

## 6. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### 6.3.2 Key management's shareholdings

The shareholdings of our key management personnel (excluding Ng Thin Poh, our Managing Director and Dato' Ng Lian Poh, Tan Teck Beng, Ng Soh Kian and Chooi Chok Khooi, our Executive Directors) in our Company before and after the IPO are as follows:

| Name                   | Designation   | Nationality | Before the IPO |   |                          |      | After the IPO |   |                          |      |        |      |                          |      |
|------------------------|---|-------------|----------------|---|--------------------------|------|---------------|---|--------------------------|------|--------|------|--------------------------|------|
|                        |   |             | Direct ----->  |   | Indirect --->            |      | Direct -----> |   | Indirect --->            |      |        |      |                          |      |
|                        |   |             | No. of Shares  | % | No. of Shares            | %    | No. of Shares | % | No. of Shares            | %    |        |      |                          |      |
| Maisarah Tang Abdullah | Head of Human Resource and Administration of SCSB   | Malaysian   | -              | - | 6,992,660 <sup>(a)</sup> | 6.10 | -             | - | 6,692,660 <sup>(b)</sup> | 5.14 | 30,000 | 0.02 | 6,692,660 <sup>(b)</sup> | 4.92 |
| Ng Liew Chin           | Head of the Finance and Accounts Department of SCSB | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |
| Eugene Chong Wee Yip   | Sales Manager of SCSB                               | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |
| Maryann Ng Su Ling     | Sales Manager of SCSB                               | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |
| Lim Yoke Yin           | General Manager of SCsphere                         | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |
| Wee Chai Peng          | General Manager of TN Industries                    | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |
| Chu Team Sook          | General Manager of SC Industries                    | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |
| Heng Kok Hui           | General Manager of SC Logistics                     | Malaysian   | -              | - | -                        | -    | -             | - | -                        | -    | 30,000 | 0.02 | -                        | -    |

**6. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

Notes:

- @ Deemed interested via the shareholdings of her spouse, Imran bin Ismail
- \* Assuming none of the eligible employees of our Group subscribe for their respective entitlements under the Pink Form Allocation
- ^ Includes the Pink Form Allocation and on the assumption that all the respective parties will subscribe for their entire entitlements of the Pink Form Allocation

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**6. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

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**6.3.3 Involvement of key management in other business and corporations**

As at the LPD, all of our Group's key management are full-time employees of our Group and none of the key management is involved in the operations of other businesses/corporations.

**6.4 Declarations from our Promoters, Directors and key management**

As at the LPD, none of our Company's Promoters, Directors or key management is or has been involved in any of the following events (whether in or outside Malaysia):

- (i) a petition under any bankruptcy or insolvency laws was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (ii) disqualified from acting as a director of any company, or from taking part directly or indirectly in the management of any corporation;
- (iii) charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (iv) any judgement was entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or
- (v) the subject of any order, judgment or ruling of any court, government or regulatory authority or body, permanently or temporarily enjoining him from engaging in any type of business practice or activity.

**6.5 Family relationships and associations**

Save as disclosed below, as at the LPD, there are no family relationships and/or associations between/amongst our Promoters, substantial shareholders, Directors and key management:

- (i) Ng Thin Poh and Dato' Ng Lian Poh are siblings; and
- (ii) Maisarah Tang Abdullah and Imran Bin Ismail are spouses.

**6.6 Service agreements**

As at the LPD, there are no existing or proposed service agreements between our Directors or key management with our Group.

## 6. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)

### 6.7 Employees

As at the LPD, our Group employs a total workforce of 101 employees all of which are permanent employees. The permanent employees structure of our Group and the length of our employees' service are as follows:

| Category of employees         | Total employees | Length of service (years) |                                      |                  |
|-------------------------------|-----------------|---------------------------|--------------------------------------|------------------|
|                               |                 | Less than 1 year          | 1 year or more but less than 5 years | 5 years and more |
| Management and Professional   | 24              | 2                         | 5                                    | 17               |
| Supervisory                   | 3               | 0                         | 1                                    | 2                |
| Sales and marketing           | 19              | 2                         | 14                                   | 3                |
| Administration and clerical   | 27              | 2                         | 17                                   | 8                |
| Production- skilled           | 2               | 0                         | 2                                    | 0                |
| Logistics and warehouse staff | 26              | 1                         | 14                                   | 11               |
| <b>Total</b>                  | <b>101</b>      | <b>7</b>                  | <b>53</b>                            | <b>41</b>        |

As at the LPD, our Group does not have any employees on a contractual basis.

None of the employees of our Group belong to any union nor have there been any major industrial disputes in the past.

Our Group recognises the importance of human resource as a central element of any successful organisation and aims to build an experienced, capable and dynamic team. As part of our Group's general human resource planning, members of its staff are required to attend in-house and external training programmes aimed at improving efficiency, skills and technical knowledge as well as product safety handling procedures.

The training programmes participated by our Group (some of which are organised by our Group) from the FYE 2006 to date, amongst others are as follows:

| Month/Year    | Programme  | Organiser   |
|---------------|--|---|
| January 2006  | Training on ACCPAC Accounting System (accounting software) | Careware Systems Sdn Bhd                            |
| February 2006 | ExxonMobil Chemical Synthetic Product Training             | ExxonMobil Chemical Asia Pacific                    |
|               | Transportation of Hazardous Goods                          | CICM  |
|               | GE Silicones Distributor Meeting 2006                      | GE Silicones (Malaysia) Sdn Bhd                     |
| March 2006    | Optimal Customer Relationship Management Training          | OPTIMAL Chemicals                                   |
|               | Product Safety Handling Seminar                            | BASF Polyurethanes (M) Sdn Bhd and ExxonMobil       |
| May 2006      | PU Training  | Shell Seraya Research Laboratory, Singapore         |
|               | Occupational Safety and Health Seminar                     | Department of Occupational Health and Safety, Johor |

**6. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

| Month/Year     | Programme  | Organiser   |
|----------------|--|---|
|                | Restriction of Hazardous Substances  | Asahi Chemical Research Lab (M) Sdn Bhd   |
| June 2006      | Novabond products – Product Training   | Supplier – Davco Construction Material (M) Sdn Bhd  |
| August 2006    | DP Product Training  | ExxonMobil  |
| September 2006 | 5S Principle & Implementation Strategy Training<br>Safety, Health and Environment                        | Neville-Clarke (M) Sdn Bhd<br>Henkel (M) Sdn Bhd  |
| November 2006  | Low Odour Coating Seminar<br>Low Odour Coating Seminar (D40)   | ExxonMobil<br>ExxonMobil  |
| March 2007     | ISO 9001 Training<br>Afton Product Training<br>Computer System Training ACCPAC<br>Microsoft 2007 Seminar | CAI Management Sdn Bhd<br>Afton Chemical Asia Pacific LLC, Singapore<br>Careware Systems Sdn Bhd<br>SNS Network (M) Sdn Bhd |
| April 2007     | Nalco Products Training<br>Export Procedures<br>ISO 14001 Awareness                                      | Nalco Industrial Services Malaysia Sdn Bhd<br>SP Training and Management<br>Nihon Superior (M) Sdn Bhd                      |
| May 2007       | Paint Technology Training<br>Forklift Operation and Safety training                                      | K & A Synergy Technologies<br>UMW Industries (1985) Sdn Bhd   |
| June 2007      | Isocyanate Safe Handling<br>ExxonMobil Chemical – Sales Training D40                                     | BASF Polyurethanes (M) Sdn Bhd<br>ExxonMobil  |
| August 2007    | DP Product Training<br>Integration Internal Audit ISO 9001 & ISO 14001                                   | ExxonMobil<br>National Productivity Corporation   |
| September 2007 | Nagase Product Training<br>Afton Product Training  | Nagase (M) Sdn Bhd<br>Afton Chemical Asia Pacific LLC, Singapore  |
| October 2007   | Container Packing Certificate  | Federation of Malaysian Manufacturers (FMM)   |
| February 2008  | Applications for Process Oils<br>Chemical Spillage Training  | Shell Malaysia Trading Sdn Bhd<br>BASF Polyurethanes (M) Sdn Bhd  |

**6. INFORMATION ON OUR PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT PERSONNEL (Cont'd)**

| <b>Month/Year</b>   | <b>Programme</b>   | <b>Organiser</b>  |
|---------------------|--|---|
| April 2008          | Momentive Performance Materials Distributor Meeting 2008 | Momentive Performance Materials (Thailand) Ltd          |
|                     | Understanding Malaysia Shipping & Custom Procedure       | Headway Training & Development Centre                   |
| May 2008            | Synthetic Product Training                               | ExxonMobil Chemical Asia Pacific                        |
|                     | Effective Improvement Through CAPA                       | Malaysia Productivity Corporation & AlphaKaizen Sdn Bhd |
| June 2008           | Shell Lubricant Training                                 | Shell Malaysia Trading Sdn Bhd                          |
| July-September 2008 | Basic First Aid Training                                 | Dr Goh Wei Chong, Klinik Mesra Jaya                     |
|                     | Field sales and product training                         | Parexdavco (M) Sdn Bhd                                  |
| October 2008        | Second Optimal Stewardship Training                      | OPTIMAL Chemicals                                       |
| December 2008       | Borcher Product Training                                 | OM Group Incorporated                                   |
| February 2009       | Shell Lubricant - Distributor Workshop                   | Shell Malaysia Trading Sdn Bhd                          |

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## 7. APPROVAL AND CONDITIONS

### 7.1 Approvals from the relevant authorities

The Flotation Scheme is subject to the approvals being received from the following: -

- (i) SC vide its letter dated 29 September 2008 and 17 March 2009, pursuant to Section 212(5) of the CMSA;
- (ii) ECU, under the FIC Guidelines, of which approval was obtained on 29 September 2008 and 17 March 2009;
- (iii) MITI on 24 July 2008 and 4 March 2009; and
- (iv) Bursa Securities, for the admission to the Official List and listing of and quotation for the entire enlarged issued and paid-up share capital of Samchem on the Main Board of Bursa Securities, which was obtained vide its letter dated 15 April 2009.

### 7.2 Conditions to the approval and compliance thereof

The approvals from the relevant authorities were subjected to, *inter-alia*, the following conditions:

| Authority  | Conditions imposed   | Status of compliance  |
|--|--|---|
| SC / ECU, under the FIC Guidelines vide its letter dated 29 September 2008 | <ul style="list-style-type: none"> <li>• Bumiputera investors holding 30% of the enlarged share capital of Samchem for the purpose of complying with the NDP requirement should be approved/recognised by MITI;</li> <li>• RHB Investment Bank/Samchem should provide the SC with the status of compliance with the NDP requirement upon completion of the Flotation Scheme;</li> <li>• Samchem should make full provision for all trade receivables that are in dispute, under legal action or exceeding 6 months in its accounts. Our Directors should confirm to the SC that this condition has been met and our trade receivables that have exceeded the credit period (other than those where full provision have been made in its accounts) are recoverable, otherwise full provision should be made in its accounts prior to the issuance of its Prospectus;</li> <li>• Samchem should fully disclose our trade receivables position and ageing analysis as well as comments by our Directors on the recoverability of our trade receivables that have exceeded the credit period in its Prospectus;</li> </ul> | <p>To be complied.</p> <p>To be complied. RHB Investment Bank /we will inform the SC on the status of compliance with the NDP requirement upon completion of our Listing.</p> <p>Complied. Please refer to Section 10.4.8 of this Prospectus. The confirmation from our Directors was submitted to the SC on 29 April 2009.</p> <p>Complied. Please refer to Section 10.4.8 of this Prospectus.</p> |

