |
| 3 | GAN KHONG AIK | 420,000 | 0.08 | - | - |
| 4 | KHOO CHEE SIANG | 27,217,900 | 4.90 | - | - |
| 5 | SIM YEE FUAN | 50,000 | 0.01 | - | - |
| 6 | WONG KIN SENG | 20,450,083 | 3.68 | - | - |

(a) Deemed interest for the shares held by Hextar Holdings Sdn. Bhd. pursuant to Section 8 of the Companies, Act 2016.

STATISTICS OF SHAREHOLDINGS

As at 19 November 2018
cont'd

LIST OF TOP 30 LARGEST SECURITIES ACCOUNTS HOLDERS (ACCORDING TO THE REGISTER OF DEPOSITORS AS AT 19 NOVEMBER 2018)

| No. | Name of Shareholders | No. of Shares | % |
|--------------|---|--------------------|--------------|
| 1 | MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR HEXTAR HOLDINGS SDN BHD</i> | 171,733,900 | 30.91 |
| 2 | PRISTINE ACRES SDN BHD | 40,000,000 | 7.20 |
| 3 | M & A NOMINEE (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR KHOO CHEE SIANG (M&A)</i> | 27,217,900 | 4.90 |
| 4 | FONG CHIU WAN | 23,000,000 | 4.14 |
| 5 | WONG KIN SENG | 20,090,083 | 3.62 |
| 6 | CARTABAN NOMINEES (ASING) SDN BHD <i>EXEMPT AN FOR STANDARD CHARTERED BANK SINGAPORE (EFGBHK-ASING)</i> | 17,200,000 | 3.10 |
| 7 | M & A NOMINEE (TEMPATAN) SDN BHD <i>GENTING UTAMA SDN BHD FOR WEALTHMAX ASSETS SDN BHD</i> | 11,800,000 | 2.12 |
| 8 | AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. <i>PLEDGED SECURITIES ACCOUNT FOR LIM GAIK ENG (LIM4779C)</i> | 9,000,000 | 1.62 |
| 9 | MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>CHEE CHIK ENG</i> | 8,270,600 | 1.49 |
| 10 | MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR LOW NGOK MING</i> | 5,894,900 | 1.06 |
| 11 | MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR TEE TIAM HOCK</i> | 5,175,500 | 0.93 |
| 12 | ABD RAHMAN BIN SOLTAN | 5,000,000 | 0.90 |
| 13 | YAYASAN GURU TUN HUSSEIN ONN | 5,000,000 | 0.90 |
| 14 | YONG KOK PEW | 3,350,000 | 0.60 |
| 15 | LAU MONG LING | 3,073,224 | 0.55 |
| 16 | LIM LIEW HONG | 3,000,000 | 0.54 |
| 17 | RONNY NG | 2,847,400 | 0.51 |
| 18 | KOH ENG HONG | 2,802,000 | 0.50 |
| 19 | LIM KHEOW KOOI | 2,600,000 | 0.47 |
| 20 | LEOW KIM NGAN | 2,230,200 | 0.40 |
| 21 | CIMSEC NOMINEES (TEMPATAN) SDN BHD <i>CIMB BANK FOR LIM CHIN HORNG (M12035)</i> | 2,100,000 | 0.38 |
| 22 | CHONG CHEE WAI | 2,049,300 | 0.37 |
| 23 | KENANGA NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR NG CHAI GO</i> | 2,000,000 | 0.36 |
| 24 | M & A NOMINEE (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR KOAY KEAT CHYE (PNG)</i> | 2,000,000 | 0.36 |
| 25 | ONG YIT CHENG | 1,625,000 | 0.29 |
| 26 | YVONNE NG MEI SAN | 1,590,000 | 0.29 |
| 27 | CITIGROUP NOMINEES (TEMPATAN) SDN BHD <i>EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED (CLIENT A/C-R ES)</i> | 1,530,000 | 0.28 |
| 28 | LOW NGOK MING | 1,490,000 | 0.27 |
| 29 | CHEAH JUW TECK | 1,456,700 | 0.26 |
| 30 | CHONG CHEE WAI | 1,348,600 | 0.24 |
| TOTAL | | 386,475,307 | 69.56 |