## 7. APPROVAL AND CONDITIONS (Cont'd)

| Authority | Conditions imposed  | Status of compliance  |             |      |   |   |   |   |  |   |   |  |   |   |
|-----------|---|---|-------------|------|---|---|---|---|--|---|---|--|---|---|
|           | <ul style="list-style-type: none"> <li>• Samchem should fully disclose details concerning our past high gearing ratio together with the relevant mitigating factors in its Prospectus;</li> <li>• Samchem should fully disclose details concerning our past negative operating cashflow together with the relevant mitigating factors in its Prospectus;</li> <li>• Samchem should rectify the unapproved structures for the properties as set out in the table below within one (1) year from the date of the SC's approval letter and make quarterly announcements to Bursa Securities on the status of the rectification work and update the SC when such announcements are made to Bursa Securities:</li> </ul> <table border="1" data-bbox="459 904 911 1727"> <thead> <tr> <th data-bbox="459 904 523 938">No.</th> <th data-bbox="528 904 699 938">Description</th> <th data-bbox="703 904 911 938">Type</th> </tr> </thead> <tbody> <tr> <td data-bbox="459 945 523 1229">1</td> <td data-bbox="528 945 699 1229">HSD Nos. 51789 &amp; 51790, PT Nos. 43437 &amp; 43438, Mukim of Klang, District of Klang, Selangor.</td> <td data-bbox="703 945 911 1229">2 adjoining 1½ storey semi detached factories bearing postal address Nos. 1 &amp; 3, Jalan Biola Satu 33/1A, Elite Industrial Park, Seksyen 33, Shah Alam</td> </tr> <tr> <td data-bbox="459 1236 523 1442">2</td> <td data-bbox="528 1236 699 1442">PN No. 37791, Lot. No. 128232, Mukim of Hulu Kinta, District of Kinta, Perak</td> <td data-bbox="703 1236 911 1442">Industrial premise bearing postal address No.17, Persiaran Rishah 14, Kawasan Perindustrian Siltbin, Ipoh</td> </tr> <tr> <td data-bbox="459 1449 523 1727">3</td> <td data-bbox="528 1449 699 1727">GRN No. 121805, Lot. No. 74403, Mukim of Pulai, District of Johor Bahru, Johor</td> <td data-bbox="703 1449 911 1727">1 storey detached factory bearing postal address No. 10, Jalan Dato Yunus 1, Taman Perindustrian Dato Yunus Sulaiman, Lima Kedai, Johor Bahru</td> </tr> </tbody> </table> <p data-bbox="459 1912 523 1946">; and</p> | No.   | Description | Type | 1 | HSD Nos. 51789 & 51790, PT Nos. 43437 & 43438, Mukim of Klang, District of Klang, Selangor. | 2 adjoining 1½ storey semi detached factories bearing postal address Nos. 1 & 3, Jalan Biola Satu 33/1A, Elite Industrial Park, Seksyen 33, Shah Alam | 2 | PN No. 37791, Lot. No. 128232, Mukim of Hulu Kinta, District of Kinta, Perak | Industrial premise bearing postal address No.17, Persiaran Rishah 14, Kawasan Perindustrian Siltbin, Ipoh | 3 | GRN No. 121805, Lot. No. 74403, Mukim of Pulai, District of Johor Bahru, Johor | 1 storey detached factory bearing postal address No. 10, Jalan Dato Yunus 1, Taman Perindustrian Dato Yunus Sulaiman, Lima Kedai, Johor Bahru | <p data-bbox="959 288 1394 349">Complied. Please refer to Section 10.4.8 of this Prospectus.</p> <p data-bbox="959 445 1394 506">Complied. Please refer to Section 10.4.2 of this Prospectus.</p> <ol style="list-style-type: none"> <li data-bbox="959 938 1394 1059">1. <u>HSD Nos. 51789 &amp; 51790, PT Nos. 43437 &amp; 43438, Mukim of Klang, District of Klang, Selangor.</u><br/>Complied. SCSB obtained approval from Majlis Bandaraya Shah Alam on 17 July 2008 for the temporary structure.</li> <li data-bbox="959 1245 1394 1485">2. <u>PN No. 37791, Lot. No. 128232, Mukim of Hulu Kinta, District of Kinta, Perak</u><br/>Complied. The temporary structures have been removed by Ewenty Chemicals on 15 October 2008.</li> <li data-bbox="959 1518 1394 1912">3. <u>GRN No. 121805, Lot. No.74403, Mukim of Pulai, District of Johor Bahru, Johor</u><br/>To be complied. TN Chemie had vacated the premises on 6 March 2009, to move to their new factory located at PFD 152691, Mukim Pulai, Kawasan Perindustrian SiLC, Bandar Nusajaya, 79200 Johor. The premises are presently unoccupied.</li> </ol> |
| No.       | Description   | Type  |             |      |   |   |   |   |  |   |   |  |   |   |
| 1         | HSD Nos. 51789 & 51790, PT Nos. 43437 & 43438, Mukim of Klang, District of Klang, Selangor.   | 2 adjoining 1½ storey semi detached factories bearing postal address Nos. 1 & 3, Jalan Biola Satu 33/1A, Elite Industrial Park, Seksyen 33, Shah Alam |             |      |   |   |   |   |  |   |   |  |   |   |
| 2         | PN No. 37791, Lot. No. 128232, Mukim of Hulu Kinta, District of Kinta, Perak  | Industrial premise bearing postal address No.17, Persiaran Rishah 14, Kawasan Perindustrian Siltbin, Ipoh   |             |      |   |   |   |   |  |   |   |  |   |   |
| 3         | GRN No. 121805, Lot. No. 74403, Mukim of Pulai, District of Johor Bahru, Johor  | 1 storey detached factory bearing postal address No. 10, Jalan Dato Yunus 1, Taman Perindustrian Dato Yunus Sulaiman, Lima Kedai, Johor Bahru         |             |      |   |   |   |   |  |   |   |  |   |   |



**7. APPROVAL AND CONDITIONS (Cont'd)**

| Authority                               | Conditions imposed  | Status of compliance  |
|---|---|---|
| MITI vide its letter dated 24 July 2008 | <ul style="list-style-type: none"> <li>RHB Investment Bank/Samchem should fully comply with the relevant requirements pertaining to the implementation of the Flotation Scheme under the SC Guidelines</li> </ul> | To be complied.   |
|   | <ul style="list-style-type: none"> <li>The approval of the SC and compliance with the FIC Guidelines for the Flotation Scheme</li> </ul>  | Complied. The SC had approved the Flotation Scheme vide its letter dated 29 September 2008 and 17 March 2009 subject to certain conditions as set out herein. |
|   | <ul style="list-style-type: none"> <li>Our Company to inform MITI on the equity holding structure of our Company six (6) months after our Listing.</li> </ul>   | To be complied. We will inform MITI on our equity holding structure six (6) months after completion of our Listing.   |

The SC noted that the equity structure relating to Bumiputera, non-Bumiputera and foreign shareholdings in our Company would change arising from the implementation of the Flotation Scheme, as follows:

|                | Before the proposal <sup>(1)</sup> | After the proposal   |
|----------------|------------------------------------|----------------------|
|                | %                                  | %                    |
| Bumiputera     | 0.00                               | 30.44 <sup>(2)</sup> |
| Non-Bumiputera | 100.00                             | 69.56                |
| Forcigners     | 0.00                               | 0.00                 |
| Total          | 100.00                             | 100.00               |

Notes:

<sup>(1)</sup> As at incorporation

<sup>(2)</sup> Subject to MITI's approval

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## 7. APPROVAL AND CONDITIONS (Cont'd)

Subsequently, the SC, ECU (under the FIC Guidelines) and MITI had approved the revision to the Flotation Scheme vide its letters as dated below. The conditions imposed by the relevant authorities and the status of compliance is as follows:

| Authority  | Conditions imposed   | Status of compliance  |
|--|--|---|
| SC / ECU,<br>under the FIC<br>Guidelines vide<br>its letter dated<br>17 March 2009 | <ul style="list-style-type: none"> <li>The equity condition imposed as stated in paragraphs 1.2(i) and (ii) of the SC approval letter dated 29 September 2008 remain applicable. However, for the purpose of complying with the 30% Bumiputera equity requirement upon listing, if Samchem/MITI is unable to allocate the shares to the identified Bumiputera investors from the offer for sale portion, the unsubscribed shares shall be immediately offered to the public Bumiputera investors via balloting. Samchem will be deemed to have complied with the Bumiputera equity requirement once they have completed this process.</li> </ul> | Noted.  |
| MITI vide its<br>letter dated 4<br>March 2009                                      | <ul style="list-style-type: none"> <li>The approval of the SC and compliance with the FIC Guidelines for the Flotation Scheme</li> </ul>   | Complied. The SC had approved the Flotation Scheme vide its letter dated 17 March 2009 subject to certain conditions as set out herein. |

The SC noted that the equity structure relating to Bumiputera, non-Bumiputera and foreign shareholdings in our Company would change arising from the implementation of the Flotation Scheme, as follows:

|                | Before the proposal <sup>(1)</sup> | After the proposal   |                      |
|----------------|------------------------------------|----------------------|----------------------|
|                |                                    | Minimum Scenario     | Maximum Scenario     |
|                | %                                  | %                    | %                    |
| Bumiputera     | 0.00                               | 31.51 <sup>(2)</sup> | 30.17 <sup>(2)</sup> |
| Non-Bumiputera | 100.00                             | 68.49                | 69.83                |
| Foreigners     | 0.00                               | 0.00                 | 0.00                 |
| Total          | 100.00                             | 100.00               | 100.00               |

Notes:

<sup>(1)</sup> As at incorporation

<sup>(2)</sup> Subject to MITI's approval

## 7. APPROVAL AND CONDITIONS (Cont'd)

### 7.3 Moratorium on sale of our Shares

In accordance with Section 5.42 of the SC Guidelines, the shareholders as listed in the table below will not be allowed to sell, transfer or assign their respective portions of 79,618,251 Shares, representing 61.15% or 58.54% of the enlarged issued and paid-up share capital of our Company based on the Minimum Scenario and Maximum Scenario respectively, within 6 months from the date of admission of our Company to the Official List of the Main Board of Bursa Securities.

Details of our shareholders who will be subjected to moratorium, are set out below:

#### Minimum Scenario

| Shareholders      | Shareholdings after the IPO |  | Shareholdings under moratorium |  |
|-------------------|-----------------------------|--|--------------------------------|--|
|                   | No. of Shares               | % of enlarged issued and paid-up share capital | No. of Shares                  | % of enlarged issued and paid-up share capital |
| Ng Thin Poh       | 55,259,802                  | 42.45  | 55,259,802                     | 42.45  |
| Dato' Ng Lian Poh | 6,437,663                   | 4.94   | 6,437,663                      | 4.94   |
| Tan Teck Beng     | 6,437,661                   | 4.94   | 6,437,661                      | 4.94   |
| Ng Soh Kian       | 7,122,079                   | 5.47   | 7,122,079                      | 5.47   |
| Chooi Chok Khooi  | 4,361,046                   | 3.35   | 4,361,046                      | 3.35   |
| Total             | <b>79,618,251</b>           | <b>61.15</b>                                   | <b>79,618,251</b>              | <b>61.15</b>                                   |

#### Maximum Scenario

| Shareholders      | Shareholdings after the IPO |  | Shareholdings under moratorium |  |
|-------------------|-----------------------------|--|--------------------------------|--|
|                   | No. of Shares               | % of enlarged issued and paid-up share capital | No. of Shares                  | % of enlarged issued and paid-up share capital |
| Ng Thin Poh       | 55,259,802                  | 40.63  | 55,259,802                     | 40.63  |
| Dato' Ng Lian Poh | 6,437,663                   | 4.73   | 6,437,663                      | 4.73   |
| Tan Teck Beng     | 6,437,661                   | 4.73   | 6,437,661                      | 4.73   |
| Ng Soh Kian       | 7,122,079                   | 5.24   | 7,122,079                      | 5.24   |
| Chooi Chok Khooi  | 4,361,046                   | 3.21   | 4,361,046                      | 3.21   |
| Total             | <b>79,618,251</b>           | <b>58.54</b>                                   | <b>79,618,251</b>              | <b>58.54</b>                                   |

Note:

*The actual percentage of shareholdings shall vary and/or be adjusted accordingly based on the level of subscription for the Issue Shares.*

The moratorium, which has been fully accepted by the abovementioned shareholders, is specifically endorsed on the share certificates representing the shareholders' respective shareholdings, which are under moratorium to ensure that our Company's share registrar does not register any transfer not in compliance with the restrictions.

The endorsement, which will be affixed on these share certificates are as follows:

*"The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by the Securities Commission ("Moratorium Period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of Bursa Securities during the Moratorium Period. No share certificate or certificates will be issued to replace this certificate during the Moratorium Period unless the same shall be endorsed with this restriction."*

**8. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTION****8.1 Interests in similar business**

As at LPD, our Directors and substantial shareholders do not have any interest, whether direct or indirect, in any businesses or corporations carrying on a similar trade as our Group.

**8.2 Related party transactions and/or conflict of interests****8.2.1 Recurrent Related Party Transactions**

Save as disclosed below, our Group has not entered into or are involved in any other on-going or proposed recurrent related party transactions and/or conflict of interests that involved the interest, direct or indirect, of our Directors, substantial shareholders and/or key management and persons connected with our substantial shareholders and our Directors (as defined in the Listing Requirements) for the past three (3) FYE 2006 to 2008 and our proposed recurrent related party transactions for the FYE 2009:

| Transacting parties                        | Companies within the Group | Nature of relationship  | Nature of transaction   | Transaction value (RM) |         |         | Forecast for the FYE 2009 <sup>1</sup> |
|--|----------------------------|---|---|------------------------|---------|---------|--|
|  |                            |   |   | 2006                   | 2007    | 2008    |  |
| Samlube Manufacturing Sdn Bhd <sup>1</sup> | SCSB                       | Ng Thin Poh who is our Director and substantial shareholder, is also a director and substantial shareholder of Samlube Manufacturing Sdn Bhd* | Sale of additives chemicals from SCSB to Samlube Manufacturing Sdn Bhd  | 322,281                | 360,697 | 403,089 | 1,200,000                              |
| Samlube Bhd <sup>2</sup>                   | SCSB                       | Ng Thin Poh who is our Director and substantial shareholder, is also a director and substantial shareholder of Samlube Sdn Bhd*               | - Sale of automobile related products and products related to the operation of industrial machinery from Samlube Sdn Bhd to SCSB<br>- Rental of property from SCSB to Samlube Sdn Bhd | -                      | 6,000   | 52,797  | 58,000                                 |
|  |                            |   |   | -                      | 6,000   | 12,000  | 12,000                                 |

## 8. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTION (Cont'd)

| Transacting parties          | Companies within the Group                               | Nature of relationship  | Nature of transaction   | Transaction value (RM) |         |        | Forecast for the FYE 2009 <sup>3</sup> |
|------------------------------|--|---|---|------------------------|---------|--------|--|
|                              |  |   |   | FYE                    | 2007    | 2008   |  |
| Samlube Sdn Bhd <sup>2</sup> | TN Chemie, TN Industries, Eweny Chemicals, SC Industries | Ng Thin Poh who is a Director and substantial shareholder of Samchem is also a director and substantial shareholder of Samlube Sdn Bhd* | Sale of automobile related products and products related to the operation of industrial machinery from Samlube Sdn Bhd to TN Chemie, TN Industries, Eweny Chemicals and SC Industries | 2006                   | 2007    | 2008   | 80,000                                 |
|                              |  |   |   | 89,949                 | 131,449 | 82,285 |  |

## Notes:

- \* Ng Thin Poh resigned as a Director of Samlube Sdn Bhd and Samlube Manufacturing Sdn Bhd on 8 July 2008.
- 1 The principal activities of Samlube Manufacturing Sdn Bhd is manufacturing of lubricants
- 2 The principal activities of Samlube Sdn Bhd is repackaging and trading in car care and maintenance products
- 3 The value of these transactions for the FYE 2009 are estimates and provisional in nature, and as such, may vary and is subject to changes

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**8. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTION (Cont'd)****8.2.2 Non-recurrent Related Party Transactions**

Save as disclosed below, the Acquisitions as set out in Section 4.3 of this Prospectus and the acquisitions of properties as set out in Section 9.2.2 of this Prospectus, our Group does not have any other existing and/or proposed non-recurrent related party transactions entered/to be entered into by our Group that involved the interest, direct or indirect, of our Directors, substantial shareholders and/or key management and/or persons connected to them for the past three (3) FYE 2006 to 2008.

- (i) On 12 February 2007, Eweny Chemicals had disposed a double storey semi-detached house located at 46, Jalan Batik Satu, Taman Sinfar, Ipoh, Perak held under title Geran I0287, Lot 67924, Mukim Ulu Kinta, Daerah Kinta, Perak to Chooi Chok Khooi (who is our Director) for a total cash consideration of RM100,000. The disposal was completed on even date;
- (ii) On 28 May 2007, Eweny Chemicals acquired the entire issued and paid-up share capital of RM112,475 comprising 112,475 ordinary shares of RM1.00 each in Heng Li from Chooi Chok Khooi (who is our Director) and Chooi Chak Lim, for a total cash consideration of RM800,000;
- (iii) On 2 July 2007, SCSB had disposed the entire issued and paid-up share capital of RM200,002 comprising 200,002 ordinary shares of RM1.00 in Samlube Sdn Bhd to Ng Thin Poh (who is a director of SCSB), Foo Wai Chen and Lai Kok Leong for a cash consideration of RM200,002. The disposal was completed on even date;
- (iv) On 12 July 2007, SCSB had disposed the entire issued and paid-up share capital of RM200,002 comprising 200,002 ordinary shares of RM1.00 in Samlube Manufacturing Sdn Bhd to Ng Thin Poh (who is a director of SCSB), Foo Wai Chen and Lai Kok Leong for a cash consideration of RM200,002. The disposal was completed on even date; and
- (v) On 21 May 2008, Eweny Chemicals disposed the entire issued and paid-up share capital of RM112,475 comprising 112,475 ordinary shares of RM1.00 each in Heng Li for a total cash consideration of RM562,578 to Chooi Chok Khooi (who is our Director) and Chooi Chak Lim.

All the related party transactions disclosed above and in Section 8.2.1 of the Prospectus would not give rise to any conflict of interest situation and were transacted based on a negotiated basis which are not detrimental to the interest of our Group.

We will make disclosures in our annual report of the aggregate value of the recurrent related party transactions entered into by us conducted based on the nature of transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

We will, after our Listing, procure a mandate from our shareholders, if necessary, for all our recurrent transactions of revenue or trading in nature or those necessary for our day-to-day operations. Further, the interested persons shall abstain from voting on the resolution(s) pertaining to the respective transactions.

**8.3 Transactions that are unusual in nature or condition**

Our Group has not entered into any transactions that are unusual in nature or condition, involving goods, services, tangible or intangible assets, to which our Company or our subsidiary was a party in the past three (3) FYE 2008.

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**8. CONFLICT OF INTEREST AND RELATED PARTY TRANSACTION (Cont'd)**

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**8.4 Outstanding loans made to or for the benefit of related parties**

Save as disclosed below, there are no outstanding loans and/or guarantees of any kind made by us or any of our subsidiaries as at the LPD for the benefit to or for the benefit of our related parties in respect of three (3) FYE 2008. A proportionate guarantee of RM6.68 million was granted by SCSB in respect of additional banking facilities granted by Malayan Banking Berhad to YTSSB and as security for the aforesaid facility.

**8.5 Promotion of any material assets acquired/to be acquired**

Save as disclosed in Section 4.3, Section 8.2.2 and Section 9.2.2 of this Prospectus, none of our Directors or substantial shareholders of our Company has any interest, direct or indirect, in the promotion of, or in any material assets acquired or proposed to be acquired or disposed or proposed to be disposed or leased to or proposed to be leased to our Group within three (3) FYE 2008.

**8.6 Declaration by advisers**

- (i) RHB Bank Berhad, a company related to RHB Investment Bank has extended facilities such as overdraft, term loan and letter of credit/bankers acceptance/shipping/bank guarantee and forward exchange contract line to our Group totalling RM10.0 million. As at 9 April 2009, the amount outstanding is approximately RM10,186,550. Based on the audited financial statements of RHB Bank Berhad as at 31 December 2007, RHB Bank Berhad's total exposure to our Group represents only approximately 0.02% of RHB Bank Berhad's total gross loan and advances of RM53,703 million.

The above banking facilities are provided by RHB Bank Berhad in the ordinary course of business and as such, RHB Investment Bank does not consider itself to have an existing or potential conflict of interest in its capacity to act as the Financial Adviser, Managing Underwriter, Underwriter and Placement Agent for the Flotation Scheme.

- (ii) Messrs. Ernst & Young have given their confirmation that there is no conflict of interest in their capacity as the Auditors and Reporting Accountants for the Flotation Scheme.
- (iii) Messrs. Loe, Perara & Tan have given their confirmation that there is no conflict of interest in their capacity as the Solicitors for the Flotation Scheme.
- (iv) D&B have given their confirmation that there is no conflict of interest in their capacity as the Independent Market Researcher for the Flotation Scheme.
- (v) Raine & Horne International Zaki + Partners Sdn Bhd have given their confirmation that there is no conflict of interest in their capacity as the Independent Valuers for the Flotation Scheme.

## 9. OTHER INFORMATION

### 9.1 Major licences, permits, registrations and certifications

Details of the major licences, permits, registrations and certifications held by our Group for the purposes of conducting our Group's business are listed below:-

| Company | Licence No./<br>Certificate No./<br>Registration No. | Issuing authority                                     | Subject matter/purpose   | Date of issue    | Validity period/<br>Date of expiry | Equity condition<br>and/or major<br>conditions imposed    | Status of<br>compliance with<br>the conditions<br>attached |
|---------|--|---|--|------------------|------------------------------------|---|--|
| SCSB    | MBSA/LSP/<br>LS/600-3/1/2543                         | Shah Alam City Council                                | Warehouse/Trading Licence  | 26 November 2008 | 31 December 2009                   | Nil   | Not applicable   |
|         | PDA 15957  | Ministry of Domestic<br>Trade and Consumer<br>Affairs | Petroleum Development Act<br>("PDA") Licence   | 27 March 2008    | 17 March 2011                      | Nil   | Not applicable   |
|         | PDA 16242  | Ministry of Domestic<br>Trade and Consumer<br>Affairs | PDA Licence  | 7 January 2009   | 21 December 2011                   | Nil   | Not applicable   |
|         | 601153/Q   | Independent European<br>Certification (M) Sdn<br>Bhd  | ISO 9001:2000 Quality<br>Management System for<br>distribution of industrial chemicals   | 6 February 2008  | 6 February 2011                    | Nil   | Not applicable   |
|         | 601153/E   | Independent European<br>Certification Limited         | ISO: 14001:2004 Environment<br>Management System for<br>distribution of industrial chemicals   | 23 February 2008 | 23 February 2011                   | Nil   | Not applicable   |
|         | B05-17317-001-1                                      | Malaysian Rubber<br>Board                             | To buy and sell synthetic rubber   | 22 December 2008 | 27 November 2009                   | Not permitted to sell<br>vulcanised rubber                | Complied   |
|         | JBP:SL<br>7/800/2008                                 | Fire and Rescue<br>Department                         | Fire certification pursuant to the<br>Fire Services Act 1988 and Fire<br>Services (Fire Certificate)<br>Regulations 2001 in respect to the<br>building located at Lot 6, Jalan<br>Sungai Kayu Ara 32/39, Section<br>32, 40460 Shah Alam Selangor<br>Darul Ehsan. | 20 August 2008   | 19 August 2009                     | Facilities to remain in<br>good condition at all<br>times | Complied   |



## 9. OTHER INFORMATION (Cont'd)

| Company   | Licence No./<br>Certificate No./<br>Registration No. | Issuing authority  | Subject matter/purpose   | Date of issue    | Validity period/<br>Date of expiry | Equity condition<br>and/or major<br>conditions imposed | Status of<br>compliance with<br>the conditions<br>attached |
|-----------|--|--|--|------------------|------------------------------------|--|--|
| TN Chemic | L0802010030  | Johor Bahru Tengah<br>Municipal Council                    | Chemicals Storage Licence  | 6 January 2009   | 31 December 2009                   | Nil  | Not applicable   |
|           | J31-A066419/2002                                     | Royal Customs and<br>Excise Malaysia                       | Licence under the Sales Tax Act –<br>Manufacturer's Licence  | 6 August 2007    | -                                  | Nil  | Not applicable   |
|           | FS 501885  | BSI Management<br>Systems                                  | Certificate of Registration –<br>Quality Management System<br>(complies with the requirements of<br>BS EN ISO 9001:2000)           | 24 December 2005 | -                                  | Nil  | Not applicable   |
|           | EMS 501886   | BSI Management<br>Systems                                  | Certificate of Registration –<br>Environmental Management<br>System (complies with the<br>requirements of BS EN ISO<br>14001:2004) | 9 January 2006   | -                                  | Nil  | Not applicable   |
|           | PDA 16180  | Ministry of Domestic<br>Trade and Consumer<br>Affairs      | PDA Licence  | 6 March 2009     | 2 September 2011                   | Nil  | Not applicable   |
|           | JH-PMT 10253   | Jabatan Keselamatan<br>dan Kesihatan<br>Perkerajaan, Johor | Certificate of fitness for 1 unit of<br>oil separator  | 6 August 2008    | 9 October 2009                     | Nil  | Not applicable   |
|           | JH-PMT 10254   | Jabatan Keselamatan<br>dan Kesihatan<br>Perkerajaan, Johor | Certificate of fitness for 1 unit of<br>vertical air receiver tank   | 6 August 2008    | 9 October 2009                     | Nil  | Not applicable   |
|           | JII-PMT 10268  | Jabatan Keselamatan<br>dan Kesihatan<br>Perkerajaan, Johor | Certificate of fitness for 1 unit of<br>air receiver   | 6 August 2008    | 9 October 2009                     | Nil  | Not applicable   |

## 9. OTHER INFORMATION (Cont'd)

| Company            | Licence No./<br>Certificate No./<br>Registration No. | Issuing authority                                     | Subject matter/purpose   | Date of issue     | Validity period/<br>Date of expiry | Equity condition<br>and/or major<br>conditions imposed | Status of<br>compliance with<br>the conditions<br>attached |
|--------------------|--|---|--|-------------------|------------------------------------|--|--|
| Eweny<br>Chemicals | PDA 10076  | Ministry of Domestic<br>Trade and Consumer<br>Affairs | PDA Licence  | 27 September 2006 | 30 June 2009                       | Nil  | Not applicable   |
|                    | L0014393-01  | Ipoh City Council                                     | Storage Licence  | 1 January 2009    | 31 December 2009                   | Nil  | Not applicable   |
|                    | 601168   | Independent European<br>Certification (M) Sdn<br>Bhd  | ISO 9001:2000 Quality<br>Management Systems for<br>Blending, Repacking and Supply of<br>Industrial Chemicals     | 31 March 2007     | 31 March 2010                      | Nil  | Not applicable   |
|                    | 601168   | Independent European<br>Certification Limited         | ISO 9001:2000 Quality<br>Management Systems<br>for Blending, Repacking and<br>Supply of Industrial Chemicals     | 25 March 2007     | 25 March 2010                      | Nil  | Not applicable   |
| TN Industries      | MBSA/LSP/LS/60<br>0-3/1/3048                         | Shah Alam City Council                                | Trading Licence  | 26 November 2008  | 31 December 2009                   | Nil  | Not applicable   |
| SC Logistics       | MBSA/LSP/LS/60<br>0-3/1/3049                         | Shah Alam City Council                                | Logistics Centre Licence   | 1 December 2008   | 31 December 2009                   | Nil  | Not applicable   |
| SC Industries      | MBSA/LSP/LS/60<br>0-3/1/3050                         | Shah Alam City Council                                | Trading Licence  | 1 December 2008   | 31 December 2009                   | Nil  | Not applicable   |
|                    | BB249/2009   | Jabatan Kesihatan<br>Negeri Selangor                  | Wholesaler's Poisons Licence   | 16 December 2008  | 31 December 2009                   | Nil  | Not applicable   |
| SCsphere           | MBSA/LSP/LS/60<br>0-3/1/3073                         | Shah Alam City Council                                | Trading Licence  | 26 November 2008  | 31 December 2009                   | Nil  | Not applicable   |
| SC Enviro          | B(B)<br>50/013/902/192                               | Jabatan Alam Sekitar<br>Negeri Selangor               | Environmental licence for the<br>proposed used drum & spent<br>solvent recovery facility at Telok<br>Gong, Klang | 20 February 2009  | 19 February 2011                   | Nil  | Not applicable   |

## 9. OTHER INFORMATION (Cont'd)

## 9.2 Properties

## Table 1: Our Group's Properties

## 9.2.1 Property owned by our Group

Details of the property owned by our Group are as follows:

| Registered owner | Postal address/title details  | Description/<br>existing use  | Tenure/ date<br>of expiry of<br>lease                         | Restriction in interest/<br>Encumbrances  | Date of<br>issuance of<br>certificate<br>of fitness<br>for<br>occupation | Land area and/<br>or built up<br>area | Approximate<br>age of<br>building | Net book<br>value as at<br>31.12.2008<br>(RM) | Market<br>Value<br>(RM)/Date<br>of<br>valuation |
|------------------|---|---|---|---|--|---------------------------------------|-----------------------------------|---|---|
| SCSB             | No. 15, Jalan PJS 11/16<br>Bandar Sunway, 46150 Petaling<br>Jaya, Selangor<br><br>(Rented out/ 1 ½ storey light<br>industrial terrace)  | One and a half<br>storey terrace<br>factory/<br>Industrial  | Leasehold – 99<br>years expiring<br>on 28<br>December<br>2096 | Land cannot be transferred, leased or<br>charged without the consent of the<br>State Authority<br><br>Charges in favour of Malayan<br>Banking Berhad vide presentation no.<br>5929/2005 dated 7 February 2005 and<br>81491/2008 dated 26 August 2008  | 28 May<br>1993   | 2,379 sq. ft /<br>(3,540 sq. ft)      | 17 years                          | 352,439                                       | 680,000 /<br>16 January<br>2008                 |
|                  | H.S.(D) 115986, PT No. 1640,<br>Bandar Sunway, Daerah<br>Petaling, Negeri<br>Selangor<br>(previously known as H.S.(D)<br>23566, PT 9314, Mukim<br>Damansara, Daerah Petaling,<br>Negeri Selangor) | Single storey<br>detached<br>warehouse<br>annexed with a 3<br>storey office<br>building and a<br>guard house<br>/Industrial | Freehold  | Nil/<br><br>Charges in favour of Maybank Berhad<br>("MIBB") vide presentation no.<br>34391/2004, 34392/2004 and<br>34393/2004 all dated 4 June 2004,<br>4087/2005 dated 31 January 2005,<br>9549/2006 and 9550/2006 dated 21<br>February 2006, 118146/2006 dated 27<br>December 2006 and 81512/2008 dated<br>26 August 2008 | 29 January<br>2007   | 103,431 sq. ft/<br>(78,470 sq. ft)    | 2 years                           | 10,282,553                                    | 13,000,000<br>/ 25 January<br>2008              |