ANALYSIS OF WARRANT HOLDINGS

As at 19 November 2018

WARRANTS

No. of Outstanding Warrants : 205,839,310 Warrants 2016/2021

No. of Warrant Holders : 1,601

DISTRIBUTION OF WARRANT HOLDINGS AS AT 19 NOVEMBER 2018

| Size of Warrant Holding | No. of Holders | % | No. of Warrants | % |
|-------------------------|----------------|---------------|--------------------|---------------|
| 1 – 99 | 85 | 5.31 | 4,094 | 0.00 |
| 100 – 1,000 | 91 | 5.68 | 49,615 | 0.03 |
| 1,001 – 10,000 | 466 | 29.11 | 2,797,951 | 1.36 |
| 10,001 – 100,000 | 696 | 43.47 | 27,731,050 | 13.47 |
| 100,001 – 10,291,964 * | 261 | 16.30 | 141,173,700 | 68.58 |
| 10,291,965 AND ABOVE ** | 2 | 0.13 | 34,082,900 | 16.56 |
| Total | 1,601 | 100.00 | 205,839,310 | 100.00 |

Remark:

* - Less than 5% of Warrant Issued

** - 5% and above of Warrant Issued

SUBSTANTIAL WARRANTS HOLDERS AS AT 19 NOVEMBER 2018

| No. | Name of Warrants Holders | No. of Warrants held | | No. of Warrants held | |
|-----|--|----------------------|-------|----------------------|---|
| | | Direct | % | Indirect | % |
| 1 | M & A NOMINEE (TEMPATAN) SDN BHD FOR THIANJING HOLDINGS SDN BHD | 21,581,900 | 10.48 | - | - |
| 2 | CHOW DAI YING | 12,501,000 | 6.07 | - | - |

DIRECTORS' INTERESTS IN WARRANTS AS AT 19 NOVEMBER 2018

| No. | Name of Director | No. of Warrants held | | No. of Warrants held | |
|-----|-----------------------|----------------------|------|----------------------|---|
| | | Direct | % | Indirect | % |
| 1 | DATO' CHAN CHOUN SIEN | - | - | - | - |
| 2 | DATO' ONG CHOO MENG | - | - | - | - |
| 3 | GAN KHONG AIK | 210,000 | 0.10 | - | - |
| 4 | KHOO CHEE SIANG | - | - | - | - |
| 5 | SIM YEE FUAN | 25,000 | 0.01 | - | - |
| 6 | WONG KIN SENG | 75,000 | 0.04 | - | - |

ANALYSIS OF WARRANT HOLDINGS

As at 19 November 2018
cont'd

LIST OF TOP 30 LARGEST WARRANT HOLDERS (ACCORDING TO THE REGISTER OF DEPOSITORS AS AT 19 NOVEMBER 2018)

| No. | Name of Warrant Holders | No. of Warrants | % |
|--------------|--|--------------------|--------------|
| 1 | M & A NOMINEE (TEMPATAN) SDN BHD <i>FOR THIANJING HOLDINGS SDN BHD</i> | 21,581,900 | 10.48 |
| 2 | CHOW DAI YING | 12,501,000 | 6.07 |
| 3 | ONG KENG SENG | 8,688,100 | 4.22 |
| 4 | M & A NOMINEE (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR CHOW DAI YING (M&A)</i> | 5,400,050 | 2.62 |
| 5 | YEOH AIK KHONG | 4,000,000 | 1.94 |
| 6 | SOO HUEY YI | 3,500,000 | 1.70 |
| 7 | MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR LOW NGOK MING</i> | 3,010,050 | 1.46 |
| 8 | KOH ENG HONG | 2,650,000 | 1.29 |
| 9 | ABD RAHMAN BIN SOLTAN | 2,500,000 | 1.22 |
| 10 | YAYASAN GURU TUN HUSSEIN ONN | 2,500,000 | 1.22 |
| 11 | ABDUL SATHAR BIN M S M ABDUL KADIR | 2,465,000 | 1.20 |
| 12 | MAYBANK NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR TAN CHEAK JOO</i> | 2,360,000 | 1.15 |
| 13 | PUBLIC NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR YAP KIAM HENG (E-SGM)</i> | 2,353,200 | 1.14 |
| 14 | YONG KOK PEW | 2,154,000 | 1.05 |
| 15 | CHOY CHENG CHOONG | 2,145,000 | 1.04 |
| 16 | KENANGA NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR CHONG FUT LING (001)</i> | 2,000,000 | 0.97 |
| 17 | LOK KWEE RENG | 2,000,000 | 0.97 |
| 18 | AFFIN HWANG NOMINEES (TEMPATAN) SDN. BHD. <i>EXEMPT AN FOR DBS VICKERS SECURITIES (SINGAPORE) PTE LTD (CLIENTS)</i> | 1,968,300 | 0.96 |
| 19 | MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR CHONG CHIEN MING (MARGIN)</i> | 1,950,000 | 0.95 |
| 20 | YOUNG THIM CHOY | 1,900,000 | 0.92 |
| 21 | LIM LIEW HONG | 1,500,000 | 0.73 |
| 22 | KENANGA NOMINEES (TEMPATAN) SDN BHD <i>RAKUTEN TRADE SDN BHD FOR FU HAN HONG</i> | 1,400,000 | 0.68 |
| 23 | NG KIM MOY | 1,400,000 | 0.68 |
| 24 | YVONNE NG MEI SAN | 1,395,000 | 0.68 |
| 25 | TEOH CHIN TEIK | 1,300,000 | 0.63 |
| 26 | CIMSEC NOMINEES (TEMPATAN) SDN BHD <i>CIMB BANK FOR CHEAH CHEE SIONG (MY1891)</i> | 1,213,700 | 0.59 |
| 27 | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD <i>PLEDGED SECURITIES ACCOUNT FOR LIM CHIN HORNG (7002468)</i> | 1,200,000 | 0.58 |
| 28 | VINCENT TAN SEI KEONG | 1,170,000 | 0.57 |
| 29 | LAU KOK FOO | 1,073,400 | 0.52 |
| 30 | LAU PAK LAM | 1,023,200 | 0.50 |
| TOTAL | | 100,301,900 | 48.73 |