## 9. OTHER INFORMATION (Cont'd)

| Registered owner | Postal address/title details  | Description/<br>existing use  | Tenure/date<br>of expiry of<br>lease                   | Restriction in interest/<br>Encumbrances   | Date of<br>issuance of<br>certificate<br>of fitness<br>for<br>occupation | Land area and/<br>or built up<br>area | Approximate<br>age of<br>building | Net book<br>value as at<br>31.12.2008<br>(RM) | Market<br>Value<br>(RM)/Date<br>of<br>valuation |
|------------------|---|---|--|--|--|---------------------------------------|-----------------------------------|---|---|
|                  | No. 3, Jalan Biola Satu 33/1A,<br>Elite Industrial Park, Seksyen<br>33, 40350 Shah Alam, Selangor<br>(Rented out/ semi-detached<br>factory) | Two adjoining<br>one and a half<br>storey semi-<br>detached<br>factories/<br>Industrial | Freehold   | Nil/<br>Charges in favour of:-<br><ul style="list-style-type: none"><li>The Pacific Bank Berhad vide<br/>presentation no. 51868/2000<br/>dated 30 August 2000</li><li>MBB vide presentation no.<br/>118130/2006 dated 27<br/>December 2006</li></ul>                                     | 29 October<br>1998   | 10,887 sq. ft /<br>(6678 sq. ft)      | 10 years                          | 1,816,995                                     | 1,250,000/<br>29 January<br>2008                |
|                  | H.S.(D) 51789, PT 43437,<br>Mukim and Daerah Klang,<br>Negeri Selangor  |   | Freehold   | Charges in favour of:-<br><ul style="list-style-type: none"><li>The Pacific Bank Berhad vide<br/>presentation no. 51870/2000<br/>dated 30 August 2000</li><li>MBB vide presentation no.<br/>118180/2006 dated 27<br/>December 2006 and<br/>81502/2008 dated 26 August<br/>2008</li></ul> | 29 October<br>1998   | 14,757 sq. ft/<br>(6678 sq. ft)       | 10 years                          |   | 1,530,000/<br>29 January<br>2008                |
|                  | No. 1, Jalan Biola Satu 33/1A,<br>Elite Industrial Park, Seksyen<br>33, 40350 Shah Alam, Selangor<br>(Rented out/ semi-detached<br>factory) | Vacant land/<br>Agricultural  | Leasehold - 99<br>years expiring<br>20 January<br>2068 | Land cannot be transferred without<br>the consent of the State Authority/<br>Charges in favour of United Overseas<br>Bank (Malaysia) Berhad ("UOB")<br>vide presentation no. 1633/2008,<br>1634/2008 and 1635/2008 all dated 5<br>March 2008   | N/A  | 111,078 sq. ft                        | N/A                               | 1,222,301                                     | 1,300,000 /<br>9 January<br>2008                |
|                  | H.S.(M) 1501, PT 14856,<br>Tempat Telok Gong, Mukim<br>and Daerah Klang, Negeri<br>Selangor   |   |  |  |  |                                       |                                   |   |   |

## 9. OTHER INFORMATION (Cont'd)

| Registered owner | Postal address/title details  | Description/<br>existing use   | Tenure/ date<br>of expiry of<br>lease             | Restriction in interest/<br>Encumbrances  | Date of<br>issuance of<br>certificate<br>of fitness<br>for<br>occupation | Land area and/<br>or built up<br>area | Approximate<br>age of<br>building | Net book<br>value as at<br>31.12.2008<br>(RM) | Market<br>Value<br>(RM)/Date<br>of<br>valuation |
|------------------|---|--|---|---|--|---------------------------------------|-----------------------------------|---|---|
| SC Enviro        | H.S.(M) 1132, PT 14852, Tempat Telok Gong, Mukim and Daerah Klang, Negeri Selangor.                               | Vacant land / Agricultural   | Leasehold - 99 years expiring on 13 August 2067   | Land cannot be transferred without the consent of the State Authority/ Charges in favour of UOB vide presentation no. 8313/2007, 8314/2007 and 8315/2007 all dated 17 October 2007  | N/A  | 111,081 sq. ft                        | N/A                               | 1,042,257                                     | 1,060,000 / 09 January 2008                     |
| Eweny Chemicals  | No. 35 & 35A, Jalan Menglembu, Impiana 8, Menglembu Adril, 31450 Menglembu (Vacant shoplots)                      | Shop lots / Commercial   | Leasehold - 99 years expiring on 7 December 2098/ | Land cannot be transferred or sub-leased without the consent of the Chief Minister of Perak<br>Charges in favour of Hong Leong Bank Berhad ("HLBB") vide presentation no. 62278/2003 dated 30 December 2003   | 21 August 2002   | 1,400 sq. ft / (2,788 sq. ft)         | 8 years                           | 178,616                                       | 180,000 / 14 January 2008                       |
|                  | PN 186815, Lot 323235 (formerly known as H.S.(D) 79942, PT 162665), Mukim, Hulu Kinta, Daerah Kinta, Negeri Perak | A 2 storey office building with an annexed single storey detached factory and a single storey open sided store building / Industrial | Leasehold - 60 years expiring on 22 March 2045    | Land cannot be transferred, sub-leased or leased without the consent of the Chief Minister of Perak. The restriction is exempted as long as the property is owned by Perbadanan Kemajuan Negeri Perak<br>Charges in favour of Public Bank Berhad vide:- | 20 November 1992 / 11 May 1999   | 27,384 sq. ft / (19,785 sq. ft)       | 18 years / 11 years               | 1,083,289                                     | 1,620,000 / 14 January 2008                     |

## 9. OTHER INFORMATION (Cont'd)

| Registered owner | Postal address/title details  | Description/<br>existing use  | Tenure/ date<br>of expiry of<br>lease | Restriction in interest/<br>Encumbrances   | Date of<br>issuance of<br>certificate<br>of fitness<br>for<br>occupation | Land area and/<br>or built up<br>area | Approximate<br>age of<br>building | Net book<br>value as at<br>31.12.2008<br>(RM) | Market<br>Value<br>(RM)/Date<br>of<br>valuation |
|------------------|---|---|---------------------------------------|--|--|---------------------------------------|-----------------------------------|---|---|
| TN Chemic        | No. 10, Jalan Dato Yunus 1,<br>Taman Perindustrian Dato<br>Yunus Sulaiman Lima Kedai,<br>81300 Johor Bahru, Johor<br>(office/ warehouse)<br><br>GRN 121805, Lot 74403<br>(formerly known as H.S.(D)<br>221561, PTD 63029), Mukim<br>Pulai, Daerah Johor | Single storey<br>detached factory<br>with an annexed<br>double storey<br>office building<br>which has been<br>extended/<br>Industrial | Freehold                              | <p>Presentation no. 20972/1992 Jilid 4488 Folio 17 and Presentation no. 20973/1992 Jilid 4488 Folio 18 dated 14 July 1992;<br/>Presentation no. 1685/1996 Jilid 6869 Folio 9 dated 19 January 1996;<br/>Presentation no. 29190/1998 Jilid 8948 Folio 15 dated 25 August 1998;<br/>Presentation no. 15299/2002 dated 5 April 2002; and<br/>Presentation no. 15719/2004 dated 1 April 2004</p> <ul style="list-style-type: none"> <li>The land held under this title is not allowed to be transferred in any manner without the consent of the State Authority</li> <li>The land held under this title if transferred to a Bumiputera person is thereafter is not allowed to be sold, leased or transferred in any manner to a non-Bumiputera person without the consent of the State Authority</li> </ul> | 24<br>December<br>1997   | 27,997 sq. ft /<br>(16,966 sq. ft)    | 13 years                          | 941,325                                       | 1,500,000 /<br>15 January<br>2008               |

## 9. OTHER INFORMATION (Cont'd)

| Registered owner | Postal address/title details  | Description/<br>existing use   | Tenure/ date<br>of expiry of<br>lease | Restriction in interest/<br>Encumbrances   | Date of<br>issuance of<br>certificate<br>of fitness<br>for<br>occupation | Land area and/<br>or built up<br>area | Approximate<br>age of<br>building | Net book<br>value as at<br>31.12.2008<br>(RM) | Market<br>Value<br>(RM)/Date<br>of<br>valuation |
|------------------|---|--|---------------------------------------|--|--|---------------------------------------|-----------------------------------|---|---|
|                  | No 15, Jalan S/S2, Taman Industri Sri Sulong, 83020 Batu Pahat, Johor | Single storey detached factory with an annexed double storey office building / | Freehold                              | Charges in favour of HLBB vide presentation no. 35723/2002 dated 7 June 2002 and 12499/2003 dated 5 March 2003 and 14732/2004 dated 4 March 2004   | 30 June 1997   | 7,200 sq. ft                          | 12 years                          | - <sup>(0)</sup>                              | -   |
|                  | GM5374, Lot 15047, Mukim Simpang Kiri, Daerah Johor                   | Industrial / commercial  | Freehold                              | Land held under this title cannot be transferred whatsoever unless the factory specified in the express condition has started construction in accordance with the plan that was approved by the relevant local authority | 3 March 2009   | 14,780 sq. ft. / (7,200 sq. ft)       | 1 year                            | 4,513,469                                     | -   |
|                  | PTD 152691, Jalan SILC 2, SILC, 81550 Gelang Patah, Johor             | 2 Block of Single Storey Factory and 1 Block of three storey office building / | Freehold                              | Charges in favour of HLBB vide presentation no. 66343/2008 dated 19 August 2008  |  |                                       |                                   |   |   |
|                  | H.S. (D) 440468, Lot No. PTD 152691, Mukim Pulau, Johor Bahru, Johor  | Industrial / commercial  |                                       |  |  |                                       |                                   |   |   |

## 9. OTHER INFORMATION (Cont'd)

*Note:*

1. *TN Chemie, had on 24 November 2008 entered into a sale and purchase agreement with EWC Corporation (M) Sdn Bhd to acquire the land and single storey detached factory with an annexed double storey office building. The transaction was only completed on 28 February 2009, upon TN Chemie making full settlement to the vendor. As such, the property was not recorded in the financial statements of TN Chemie as at 31 December 2008*

All the buildings above have been issued a certificate of fitness.

Save as disclosed above, there are no other restrictions in interest for the above properties. In addition, there has not been any breach of land-use conditions or permissible land use and there has not been any material non-compliance with the current statutory requirements, land rules or building regulations.

**Table 2: Our Group's leased properties**

Details of the property leased by our Group is as follows:

| Postal address/ Title details   | Description/<br>existing use       | Landlord                  | Tenure of<br>tenancy              | Date of issuance<br>of certificate of<br>fitness | Land area/ built-<br>up area              | Approximate<br>age of<br>building | Monthly<br>rental |
|---|------------------------------------|---------------------------|-----------------------------------|--|---|-----------------------------------|-------------------|
| <b><u>Eweny Chemicals</u></b><br>28, Jalan Perusahaan<br>Ringan Juru 1,<br>Taman Perusahaan Ringan<br>Juru,<br>14100 Seberang Perai Tengah,<br>Penang | Sales and marketing<br>of products | Echemo Trading Sdn<br>Bhd | 1 July 2008<br>to 30 June<br>2009 | 30 November 2008                                 | Built-up area:<br>▪ Office: 495<br>sq. ft | 11 years                          | RM500             |



## 9. OTHER INFORMATION (Cont'd)

### 9.2.2 Acquisition of properties within the last 2 years

Save as disclosed below, our Group has not acquired any property during the past two (2) years preceding the date of this Prospectus:

- (i) SC Enviro had on 15 June 2007 entered into a sale and purchase agreement with Boh Ching Hock and Boh Ching Hua (collectively, the "Vendors") wherein the Vendors have agreed to sell and SC Enviro agreed to purchase a piece of leasehold agricultural land held under H.S.(M) 1132 PT No. 14852, Tempat Telok Gong, Mukim & Daerah of Klang, Negeri Selangor for a total purchase consideration of RM1,050,000. The acquisition has been completed on 17 October 2007;
- (ii) SCSB had on 13 August 2007 entered into a sale and purchase agreement with AT Bulk Trading Sdn. Bhd. ("AT Bulk Trading") wherein AT Bulk Trading agreed to sell to SCSB a piece of leasehold, agricultural land held under H.S.(M) 1501 PT No. 14856, Tempat Telok Gong, Mukim and Daerah of Klang, Negeri Selangor for a total purchase consideration of RM1,170,000. The acquisition of the land was completed on 14 February 2008 and the ownership of the land was transferred to SCSB on 5 March 2008;
- (iii) TN Chemie had on 30 October 2007 entered into a sale and purchase agreement with UEM Land Sdn. Bhd. ("UEM Land") and Nusajaya Heights Sdn Bhd ("Nusajaya Heights") wherein UEM Land agreed to sell to TN Chemie a piece of land held under H.S.(D) 440468, PTD 152691, Mukim Pulai, Daerah Johor Bahru, Negeri Johor being part of a comprehensive industrial development project known as Southern Industrial And Logistics Clusters Johor, for a total purchase consideration of RM4,513,469. The acquisition has been completed on 18 September 2008;
- (iv) Eweny Chemicals had on 25 April 2008 entered in to a sale and purchase agreement with Heng Li whereby Heng Li agreed to sell to Eweny Chemicals a piece of leasehold, industrial land held under PN37791, Lot 128232, Mukim Hulu Kinta, Daerah Kinta, Negeri Perak for a total purchase consideration of RM650,000. The acquisition has been completed on 25 April 2008; and
- (v) TN Chemie had on 24 November 2008 entered into a sale and purchase agreement with EWC Corporation (M) Sdn. Bhd. ("EWC") wherein EWC agreed to sell to TN Chemie a piece of freehold, industrial land and single storey detached factory with an annexed double storey office building held under GM5374, Lot 15047, Mukim Simpang Kiri, Daerah Johor, Negeri Johor for a total purchase consideration of RM450,000. The acquisition has been completed on 28 February 2009.

### 9.2.3 Material plant and equipment

As at 31 December 2008, details of the material plant and equipment for our blending operations are set out below:

| Equipment                     | Description                      | No. of units | Net book value as at 31 December 2008 (RM) |
|-------------------------------|----------------------------------|--------------|--|
| Semi auto tin filling machine | To conduct tin filling operation | 1            | 32,588                                     |

**9. OTHER INFORMATION (Cont'd)**

| <b>Equipment</b>  | <b>Description</b>  | <b>No. of units</b> | <b>Net book value as at 31 December 2008 (RM)</b> |
|---|---|---------------------|---|
| Explosion-proof pump  | To transfer intermediate and specialty chemicals/customised solvents  | 16                  | 203,237   |
| Storage tank  | Storage of intermediate liquid chemical                               | 31                  | 867,112   |
| Blending tank   | To blend intermediate and specialty chemicals/customised solvents     | 7                   | 15,744  |
| Air compressor  | To supply air to filling machine and for stirring of blended solvents | 4                   | 24,273  |
| Weighing bridge   | To conduct weighing operations  | 2                   | 13,211  |
| Weighing machine  | To conduct weighing operations  | 5                   | 4,210   |
| Stainless steel intermediate bulk containers                                    | Storage of chemicals to be supplied to customers                      | 31                  | 123,242   |
| Semi-auto drumming machine with load cell weighing platform and roller conveyor | To conduct drumming operations  | 7 sets              | 356,363   |

Our Group's maximum current production capacity per annum is approximately 12,000 MT. We run on average one (1) shift per day.

Nonetheless, in line with our management's plans to further expand our customised solvents blending activities, we had purchased land at Telok Gong for the construction of a new office, warehouse and blending facility. As at LPD, construction works have not commenced. The premise will be equipped with new machinery to expand our blending capacity by 2010.

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## 10. FINANCIAL INFORMATION

### 10.1 Historical financial information

The following table sets out a summary of the proforma consolidated results of our Group for the past three (3) FYE 2006 to 2008 based on the audited financial statements of Samchem for the period beginning 29 November 2007 (being the date of incorporation) and our subsidiaries for the past 3 FYE 2008, as our Company was only incorporated on 29 November 2007. The proforma consolidated results for the past three (3) FYE 2008, have been prepared on the assumption that our Group's current structure had been in existence throughout the financial years/period under review.

The proforma consolidated results of our Group as illustrated below are based on the accounting principles and bases consistent with those adopted by our Group in the preparation of the audited financial statements for the FYE 2008, which have been prepared in accordance with applicable Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board. Any adjustments that were dealt with when preparing our proforma consolidated financial statements have been highlighted and disclosed in Section 10.9 of this Prospectus.

The proforma consolidated results are prepared for illustrative purposes only and should be read together with the accompanying notes and assumptions as set out in the Reporting Accountant's Letter on the Proforma Consolidated Financial Information in Section 10.9 of this Prospectus.

|                                   | <----- FYE -----> |               |               |
|-----------------------------------|-------------------|---------------|---------------|
|                                   | 2006<br>RM        | 2007<br>RM    | 2008<br>RM    |
| Revenue                           | 296,862,583       | 336,558,261   | 355,365,233   |
| Cost of sales                     | (263,008,288)     | (297,722,879) | (314,765,810) |
| Gross profit                      | 33,854,295        | 38,835,382    | 40,599,423    |
| Other income                      | 957,270           | 3,776,855     | 2,161,247     |
| Selling and distribution expenses | (6,633,231)       | (7,272,051)   | (7,066,920)   |
| Administrative expenses           | (5,552,969)       | (6,843,254)   | (7,633,398)   |
| Other expenses                    | (2,541,568)       | (3,519,678)   | (4,287,008)   |
| Operating profit                  | 20,083,797        | 24,977,254    | 23,773,344    |
| Finance cost                      | (4,776,461)       | (5,726,546)   | (7,482,374)   |
| Share of results of associates    | 93,365            | 510,113       | 586,314       |
| PBT                               | 15,400,701        | 19,760,821    | 16,877,284    |
| Taxation                          | (4,403,161)       | (5,305,114)   | (4,644,406)   |
| PAT                               | 10,997,540        | 14,455,707    | 12,232,878    |
| Attributable to :                 |                   |               |               |
| Equity holders of Samchem         | 11,001,449        | 14,398,958    | 12,169,435    |
| MI                                | (3,909)           | 56,749        | 63,443        |
|                                   | 10,997,540        | 14,455,707    | 12,232,878    |
| EBITDA                            | 21,281,852        | 27,213,779    | 26,028,754    |
| Depreciation                      | (1,099,603)       | (1,718,228)   | (1,628,524)   |
| Amortisation                      | (5,087)           | (8,184)       | (40,572)      |
| Interest expense                  | (4,776,461)       | (5,726,546)   | (7,482,374)   |
| Gross profit margin (%)           | 11.40             | 11.54         | 11.42         |
| PAT margin (%)                    | 3.70              | 4.30          | 3.44          |

**10. FINANCIAL INFORMATION (Cont'd)**

|  | <----- FYE -----> |             |             |
|--|-------------------|-------------|-------------|
|  | 2006<br>RM        | 2007<br>RM  | 2008<br>RM  |
| Number of Shares in issue <sup>(1)</sup> | 114,637,000       | 114,637,000 | 114,637,000 |
| Gross EPS                                | 0.13              | 0.17        | 0.15        |
| Net EPS                                  | 0.10              | 0.13        | 0.11        |
| Effective tax rate (%)                   | 28.59             | 26.85       | 27.52       |

There were no extraordinary item or exceptional item for all the financial years under review.

Note:

(1) Based on the number of Samchem Shares in issue after the Acquisitions but before the IPO

The results of the operations were not substantially affected by any item, transaction or event of a material and unusual nature other than the following:

|  | <----- FYE -----> |             |            |
|--|-------------------|-------------|------------|
|  | 2006<br>RM        | 2007<br>RM  | 2008<br>RM |
| Impairment of prepaid land lease payments          | -                 | 130,015     | -          |
| Impairment loss on non-current asset held for sale | -                 | 237,422     | -          |
| Property, plant and equipment written off          | -                 | 5,175       | -          |
| Bad debts written off                              | 253,272           | 408,698     | 8,215      |
| Provision for doubtful debts                       | -                 | 255,281     | 1,545,780  |
| Write down of inventories                          | -                 | -           | 919,128    |
| Bad debts recovered                                | -                 | -           | (29,377)   |
| Gain on disposal of property, plant and equipment  | (32,623)          | (79,878)    | (192,207)  |
| Loss on disposal of property, plant and equipment  | 5,209             | 2,994       | 1,537      |
| Gain on disposal of shares in subsidiaries         | -                 | (1,107,991) | -          |
| Total  | 225,858           | (148,284)   | 2,253,076  |

Further information on the proforma consolidated results is set out in Section 10.9 of this Prospectus.

**10.2 Capitalisation and indebtedness**

The following table summarises our cash and bank balances, capitalisation and indebtedness under the Minimum Scenario and Maximum Scenario:-

- (i) as at FYE 2008 based on our audited proforma consolidated financial statements after the Acquisitions but before the IPO; and
- (ii) as adjusted for the net proceeds arising from the issue of Issue Shares pursuant to our IPO and the utilisation of proceeds as set out in Section 2.10 of this Prospectus.

## 10. FINANCIAL INFORMATION (Cont'd)

Minimum Scenario:

|  | Proforma audited as<br>at FYE 2008 after the<br>Acquisitions<br>RM'000 | After the IPO and<br>utilisation of proceeds<br>RM'000 |
|--|--|--|
| <b>Cash and bank balances</b>                | 41,523   | 45,564   |
| <b><u>Indebtedness</u></b>                   |  |  |
| - Short term indebtedness (secured):         |  |  |
| Bank overdrafts                              |  |  |
| - guaranteed                                 | 510  | 510  |
| - non-guaranteed                             | 10,817   | 10,817   |
| Bankers acceptance                           |  |  |
| - guaranteed                                 | 16,744   | 16,744   |
| - non-guaranteed                             | 74,581   | 74,581   |
| Term loans                                   |  |  |
| - guaranteed                                 | 596  | 596  |
| - non-guaranteed                             | 367  | 367  |
| Hire purchase payables                       |  |  |
| - non-guaranteed                             | 821  | 821  |
| - Long term indebtedness (secured):          |  |  |
| Term loans                                   |  |  |
| - guaranteed                                 | 4,972  | 4,972  |
| - non-guaranteed                             | 4,695  | 4,695  |
| Hire purchase payables                       |  |  |
| - non-guaranteed                             | 1,471  | 1,471  |
| <b>Total indebtedness</b>                    | 115,574  | 115,574  |
| <b>Capitalisation</b>                        |  |  |
| Total shareholders' equity                   | 52,952   | 60,493   |
| <b>Total capitalisation</b>                  | 52,952   | 60,493   |
| <b>Total capitalisation and indebtedness</b> | 168,526  | 176,067  |

Maximum Scenario:

|                                      | Proforma audited as<br>at FYE 2008 after the<br>Acquisitions<br>RM'000 | After the IPO and<br>utilisation of proceeds<br>RM'000 |
|--------------------------------------|--|--|
| <b>Cash and bank balances</b>        | 41,523   | 49,690   |
| <b><u>Indebtedness</u></b>           |  |  |
| - Short term indebtedness (secured): |  |  |
| Bank overdrafts                      |  |  |
| - guaranteed                         | 510  | 510  |
| - non-guaranteed                     | 10,817   | 10,817   |
| Bankers acceptance                   |  |  |
| - guaranteed                         | 16,744   | 16,744   |
| - non-guaranteed                     | 74,581   | 74,581   |
| Term loans                           |  |  |
| - guaranteed                         | 596  | 596  |
| - non-guaranteed                     | 367  | 367  |

**10. FINANCIAL INFORMATION (Cont'd)**

|  | <b>Proforma audited as<br/>at FYE 2008 after the<br/>Acquisitions<br/>RM'000</b> | <b>After the IPO and<br/>utilisation of proceeds<br/>RM'000</b> |
|--|--|---|
| Hire purchase payables<br>– non-guaranteed   | 821  | 821   |
| - Long term indebtedness (secured):          |  |   |
| Term loans                                   |  |   |
| - guaranteed                                 | 4,972  | 4,972   |
| - non-guaranteed                             | 4,695  | 4,695   |
| Hire purchase payables<br>– non-guaranteed   | 1,471  | 1,471   |
| <b>Total indebtedness</b>                    | <b>115,574</b>   | <b>115,574</b>  |
| <b>Capitalisation</b>                        |  |   |
| Total shareholders' equity                   | 52,952   | 64,620  |
| <b>Total capitalisation</b>                  | <b>52,952</b>  | <b>64,620</b>   |
| <b>Total capitalisation and indebtedness</b> | <b>168,526</b>   | <b>180,194</b>  |

Our contingent liabilities are set out in Section 10.4.7 of this Prospectus.

**10.3 Management's discussion and analysis of financial condition and results of operations**

The following management's discussion and analysis of our Group's past financial performances and results of operations should be read in conjunction with the proforma consolidated financial information and the related notes thereon for the past three (3) FYE 2008 as set out in Section 10.9 of this Prospectus.

This discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involve risks and uncertainties. The results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 3 of this Prospectus.

**10.3.1 Overview of operations****Revenue**

In FYE 2007, our revenue further increased by RM39.70 million or approximately 13.4% compared to FYE 2006. The increase in revenue was contributed by:

- (i) an increase of RM27.33 million or approximately 17.8% from the sales of intermediate chemicals of RM153.72 million recorded in FYE 2006 compared to RM181.05 million in FYE 2007; and
- (ii) an increase of RM16.52 million or approximately 54.9% from the sales of specialty chemicals of RM30.11 million recorded in FYE 2006 compared to RM46.63 million in FYE 2007, after offsetting the decrease in sales of PU chemicals and blended chemicals during the financial year.

**10. FINANCIAL INFORMATION (Cont'd)**

The increase in sales was mainly the result of higher sales volume generated from an increase in the number of product range with distributorship rights and consequently an increase in customer base, higher average selling price in line with higher global crude oil prices as well as an increase in export sales.

In FYE 2008, our revenue increased by RM18.81 million or approximately 5.6% compared to FYE 2007. The increase in revenue for the year under review was mainly due to increase in higher average selling price in line with higher global crude oil prices in the first half of this financial year.

Total sales volume decreased from 65,871 tonnes sold in FYE 2007 to 59,350 tonnes in FYE 2008, mainly due to weaker demand affected by the global economic crisis in the second half of FYE 2008. Notwithstanding the increasingly challenging global economic environment, sales to overseas markets, namely Vietnam, Hong Kong and Indonesia registered an increase of RM4.90 million or 38.8% to RM17.52 million in FYE 2008 compared to the previous year in line with our Company's focus on expanding into overseas markets. The impact of the global economic crisis was also mitigated by the increase in Samchem's customer base to 2,643 from 2,523 customers in FYE 2007 and an increase in the product range from 362 in FYE 2007 to 484 in FYE 2008 with the acquisitions of new distributorship rights.

The CAGR of our Group's revenue is approximately 9.4% during the 3 FYE 2008.

**Gross profit**

Our gross profit increased by RM4.99 million or approximately 14.7% in FYE 2007 compared to FYE 2006. The gross profit margin of 11.54% in FYE 2007, represents a marginal increase of 0.14% from 11.40% recorded in FYE 2006 was mainly due to the increase in sales contribution from specialty chemicals products. Specialty chemicals products enjoy a higher gross profit margin compared to the other chemicals products.