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Seventh (7th) Annual General Meeting of SCH Group Berhad ("SCH" or "the Company") will be held at Lot 35, Jalan CJ 1/1, Kawasan Perumahan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan on Tuesday, 22 January 2019 at 10.00 a.m., for the purpose of transacting the following businesses:

- | | | |
|----|--|------------------------------------|
| 1. | To receive the Audited Financial Statements for the financial year ended 31 August 2018 together with the Reports of the Directors and Auditors thereon. | Please refer to Explanatory Note 1 |
| 2. | To approve the payment of Directors' fees of RM162,000.00 to Non-Executive Directors of the Company for the financial year ended 31 August 2018. | Ordinary Resolution 1 |
| 3. | To approve the payment of Directors' Fees payable to Non-Executive Directors up to RM180,000.00 for the period from 1 September 2018 until the conclusion of the next Annual General Meeting of the Company. | Ordinary Resolution 2 |
| 4. | To approve the payment of Directors' benefits of up to RM50,000.00 for the period from 23 January 2019 until the conclusion of the next Annual General Meeting of the Company. | Ordinary Resolution 3 |
| 5. | To re-elect the following Directors retiring pursuant to the Article 95 of the Company's Articles of Association: | |
| | i) Khoo Chee Siang | Ordinary Resolution 4 |
| | ii) Gan Khong Aik | Ordinary Resolution 5 |
| 6. | To re-elect the following Directors retiring pursuant to the Article 100 of the Company's Articles of Association: | |
| | i) Dato' Ong Choo Meng | Ordinary Resolution 6 |
| | ii) Dato' Chan Choun Sien | Ordinary Resolution 7 |
| 7. | To re-appoint Messrs. ECOVIS AHL PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. | Ordinary Resolution 8 |

SPECIAL BUSINESSES:

To consider and, if thought fit, to pass the following Resolutions:

- | | | |
|----|---|-----------------------|
| 8. | Authority to Issue Shares Pursuant to Sections 75 and 76 of the Companies Act 2016 | Ordinary Resolution 9 |
|----|---|-----------------------|

"**THAT** subject to Sections 75 and 76 of the Companies Act 2016 and approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the total number of the issued shares (excluding treasury shares) of the Company for the time being **AND THAT** the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad; **AND THAT** such authority shall commence immediately upon the passing of this Resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company, or at the expiry of the period within which the next annual general meeting is required to be held after the approval was given, whichever is earlier."

NOTICE OF ANNUAL GENERAL MEETING

cont'd

9. **Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")** Ordinary Resolution 10

THAT subject to the provisions of the ACE Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company and its subsidiaries ("the Group") be and are hereby authorised to enter into and give effect to the recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.3 of Part A of the Circular to Shareholders dated 24 December 2018, provided that such transactions and/or arrangements are:-

- (a) necessary for the day-to-day operations;
- (b) are undertaken in the ordinary course of business at arm's length basis and are on normal commercial terms which are not more favourable to the Related Party than those generally available to the public; and
- (c) are not detrimental to the minority shareholders of the Company.

(collectively known as "Shareholders' Mandate")

AND THAT such approval, shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by a resolution passed at such AGM, the authority is renewed; or
- (b) the expiration of the period within the next AGM of the Company after that date is required to be held pursuant to Section 340 of Companies Act, 2016 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 340 (4) of the Act); or
- (c) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting, whichever is earlier;

AND THAT the estimated aggregate value of the transactions conducted pursuant to the Shareholders' Mandate during a financial year will be disclosed, in accordance with the Listing Requirements, in the Annual Report of the Company for the said financial year;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Shareholders' Mandate."