In FYE 2008, gross profit increased by RM1.76 million or approximately 4.5% compared to FYE 2007. The gross profit margin of 11.42% for FYE 2008, which represents a marginal decrease of 0.12% from FYE 2007 was mainly due to a write down to the net realisable value of our inventories of RM0.92 million in the last quarter of the year under review, as crude oil prices fell rapidly. By excluding the abovementioned write down on inventories, the gross profit margin recorded would have been 11.68%.

During the three (3) FYE 2006 to 2008, the purchase price of chemicals, which were mostly petroleum-base, fluctuated in tandem with the movement in global crude oil prices. However, our Group was generally able to adjust the selling price of its products and pass on any price increase to end-users as the changes in the average selling price of chemical products were industry wide and determined by the market which provide the end-users with little room for arbitrage or bargain opportunities. However, in the last quarter of FYE 2008, the global crude oil prices fell rapidly which render us unable to pass the high cost of purchase to our customers in time resulting in a write down in inventories as stated in the paragraph above.

**10. FINANCIAL INFORMATION (Cont'd)**

Our Group's customers were generally willing to accept the price changes and our Group is not restricted by our suppliers to pass on any price increase to end-users. Furthermore, chemical distributors may use the local acceptable prices to negotiate with suppliers on the purchase price in normal circumstances after allowing for some acceptable margins as it is in the suppliers' interests that its strategic market share is maintained and generally, they will sell the chemicals at a price that the distributor can re-sell in the market to the end users. In the event that suppliers do restrict the selling prices of distributors in the market, the chemical distributors may be less inclined to distribute the chemicals and hence affect the suppliers' sales and inventory levels.

**Other income**

In FYE 2007, other income increased significantly by RM2.82 million or approximately 293.8% compared to FYE 2006. This was mainly attributable to the gain on disposal of two (2) loss making subsidiaries, namely Samlube Sdn Bhd and Samlube Manufacturing Sdn Bhd amounting to RM1.11 million, gain on foreign exchange arising from the ordinary course of business of RM1.07 million and the increase in fixed deposit interest received of RM0.43 million as a result of additional fixed deposits placed with banks to secure additional credit facilities.

In FYE 2008, other income decreased by RM1.62 million or approximately 42.8% compared to FYE 2007. This was mainly as a result of a decrease in the gain on foreign exchange arising from the ordinary course of business of RM0.80 million and the absence of a gain in disposal of subsidiaries as recorded in the previous year.

**Operating overheads**

Operating overheads mainly comprise salaries and staff-related expenses, depreciation charges for buildings and equipment, transportation expenses for goods delivery and office-related expenses.

In FYE 2007, our Group's operating overheads increased by RM2.90 million or approximately 19.7% to RM17.63 million from RM14.73 million in FYE 2006. The increase was mainly attributable to:

- (i) the increase in staff salaries and related expenses of RM0.7 million or approximately 14.5% from RM4.82 million in FYE 2006 to RM5.52 million in FYE 2007, as a result of hiring more sales and marketing and operation staff to meet the need of our increased sales activities;
- (ii) the increase in depreciation of property, plant and equipment of RM0.62 million or approximately 56.4% from RM1.10 million in FYE 2006 to RM1.72 million in FYE 2007 arising from the completion of a new warehouse-cum-office located in Berjaya Industrial Park, Selangor and revision in the depreciation rate of office equipment from 10.0% to 20.0%;
- (iii) provision for doubtful debts amounting to RM0.26 million as our Group adopted the policy of providing for amounts due from customers with no activities over a period of nine (9) months;
- (iv) impairment loss on an investment in Heng Li shares being a non-current asset held for sale and prepaid land lease payments totalling RM0.37 million; and
- (v) the increase in selling and distribution expenses of RM0.64 million or approximately 9.7% from RM6.63 million in FYE 2006 to RM7.27 million in FYE 2007 in line with the increase in sales volume.

In FYE 2008, our Group's operating overheads increased by RM1.36 million or approximately 7.7% to RM18.99 million from RM17.63 million in FYE 2007. The increase was mainly attributable to an increase in the provision for doubtful debts amounting to RM1.29 million as we revised our provision policy for trade receivables outstanding for more than six (6) months from the previous financial year(s) where provision was made only for amounts due from customers with no activities over a period of nine (9) months.



**10. FINANCIAL INFORMATION (Cont'd)****Finance costs**

Finance costs comprise mainly interest charges related to bank borrowings.

Our finance costs increased by RM0.95 million or approximately 19.9% in FYE 2007 compared to FYE 2006. The increase was mainly due to the increase in bank overdrafts and bankers' acceptances from approximately RM91.59 million at the end of FYE 2006 to approximately RM115.75 million at end of FYE 2007 in order to meet our Group's increased working capital requirements arising from an increase in business activities during the financial year as our Group were purchasing more products and in larger volumes from our suppliers in order to meet increasing demand from customers.

In FYE 2008, our Group's finance costs increased by RM1.76 million or approximately 30.7% to RM 7.48 million from RM5.73 million in FYE 2007. The increase was mainly due to the increase in bank overdrafts and bankers' acceptances during the year in order to meet increased working capital requirements arising from increased business activities. However, towards the end of FYE 2008, with the reduction in inventories and trade receivables, our Group has reduced the need for trade financing and hence, bank overdrafts and bankers' acceptances were brought down to RM102.65 million at end of FYE 2008 from RM115.75 million at end of FYE 2007.

**PBT**

Our Group's PBT increased by RM4.36 million or 28.3% in FYE 2007 compared to FYE 2006. The increase in PBT was in line with the higher revenue. However, the increase in PBT of 28.3% in FYE 2007 was higher than the proportionate increase in revenue of 13.4% mainly due to the significant increase in other income, namely, gain on foreign exchange of RM1.07 million and the increase in contribution from our associated companies of RM0.42 million from RM0.09 million in FYE 2006 to RM0.51 million in FYE 2007 as well as a gain on disposal of subsidiaries amounting to RM1.11 million.

In FYE 2008, our Group's PBT decreased by RM2.88 million or approximately 14.6% compared to FYE 2007. The decrease was mainly attributable to increase in provision for doubtful debts of RM1.29 million and write down in inventories of RM0.92 million.

**Effective tax rate**

The statutory tax rate applicable to the Group's PBT was 28% in FYE 2006, 27% in FYE 2007 and 26% in FYE 2008. During the financial years under review, certain subsidiaries with issued and paid-up share capital not exceeding RM2.5 million enjoyed a lower tax rate of 20% for chargeable income up to RM500,000 and any chargeable income in excess of RM500,000 will be taxed at the applicable statutory tax rates.

The effective tax rate for FYE 2006 and 2008 was higher than the statutory tax rate principally due to certain expenses being disallowed for taxation purposes, after offsetting the savings arising from the rate of 20% from certain subsidiaries. The effective tax rate of 26.85% for FYE 2007 was slightly lower than the statutory tax rate principally due to the savings from tax rate of 20% from certain subsidiaries, after offsetting certain expenses not allowable for taxation purposes.

**Exposure to risks****(a) Interest rate risk**

Our Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose our Group to cash flow interest rate risk as the future cash flows of the borrowings will fluctuate when the market interest rate changes. Borrowings obtained at fixed interest rates expose our Group to fair value interest rate risk. Our Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

As at LPD, the amount of fixed rate borrowings amounted to RM2.08 million while the amount of floating rate borrowings amounted to RM87.76 million.

**10. FINANCIAL INFORMATION (Cont'd)****(b) Foreign currency risk**

Our Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than RM. In FYE 2008, our Group's total purchases of approximately 44.12% were transacted in foreign currencies while our exports transacted in foreign currencies constitute approximately 4.93% of our total revenue. Both our purchases and exports in foreign currency are denominated in USD. Our Group does not hedge its foreign currency exposure but will undertake to regularly monitor and review the need to enter into forward foreign exchange contract. As at LPD, we have a forward foreign exchange contract line, which allows the Group to enter into forward contracts of up to RM68.92 million. Our Group maintains a USD bank accounts to deposit USD receipts and to make payments in USD, thus, creating a natural hedge against any unfavourable foreign currency movements.

**(c) Liquidity risk**

Our Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, our Group maintains sufficient levels of cash to meet its working capital requirements. In addition, our Group strives to maintain available banking facilities at a reasonable level to its overall debt position.

**(d) Credit risk**

Our Group's credit risk is primarily attributable to trade receivables. Our Group trades only with recognised and creditworthy third parties. It is our Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis and our Group's exposure to bad debts is not significant. However, our Group does not have any significant exposure to any individual customer nor does it have any concentration of credit risk related to any financial asset.

**10.3.2 Factors affecting the Samchem Group's operating results and financial condition**

Our Group is principally engaged in the distribution of industrial chemicals, specialising in PU chemicals, intermediate chemicals and specialty chemicals. Our Group is also involved in the blending of customised solvents.

The main factors that have affected and are expected to continue to affect the results of operations of our Group going forward, are substantially similar to those affecting our Group historically. The distribution of industrial chemicals in Malaysia is influenced by amongst others, the demand for chemical products in the various application markets. Furthermore, various other external factors including the economic and financial conditions in the countries we operate would also affect our financial performance.

Our Group's operating results and the financial condition have been and will continue to be affected by a number of internal and external factors predominantly affecting the chemical distribution industry including but not limited to the following:

**(i) Demand and Supply Conditions**

The chemical industry is essentially a supporting industry, supplying intermediates and inputs to the other end-user industries in the manufacturing sector as well as the agriculture and oil and gas industries. In general, the demand for chemicals in these end-user industries increases in tandem with the rising output generated by these markets.

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**10. FINANCIAL INFORMATION (Cont'd)**

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The growth of the chemical industry is highly dependent on the performance of the other sectors of the economy.

Further information on the effects on the demand and supply conditions of the market is set out in Paragraph 1.12 of Section 5 of this Prospectus.

**(ii) Fluctuations in Chemical Prices**

The cost of our Group's chemicals, which are mostly petroleum-based increases in tandem with escalating crude oil prices. Further, escalating energy costs such as hydrocarbons and coal which are used both as raw materials or feedstock to power the production process as well as for transportation have also driven up the prices of raw materials.

Generally, any increase in cost price of the chemicals could be imputed in the selling prices to the end users to maintain our profit margins.

However, in 2008, crude oil price has undergone a significant decrease since the record peak it reached in July 2008. By the last quarter of FYE 2008, the fall in global crude oil prices was unprecedented and affected all industries across the board. Samchem was affected to an extent due to its inability to pass on the high cost of purchase during this period to its customers as a consequence of its inventory holding period that ranges from one (1) to two (2) months and the demand for Samchem's products was weak during this period.

Further information on the effects of the fluctuations in raw material prices to our Group is set out in Section 3.1 (v) of this Prospectus.

**(iii) Competition**

Our Group competes with other chemical distributors in the market in addition to the distribution arm of chemical manufacturers and traders. As set out in Section 5 of this Prospectus, in 2007, the industrial chemicals distribution market size in Malaysia, specifically for PU chemicals, specialty chemicals and intermediate chemicals, is estimated at approximately RM1.0 billion. The Samchem Group held a market share of 33.4% in the same year in this particular market. However, the overall industrial chemicals market in Malaysia is very large, estimated at approximately RM33.3 billion in 2007.

Further information on the market share of our Group and competition is set out in Paragraphs 1.8 and 1.9 of Section 5 and Section 3.1(ix) respectively of this Prospectus.

**(iv) Exposure to Foreign Exchange Risks**

The majority of our Group's overseas transactions with our customers and suppliers are based in USD, thus exposing our Group to transactional currency risk primarily through sales and purchases that are denominated in a currency other than RM. In FYE 2008, 44.12% of our Group's total purchases were transacted in foreign currencies while our exports transacted in foreign currencies constitute approximately 4.93% of our total revenue. Both our purchases and exports in foreign currency are denominated in USD. Our Group does not hedge its foreign currency exposure but will undertake to regularly monitor and review the need to enter into forward foreign exchange contract. As at LPD, we have a forward foreign exchange contract line, which allows the Group to enter into forward contracts of up to RM68.92 million. Our Group maintains a USD bank accounts to deposit USD receipts and to make payments in USD, thus, creating a natural hedge against any unfavourable foreign currency movements.

Further information on our Group's exposure to foreign exchange risk is set out in Section 3.1 (vii) of this Prospectus.

**10. FINANCIAL INFORMATION (Cont'd)****(v) Liquidity, Working Capital and Inventories**

Due to the nature of our business as a chemical distributor, our liquidity and working capital have a strong correlation with our operating results and financial conditions. As we scale up our operations generating additional revenue and clientele base, our requirement for working capital will also increase in tandem, as we have to fund additional trade receivables and inventories. Further, our trade receivables which is an important source of liquidity represent approximately 40% of our total assets under the Minimum Scenario and 39% under the Maximum Scenario based on the proforma consolidated balance sheet of our Group as set out in Section 10.9 of this Prospectus.

Trade receivables not collected may result in a shortage of working capital for our operations while provisions for receivables may affect our Group's financial performance. In addition, we make full provision for amounts due from customers aged more than six (6) months. Our Board took steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied ourselves that all bad debts had been written off and that adequate provision had been made for doubtful debts as of todate. Our Board will also continually monitor the trade receivables and shall take the necessary corrective measures in order to minimise the risk of bad debts.

Further information on our Group's working capital and trade receivables and the risk of doubtful debts is set out in Sections 10.4 and 3.1(viii) of this Prospectus.

Our working capital will also be affected by the amount and movement of our inventories. We presently have a storage capacity of 6,350 MT and 2,035 M<sup>3</sup> respectively comprising our own warehouses and rented warehouses. Our storage capacity reflects our ability to hold optimal stock levels in order to meet our customer orders. Although, we currently enjoy an average inventories turnover ratio of around 1 month for the past three (3) FYE 2008, there is no assurance that we can maintain this ratio as we increase our sales volume. Further, an increase in sales volume will demand us to also increase our level of inventories. In such scenario, our working capital will increasingly be tied up to the inventories.

However, as a method of minimising product and supply inventories, we usually place orders with our suppliers as close as possible to the actual time of need, as such we are able to reduce inventory costs. With warehousing facilities located within Peninsular Malaysia, namely Perak, Selangor and Johor, coupled with our logistics ability, we are able to ensure a fast turnaround time usually within 2 working days for our customers, from the point of receiving customer orders to the final delivery of industrial chemical products to our customers.