10. **Proposed Adoption of the New Constitution of the Company** Special Resolution 1

"THAT approval be and is hereby given to revoke the existing Memorandum and Articles of Association of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company as set out in Part B of the Circular dated 24 December 2018 be and is hereby adopted as the Company's Constitution **AND THAT** the Directors of the Company be and are hereby authorised to assent to any modifications, variations and/or amendments as may be required by the relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

NOTICE OF ANNUAL GENERAL MEETING

cont'd

11. To transact any other business of the Company for which due notice shall have been given.

By order of the Board,

Tan Tong Lang (MAICSA 7045482)
Thien Lee Mee (LS0009760)
Company Secretaries

Kuala Lumpur
24 December 2018

Notes

1. *A member/shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. Where a member/shareholder appoints more than one proxy to attend and vote at the Meeting, such appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.*
2. *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under Seal or under the hand of an officer or attorney duly authorised.*
3. *Where a member of the Company is an exempt authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provision of subsection 25A(1) of the Central Depositories Act which holds ordinary shares in the Company for multiple beneficial owners in one Securities Account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
4. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its Common Seal or signed by attorney so authorised.*
5. *The Form of Proxy must be deposited at the Share Registrar of the Company at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjournment thereof.*
6. *For the purpose of determining a member who shall be entitled to attend the Seventh (7th) AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a General Meeting Record of Depositors as at 11 January 2019. Only members whose name appears on the Record of Depositors as at 11 January 2019 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.*

EXPLANATORY NOTES

1. Audited Financial Statements for the Financial Year Ended 31 August 2018

The Agenda No. 1 is meant for discussion only as Sections 248(2) and Section 340(1)(a) of the Companies Act, 2016 provide that the audited financial statements are to be laid in the general meeting and do not require a formal approval of the shareholders. Hence, this Agenda item is not put forward for voting.

2. Ordinary Resolution 3: To Approve the Payment of Directors' Benefits

Pursuant to Section 230(1) of the Companies Act 2016, the fees of the Directors and any benefits payable to the directors shall be approved at a general meeting.

The Directors' benefits payable comprises of meeting allowances which calculated based on the current Board size and the number of scheduled Board and Board Committee meetings for the period from 23 January 2019 up to the next Annual General Meeting.

NOTICE OF ANNUAL GENERAL MEETING

cont'd

In the event the proposed amount is insufficient (e.g. due to more meetings or enlarged Board size), approval will be sought at the next Annual General Meeting for the shortfall.

3. **Ordinary Resolution 9: Authority to Issue Shares Pursuant to Sections 75 and 76 of the Companies Act 2016**

The Ordinary Resolution 9, if passed, is a renewal of General Mandate to empower the Directors to issue and allot shares up to an amount not exceeding 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the Company at a General Meeting, will expire at the next Annual General Meeting.

The General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding future investment project(s) workings capital and/or acquisitions at any time without convening a general meeting as it would be both costs and time consuming to organise a general meeting.

As at the date of this Notice, the Company issued 60,000,000 new ordinary shares at issue price of RM0.185 per share and 43,000,000 new ordinary shares at RM0.15 per share by way of the private placement pursuant to the General Mandate granted to the Directors at the Sixth (6th) Annual General Meeting held on 26 January 2018 and which will lapse at the conclusion of the Seventh (7th) Annual General Meeting.

4. **Ordinary Resolution 10 – Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**

The Ordinary Resolution 10, if passed, will allow the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the Company and/or its subsidiaries, subject to the transactions being carried out in the ordinary course of business of the Company and/or its subsidiaries and on normal commercial terms which are generally available to the public and not detrimental to the minority shareholders of the Company.

This authority, unless revoked or varied by the Company at a general meeting, will expire at the next annual general meeting of the Company.

For further information on this resolution, please refer to the Circular to Shareholders dated 24 December 2018 which is despatched together with the Annual Report 2018.