Further information on our Group's storage capacity and inventories turnover is set out in Sections 4.5.2 (ii) and 10.4.8 of this Prospectus.

In any case, as at LPD, our trade lines and loan facilities available is RM168.74 million of which RM101.54 million has been utilised and shall be currently sufficient to fund our working capital requirements. Nevertheless, if we resort to trade lines and facilities to fund our sales expansion, we may incur additional finance cost which may affect our margin.

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**10. FINANCIAL INFORMATION (Cont'd)****10.3.3 Revenue**

The revenue of the Group is derived from the distribution of industrial chemicals, particularly in intermediate chemicals, PU chemicals, specialty chemicals and blended chemicals. Further information on the industrial chemicals distributed by our Group is set out in Section 4.5.1 of this Prospectus. Samchem Group's revenue streams are contributed by the following products types for the past three (3) FYE 2008 are as follows:

|                        | ←----- FYE -----> |               |                |                             |                |               |
|------------------------|-------------------|---------------|----------------|-----------------------------|----------------|---------------|
|                        | 2006              |               | 2007           |                             | 2008           |               |
| Product                | RM'000            | %             | RM'000         | %                           | RM'000         | %             |
| PU                     | 103,464           | 34.85         | 100,601        | 29.89                       | 91,316         | 25.70         |
| Intermediate chemicals | 153,715           | 51.78         | 181,051        | 53.79                       | 200,851        | 56.52         |
| Specialty chemicals    | 30,107            | 10.14         | 46,625         | 13.85                       | 53,991         | 15.19         |
| Blended chemicals      | 9,577             | 3.23          | 8,281          | 2.46                        | 9,207          | 2.59          |
| <b>Total</b>           | <b>296,863</b>    | <b>100.00</b> | <b>336,558</b> | <b>100.00<sup>(1)</sup></b> | <b>355,365</b> | <b>100.00</b> |

Note:

(1) Does not add up due to rounding error

The quantity of each product type sold are as set out as follows:

|                        | ←----- FYE -----> |               |               |               |               |            |
|------------------------|-------------------|---------------|---------------|---------------|---------------|------------|
|                        | 2006              |               | 2007          |               | 2008          |            |
| Product                | MT                | %             | MT            | %             | MT            | %          |
| PU                     | 14,272            | 24.35         | 13,632        | 20.69         | 11,680        | 19.68      |
| Intermediate chemicals | 37,060            | 63.23         | 43,037        | 65.34         | 39,064        | 65.82      |
| Specialty chemicals    | 3,910             | 6.67          | 6,746         | 10.24         | 6,707         | 11.30      |
| Blended chemicals      | 3,369             | 5.75          | 2,456         | 3.73          | 1,899         | 3.20       |
| <b>Total</b>           | <b>58,611</b>     | <b>100.00</b> | <b>65,871</b> | <b>100.00</b> | <b>59,350</b> | <b>100</b> |

**(i) PU**

For FYE 2007 our Group recorded a decline of 2.8% in PU sales compared to FYE 2006. This was mainly due to a slight drop in demand from our customers as they reduced their buffer stocks towards the end of the year.

In FYE 2008, our Group recorded a decrease of 9.2% in PU sales compared to the previous year, mainly due to decline in sales volume as demand from manufacturing based customers in the second half of the financial year was affected by the global economic slowdown.

In FYE 2008, PU products contributed approximately 25.7% of our Group's revenue. In the same financial year, our Group distributes a total of 67 PU chemical products, out of which, our Group has secured formal distributorship rights for 37 PU chemical products from our major suppliers.

**10. FINANCIAL INFORMATION (Cont'd)****(ii) Intermediate chemicals**

Sales of intermediate chemicals by our Group have recorded continuous growth for the past three (3) FYE, recording sales of RM181.1 million in FYE 2007, an increase of 17.8% from FYE 2006 and RM200.85 million in FYE 2008, an increase of 10.9% from FYE 2007. The increase in sales from FYE 2006 to FYE 2007 was mainly attributable to the synergies in the cross-selling of SCSB products through the extended distribution network in the Northern and Southern regions of West Malaysia following SCSB's acquisition of TN Chemie in Johor and Eweny Chemicals in Perak.

In addition, the increase in revenue was also partially due to the higher selling price which was in line with the general increase in global crude oil prices during the financial years under review. Furthermore, our strategy to improve our product range over the years contributed to the revenue growth from FYE 2006 to FYE 2007.

The increase in sales in FYE 2008 as compared to the previous financial years was mainly attributable to higher average selling price in the first half of the financial year, increase in export sales, increase in product range and increased demand from existing customers. However, overall sales volume for intermediate chemicals dropped in FYE 2008 compared to FYE 2007 due to the global economic slowdown in the last quarter of 2008.

As at FYE 2008, intermediate chemicals products contributed approximately 56.5% of our Group's revenue and our Group distributes a total of 168 intermediate chemical products during the financial year, out of which, our Group has secured formal distributorship rights for 50 intermediate chemical products from our major suppliers.

**(iii) Specialty chemicals**

Our Group recorded sales of RM46.6 million in FYE 2007 an increase of 54.8% from FYE 2006 and RM53.99 million in FYE 2008, an increase of 15.8% from FYE 2007. The growth in our sales for specialty chemicals is mainly due to the increase in the number of products secured with distributorship rights in FYE 2006 and FYE 2007 and consequently, higher sales from new and existing customers mainly from the construction and paint/coating industries. The increase in our sales in FYE 2008 was mainly due to higher average selling price. However the sales volume dropped slightly from 6,746 tonnes in FYE 2007 to 6,707 tonnes in FYE 2008 as the Group focuses its sales to the personal care, home care, coating, news printing ink and construction industries.

As at FYE 2008, specialty chemicals products contributed approximately 15.2% of our Group's revenue and our Group distributes a total of 195 specialty chemical products, out of which our Group has secured formal distributorship rights for 150 specialty chemical products from our major suppliers.

**(iv) Blended chemicals**

In FYE 2007 our Group recorded sales of RM8.3 million, a decline of 13.5% from FYE 2006 as a result of the management's decision to sell higher profit margin blended chemicals. The higher cost of transportation made it less viable for TN Industries to sell blended chemicals (procured from TN Chemie, Johor) to its customers in the Klang Valley. As such, our Group concentrated primarily on the sales of higher profit margin blended chemicals in FYE 2007 and reduced sales of lower margin blended chemicals, a strategy that we have adopted until the completion of our new blending facilities in Telok Gong, Klang.

In FYE 2008, our Group recorded sales of RM9.2 million, an increase of 11.2% from RM8.3 million in FYE 2007 despite a drop in sales volume for blended chemicals. The increase was mainly due to higher average selling price for the Group's blended chemicals in line with our strategy to concentrate on selling higher margin blended chemicals.

As at FYE 2008, blended chemical products contributed approximately 2.6% of our Group's revenue.

**10. FINANCIAL INFORMATION (Cont'd)****10.3.4 Segmental analysis of revenue and profits/(losses)**

The following tables set out the segmental analysis by subsidiary and associated companies and markets/geographical location for the Group :

**(i) Revenue by companies**

|  | <----- FYE/FPE -----> |                     |                      |                     |                |                     |
|--|-----------------------|---------------------|----------------------|---------------------|----------------|---------------------|
|  | 2006                  |                     | 2007                 |                     | 2008           |                     |
|  | RM'000                | %( <sup>(1)</sup> ) | RM'000               | %( <sup>(1)</sup> ) | RM'000         | %( <sup>(1)</sup> ) |
| Samchem                                    | -                     | -                   | -                    | -                   | -              | -                   |
| <i>Subsidiary companies</i>                |                       |                     |                      |                     |                |                     |
| SCSB                                       | 241,821               | 81.46               | 269,382              | 80.04               | 280,211        | 78.85               |
| Eweny Chemicals                            | 27,096                | 9.13                | 35,231               | 10.47               | 37,912         | 10.67               |
| SC Industries                              | 11,239                | 3.79                | 12,028               | 3.57                | 14,344         | 4.04                |
| SC Logistics <sup>(2)</sup>                | -                     | -                   | 1,404                | 0.42                | 1,867          | 0.53                |
| TN Chemie                                  | 48,559                | 16.36               | 55,825               | 16.59               | 60,237         | 16.95               |
| TN Industries                              | 6,369                 | 2.14                | 5,577                | 1.66                | 5,013          | 1.41                |
| SCsphere                                   | -                     | -                   | 5,872 <sup>(3)</sup> | 1.74                | 8,667          | 2.44                |
| SC Enviro <sup>(4)</sup>                   | -                     | -                   | -                    | -                   | -              | -                   |
|  | 335,084               | -                   | 385,319              | -                   | 408,251        | -                   |
| Eliminations of inter-company transactions | (38,221)              | -                   | (48,761)             | -                   | (52,886)       | -                   |
| <b>Total</b>                               | <b>296,863</b>        | <b>100.00</b>       | <b>336,558</b>       | <b>100.00</b>       | <b>355,365</b> | <b>100.00</b>       |

Notes:

- (1) Calculated as a percentage of revenue after eliminating inter-company transactions
- (2) SC Logistics commenced operations in FYE 2007
- (3) Revenue in respect of the 13-month financial period from 10 November 2006 to 31 December 2007, as SCsphere was incorporated on 10 November 2006
- (4) SC Enviro was incorporated on 27 April 2007 and is presently dormant

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## 10. FINANCIAL INFORMATION (Cont'd)

## (ii) PBT / (LBT) by companies

|  | <----- FYE/FPE -----> |                  |                     |                  |               |                  |
|--|-----------------------|------------------|---------------------|------------------|---------------|------------------|
|  | 2006                  |                  | 2007                |                  | 2008          |                  |
|  | RM'000                | % <sup>(1)</sup> | RM'000              | % <sup>(1)</sup> | RM'000        | % <sup>(1)</sup> |
| Samchem                                    | -                     | -                | (5)                 | (0.03)           | (53)          | (0.31)           |
| <i>Subsidiary companies</i>                |                       |                  |                     |                  |               |                  |
| SCSB                                       | 11,540                | 74.93            | 12,884              | 65.20            | 10,823        | 64.00            |
| Eweny Chemicals                            | 556                   | 3.61             | 322                 | 1.63             | 683           | 4.04             |
| SC Industries                              | 1,048                 | 6.80             | 1,248               | 6.31             | 2,002         | 11.86            |
| SC Logistics                               | (4)                   | (0.03)           | 173                 | 0.88             | 140           | 0.83             |
| TN Chemie                                  | 2,292                 | 14.88            | 3,661               | 18.52            | 3,844         | 22.76            |
| TN Industries                              | 17                    | 0.11             | (29)                | (0.15)           | 47            | 0.28             |
| SCsphere                                   | -                     | -                | <sup>(2)</sup> 208  | 1.05             | 293           | 1.74             |
| SC Enviro                                  | -                     | -                | <sup>(3)</sup> (93) | (0.47)           | (74)          | 0.44             |
| <i>Associated companies</i>                |                       |                  |                     |                  |               |                  |
| YTSSB                                      | 224                   | 1.45             | 16                  | 0.09             | 685           | 4.06             |
| PTMS                                       | (131)                 | (0.85)           | 494                 | 2.50             | (99)          | (0.41)           |
|  | 15,542                | -                | 18,879              | -                | 18,291        | -                |
| Eliminations of inter-company transactions | (141)                 | -                | 882                 | -                | (1,414)       | -                |
| <b>Total</b>                               | <b>15,401</b>         | <b>100.00</b>    | <b>19,761</b>       | <b>100.00</b>    | <b>16,877</b> | <b>100.00</b>    |

## Notes:

- (1) Calculated as a percentage of PBT/(LBT) after eliminating inter-company transactions
- (2) PBT in respect of the 13-month financial period from 10 November 2006 to 31 December 2007, as SCsphere was only incorporated on 10 November 2006
- (3) The LBT incurred by SC Enviro is in relation to administration costs

For the past three (3) FYE 2008, SCSB was the highest contributor to our Group in terms of revenue and PBT as it has the widest range of products with distributorship rights and had the largest customer base among our subsidiary and associated companies.

TN Chemie with its customer base mainly located in the southern region was the second highest contributor to our Group in terms of revenue and PBT, as its customer base comprises large enterprises that normally make bulk purchases. SC Industries was the third highest contributor to PBT despite registering lower revenue compared to Eweny Chemicals. This was due to its higher profit margin from the sales of specialty chemicals undertaken by SC Industries. The revenue of SC Industries was solely derived from the distribution of specialty chemicals.



**10. FINANCIAL INFORMATION (Cont'd)****(iii) Revenue by divisions/products**

Our Group's principal activities are the distribution of intermediate, PU and specialty chemicals and the blending of customised solvents. As such, the revenue, PBT and PAT of the Group is mainly generated from these activities. The segmental analysis of revenue by products is set out in Section 10.3.3 of this Prospectus.

The principal activities of our subsidiaries and associated companies (except for SC Logistics, SC Enviro and PTMS which in terms of revenue, profit contribution and assets employed are insignificant) are all related to the Group's principal activities and as a result no information on revenue by divisions is presented.

The breakdown of gross profit and PBT by products is not readily available due to sharing of common costs such as carriage and packing charges, operating overheads, administrative and selling and distribution expenses which cannot be directly attributable to a particular product.