5. **Special Resolution 1 – Proposed Adoption of a New Company's Constitution**

The proposed Special Resolution if passed, will bring the Company's Constitution in line with the enforcement of the Companies Act 2016, Bursa Securities ACE Market Listing Requirements and to enhance administrative efficiency. The proposed new Constitution is set out in Part B of the Circular dated 24 December 2018.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

The Directors who are standing for re-election at the Seventh (7th) Annual General Meeting of the Company are:

a) Directors standing for re-election pursuant to Article 95 of the Company's Articles of Association:

- i) Khoo Chee Siang (Ordinary Resolution 4)
- ii) Gan Khong Aik (Ordinary Resolution 5)

b) Directors standing for re-election pursuant to Article 100 of the Company's Articles of Association:

- i) Dato' Ong Choo Meng (Ordinary Resolution 6)
- ii) Dato' Chan Choun Sien (Ordinary Resolution 7)

The profile of the above Directors are set out on pages 5 to 7 of the Annual Report 2018. The details of the interest of the above Directors in the securities of the Company or its related corporations are disclosed in the Directors report on page 46 of the aforesaid Annual Report.

The details of the Directors' attendance for Board Meetings are disclosed in the Corporate Governance Overview Statement on page 25 of the Annual Report 2018.

The Seventh (7th) Annual General Meeting of the Company will be held at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan on Tuesday, 22 January 2019 at 10.00 a.m.



SCH GROUP BERHAD
(Company No. 972700-P)

| NUMBER OF SHARES HELD | CDS ACCOUNT NO. |
|-----------------------|-----------------|
| | |

FORM OF PROXY

(Before completing this form please refer to the notes below)

I/We (Full Name in Block Letters) _____

NRIC No./Passport No./Company No. _____

of _____

being a member/members of **SCH GROUP BERHAD (972700-P)**, hereby appoint _____

_____ NRIC No./Passport _____

of _____

and/or _____ NRIC No./Passport _____

of _____

or failing him/her, the Chairman of the Meeting as *my/our proxy to attend and vote for *me/us and on my/our behalf at the Seventh (7th) Annual General Meeting of the Company to be held at Lot 35, Jalan CJ 1/1, Kawasan Perusahaan Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan on Tuesday, 22 January 2019 at 10.00 a.m. and at any adjournment thereof in the manner as indicate below:

| NO. | RESOLUTIONS | | FOR | AGAINST |
|-----|---|------------------------|-----|---------|
| 1. | To approve the payment of Directors' fees of RM162,000.00 to Non-Executive Directors for the financial year ended 31 August 2018. | Ordinary Resolution 1 | | |
| 2. | To approve the payment of Directors' fees to Non-Executive Directors up to RM180,000.00 for the period from 1 September 2018 until the conclusion of the next Annual General Meeting of the Company . | Ordinary Resolution 2 | | |
| 3. | To approve the payment of Directors' benefits of up to RM50,000.00. | Ordinary Resolution 3 | | |
| 4. | To re-elect Khoo Chee Siang as Director. | Ordinary Resolution 4 | | |
| 5. | To re-elect Gan Khong Aik as Director. | Ordinary Resolution 5 | | |
| 6. | To re-elect Dato' Ong Choo Meng as Director. | Ordinary Resolution 6 | | |
| 7. | To re-elect Dato' Chan Choun Sien as Director. | Ordinary Resolution 7 | | |
| 8. | To re-appoint Messrs. ECOVIS AHL PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. | Ordinary Resolution 8 | | |
| 9. | To approve the authority to issue shares pursuant to Sections 75 and 76 of the Companies Act 2016. | Ordinary Resolution 9 | | |
| 10. | Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | Ordinary Resolution 10 | | |
| 11. | Proposed Adoption of a New Company's Constitution. | Special Resolution 1 | | |

(Please indicate with 'X' how you wish to cast your vote. In the absence of specific directions, the proxy may vote or abstain from voting on the resolutions as he/she may think fit.)

Signed this _____ day of _____, 2019.

Signature/Common Seal of Member

The proportions of my/our holdings to be represented by my/our proxies are as follows:-

First Proxy

No. of Shares : _____

Percentage : _____ %

Second Proxy

No. of Shares : _____

Percentage : _____ %

NOTES:

1. A member/shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. Where a member/shareholder appoints more than one proxy to attend and vote at the Meeting, such appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under Seal or under the hand of an officer or attorney duly authorised.
3. Where a member of the Company is an exempt authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provision of subsection 25A(1) of the Central Depositories Act which holds ordinary shares in the Company for multiple beneficial owners in one Securities Account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its Common Seal or signed by attorney so authorised.
5. The Form of Proxy must be deposited at the Share Registrar of the Company at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than 48 hours before the time set for holding the meeting or any adjournment thereof.
6. For the purpose of determining a member who shall be entitled to attend the Seventh (7th) AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a General Meeting Record of Depositors as at 11 January 2019. Only members whose name appears on the Record of Depositors as at 11 January 2019 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

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AFFIX
STAMP

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

1st Fold Here

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