**(iv) Revenue by market/geographical**

Our Group also exports its products to the overseas markets, generally to the manufacturing and trading industries. The table below shows the breakdown of revenue generated from the local and overseas market:

|   | <----- FYE -----> |               |                |               |                |               |
|---|-------------------|---------------|----------------|---------------|----------------|---------------|
|   | 2006              |               | 2007           |               | 2008           |               |
|   | RM'000            | %             | RM'000         | %             | RM'000         | %             |
| <b>Local market</b>                             |                   |               |                |               |                |               |
| Malaysia  | 290,082           | 97.72         | 323,939        | 96.25         | 337,848        | 95.07         |
| <b>Overseas market</b>                          |                   |               |                |               |                |               |
| Vietnam   | 38                | 0.01          | 5,888          | 1.75          | 8,363          | 2.35          |
| Hong Kong<br>(Special Administrative<br>Region) | 942               | 0.32          | 3,776          | 1.12          | 4,018          | 1.13          |
| Indonesia                                       | 1,393             | 0.47          | 1,501          | 0.45          | 3,968          | 1.12          |
| Others *  | 4,408             | 1.48          | 1,454          | 0.43          | 1,168          | 0.33          |
| <b>Total Export</b>                             | <b>6,781</b>      | <b>2.28</b>   | <b>12,619</b>  | <b>3.75</b>   | <b>17,517</b>  | <b>4.93</b>   |
| <b>Total</b>                                    | <b>296,863</b>    | <b>100.00</b> | <b>336,558</b> | <b>100.00</b> | <b>355,365</b> | <b>100.00</b> |

Note:

\* Including Australia, Bangladesh, India, PRC, Republic of Panama, Saudi Arabia, Singapore, Sri Lanka, Thailand and the region of Europe.

The local market is the primary source of revenue for our Group for the past three (3) FYE years, contributing in the region of 95.07% to 97.72% to our Group's total revenue. The local market comprises MNCs, large, medium and small enterprise manufacturers.

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**10. FINANCIAL INFORMATION (Cont'd)**

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Total export sales of our Group has been on an increasing trend for the past three (3) FYE albeit a small percentage of our Group's revenue. The increase was attributable to our continual efforts to penetrate and develop our overseas market. Vietnam, Hong Kong and Indonesia contributed the most to our Group's exports. Collectively, our export to these countries have grown from RM2.4 million in FYE 2006 to RM16.3 million in FYE 2008, representing a CAGR of 162%. Vietnam, in which our export sales has risen substantially particularly following our appointment in August 2007 by MITCO, a wholly owned subsidiary of PETRONAS to distribute its products in Vietnam, represents our biggest overseas market. In addition, our Group has been working closely with our customers in introducing more products to reach wider end-user markets such as textiles, personal care and home care industries.

The breakdown of gross profit and PBT by market/geographical is not readily available due to sharing of common costs such as carriage and packing charges, operating overheads, administrative and selling and distribution expenses which cannot be directly attributable to a particular market/geographical.

**10.4 Liquidity and capital resources****10.4.1 Working capital**

The Group's principal source of liquidity is the cash generated from its operations. The Group's external sources of cash is primarily from credit facilities extended by its suppliers and borrowings from financial institutions as well as capital contributed by its shareholders (in the form of both equity and borrowings). Such sources of funds were principally used to finance the purchase of chemicals, staff costs, capital expenditure and other operating expenses.

Based on our proforma consolidated balance sheet our Group as at 31 December 2008 after adjusting for the Acquisitions, the IPO and utilisation of proceeds raised from the IPO, our current ratio is 1.27 times (Minimum Scenario) and 1.30 times (Maximum Scenario). As at LPD, our Group has approximately RM38.79 million of cash and bank balances and total borrowings of RM89.84 million.

As at 31 December 2008 (after adjusting for the Acquisition but before IPO), our Group has total current assets of RM156.73 million and current liabilities of RM126.49 million. The current assets comprise mainly inventories and trade receivables. Our inventory holding period for 3 FYE 2008 were 0.99 months, 1.40 months and 1.17 months, respectively. Trade receivables turnover for the 3 FYE 2008 were 3.63 months, 3.54 months and 2.67 months, respectively. Our trade payables turnover for 3 FYE 2008 were 1.92 months, 1.45 months and 0.66 months, respectively.

As such, our inventories holding periods and trade receivables turnover for the past three (3) FYE 2008 indicate they are well managed. Our current ratio of 1.24 times as at 31 December 2008 reflects well on our Group's ability to meet our short-term obligations.

Our Directors are of the opinion, that after taking into account the existing level of our Group's cash and bank balances, credit facilities currently available, the expected funds to be generated from our operations and the net proceeds from the IPO, our Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

## 10. FINANCIAL INFORMATION (Cont'd)

### 10.4.2 Cash Flow

A summary of our Group's consolidated cash flow position for the FYE 2008 based on the proforma consolidated cash flow statement as set out in Section 10.9 of this Prospectus, is as follows:

|  | Minimum<br>Scenario<br>FYE 2008<br>(RM'000) | Maximum<br>Scenario<br>FYE 2008<br>(RM'000) |
|--|---|---|
| Net cash generated from operating activities       | 17,204                                      | 17,204                                      |
| Net cash used in investing activities              | (15,504)                                    | (15,504)                                    |
| Net cash generated from financing activities       | 2,773                                       | 6,900                                       |
| Net increase in cash and cash equivalents          | 4,473                                       | 8,600                                       |
| Cash and cash equivalents at beginning of the year | 29,763                                      | 29,763                                      |
| Cash and cash equivalents at end of the year       | 34,236                                      | 38,363                                      |

There is no legal, financial and/or economic restriction on the ability of our subsidiaries to transfer funds to Samchem in the form of cash dividends, loans or advances to meet its cash obligations. However, certain banks require the subsidiaries to seek their prior consent for dividend payments in accordance with the terms of the relevant facility agreement. We do not expect such consent to be unnecessarily withheld by the banks.

#### Operating Activities

For the FYE 2008, our Group generated net cash of approximately RM17.20 million from operating activities. PBT for the Samchem Group amounted to RM16.88 million and was mainly adjusted for depreciation of property, plant and equipment, provision for doubtful debts and interest expenses of RM1.61 million, RM1.55 million and RM7.48 million respectively, which contributed to a operating profit before working capital changes of RM27.10 million. The decrease in receivables and inventories of RM19.46 million and RM3.12 million respectively together with decrease in payables of RM17.50 million resulted in cash generated from operations amounting to RM32.18 million.

The decrease in inventories and receivables were generally in line with lower sales volume and business activities in the last quarter of FYE 2008. The Group's trade receivables turnover further reduced to 2.67 months in FYE 2008 from 3.54 months in FYE 2007 as a result of an increased effort in monitoring overdue customer accounts. The inventories turnover decreased marginally to 1.17 months in FYE 2008 from 1.40 months in FYE 2007. The decrease in payables was mainly due to management decision in paying certain suppliers earlier to obtain a more favourable pricing of their products.

The cash generated from operations of RM32.18 million was used for the payment of income tax expense and interest expense of RM7.49 million and RM7.48 million, respectively, before arriving at the net cash from operations of approximately RM17.20 million.

For the FYE 2006 and FYE 2007, our Group recorded negative cash flow from operating activities of approximately RM5.41 million and RM11.98 million respectively. These were mainly due to changes in working capital comprising:

**10. FINANCIAL INFORMATION (Cont'd)****1. Increase in receivables**

For FYE 2006 and FYE 2007, although our Group's trade receivables turnover ratio had decreased marginally from 3.63 months in FYE 2006 to 3.54 months in FYE 2007, our Group recorded an increase in receivables of RM23.39 million and RM9.20 million respectively. This is in line with the increase in revenue of RM75.55 million and RM39.70 million for FYE 2006 and FYE 2007 respectively.

Due to the nature of the business, our Group's liquidity and assets are generally tied up in trade receivables. For FYE 2006, our Group's trade receivables amounted to RM92.99 million, representing approximately 54.6% of our Group's total assets and for FYE 2007, our Group's trade receivables amounted to RM99.38 million, representing 49.5% of our Group's total assets respectively.

**2. Increase of inventories**

Our Group's revenue has been on an increasing trend during the financial years under review. The increasing revenue trend is an indication of the rising demand for chemicals distributed by our Group.

In anticipation of higher demand and increasing chemical prices as well as the management's intention of stocking up on additional inventories at the end of FYE 2006 and FYE 2007, our Group recorded an increase in inventories of RM9.09 million and RM12.00 million for FYE 2006 and FYE 2007 respectively. This is in line with the increase of revenue of RM75.55 million and RM39.70 million for FYE 2006 and FYE 2007 respectively. Furthermore, our Group had purchased chemicals in bulk in order to lock in supply at favourable prices and/or earn discounts on the volume of its purchases.

For FYE 2006 and FYE 2007, our Group's inventories amounted to RM22.65 million and RM34.65 million, representing approximately 13.3% and 17.3% of the Group's total assets respectively.

**3. Decrease in payables**

Our Group recorded a decrease in payables of RM6.94 million for FYE 2007. It is the practice of our Group to make early payments to its suppliers with the intention of maintaining their track record and reputation as a good paymaster. With such proven track record and reputation, our Group is able to secure better and/or favourable terms with their respective suppliers and obtain more distributorship agreements.

Notwithstanding the negative cash flow from our operating activities for FYE 2006 and FYE 2007, our Group managed to record an operating profit before working capital changes (after adjusting for non-cash items) of RM20.95 million and RM25.92 million in FYE 2006 and FYE 2007 respectively.

Our Group will take the following steps to mitigate our negative cashflows from operating activities:

1. Reducing our trade receivable turnover through:
  - a. targeting to maintain our Group's trade receivables turnover in the range of 2.5 – 3.0 months for FYE 2009. Our Group achieved trade receivables turnover of 2.67 months in FYE 2008 which was a further reduction from 3.54 months in FYE 2007, which in turn was a further reduction from our Group's trade receivables turnover of 3.63 months in FYE 2006. The Group's target trade receivables turnover of between 2.5 months to 3.0 months for FYE 2009 is one of the key performance indicators monitored by the management;
  - b. setting collections period as one of the key performance measurement of each sales personnel including managers and Directors of the Group;

**10. FINANCIAL INFORMATION (Cont'd)**

- c. applying a more stringent credit evaluation process such as carrying out an assessment of their financial credibility for new customers and/or before granting additional credit period to existing customers;
  - d. closely monitor debts exceeding the prescribed credit period and to make every effort to expedite collection from those customers; and
  - e. growing our product range to cater for wider customer demands from various application markets. This is envisaged to create a greater dependency of customers for Samchem's supplies, which will result in increasing adherence to the credit periods granted.
2. Stringent monitoring of our inventories level in order to maintain at an optimum level of supply so as to prevent inefficient utilisation of working capital for inventories. Nevertheless, the optimum level may be increased on a case-by-case basis so as to also enable the Samchem Group to seize any opportunity to meet any anticipated surge in demand, if and when such opportunity arises.
  3. Maintaining our existing payment period arrangements with our suppliers in the medium term. However, with increasing customer base and market coverage, the Samchem Group will better position itself to negotiate better terms and pricing with its suppliers, which is expected to improve its profit margin and provide longer credit terms without compromising on the purchase price offered to Samchem.
  4. Long-term measures such as the development of supporting services by having our own fleet of delivery trucks, in-house drumming services and reconditioning of steel drums wherein such developments will lead to greater cost-efficiency. Hence, such measures will reduce our operating cash flows via minimising payment of higher service charges or packing material to suppliers.
  5. Achieving sales and profit targets. Continual growth in our sales volume will increase the profit margin as economies of scale will improve cost efficiency and hence, generate higher cash flows. Increased profit margin and profitability will generate additional cash flows, which may be utilised to fund the working capital requirements of the Group and reduce the need for our Group to take up further trade financing facilities. This will eventually lead to lower trade financing costs by reducing the need for external trade financing to pay for our purchase of inventories.

Further, an increase in sales will allow us to purchase the chemicals in bulk and therefore we may be able to enjoy more discounts. All else being equal, the additional sales margin will generate additional cashflow which we may utilize for working capital and reduce the need for our Group to take up further trade financing.

6. Access to the capital markets which will provide our Group with additional liquidity, reduce our borrowing cost and improve our profit margin. For example, interest expense for FYE 2006, FYE 2007 and 2008 amounted to RM4.78 million, RM5.73 million and RM7.48 million respectively, which could be reduced if the Group could tap into other source of funds.

**Investing activities**

For FYE 2008, our Group's net cash outflow for investing activities amounted to RM15.50 million. This was mainly attributable to the purchase of property, plant and equipment and prepaid land lease payments amounting to RM15.15 million and RM1.88 million respectively. The net cash outflow for investing activities was partially offset by the proceeds from the disposal of property, plant and equipment amounting to RM0.42 million and interest received amounting to RM1.14 million.

**10. FINANCIAL INFORMATION (Cont'd)****Financing activities**

For FYE 2008, our Group generated a net cash inflow of RM2.77 million (Minimum Scenario) or RM6.90 million (Maximum Scenario) from its financing activities. This was largely due to the estimated proceeds from the IPO of RM11.04 million (Minimum Scenario) or RM15.17 million (Maximum Scenario), drawdown of hire purchase amounting to RM0.25 million and drawdown of term loan amounting to RM4.07 million. However, the net cash inflow was offset by the cash outflow for the balance of estimated listing expenses, dividend paid to shareholders and minority shareholders of subsidiaries, and net repayments of bankers' acceptance amounting to RM3.50 million, RM3.12 million and RM5.97 million respectively.

**10.4.3 Commentary on borrowings**

As at LPD, the Group had total outstanding borrowings of RM89.84 million, details of which are set out below:

|  | (RM'000) |
|--|----------|
| Long-term borrowings (Interest bearing)      |          |
| • Term loans                                 | 10,928   |
| • Hire purchase                              | 1,268    |
| Short-term borrowings (Interest bearing)     |          |
| • Bank overdrafts                            | 14,845   |
| • Bankers' acceptances                       | 59,950   |
| • Term loans                                 | 2,035    |
| • Hire purchase                              | 813      |
| Total borrowings                             | 89,839   |
| Gearing ratio as at LPD (times) <sup>*</sup> | 1.70     |

Note:

\* Computed based on our Group's total interest bearing borrowings as at the LPD of RM89.84 million divided by our Group's proforma consolidated shareholders' funds as at FYE 2008 of RM52.95 million upon completion of the Acquisitions

Our short-term bank borrowings are mainly bank overdrafts and bankers acceptances', which are generally used for purchases of chemicals and our working capital requirements. The interest rates for bankers' acceptances are based on the market rates prevailing at the dates of the respective transactions.

As at LPD, the amount of fixed rate borrowings amounted to RM2.08 million while the amount of floating rate borrowings amounted to RM87.76 million.

Our long term bank borrowings comprise mainly term loans obtained to finance purchase of properties and machinery. The interest rates for our term loans are based on the prevailing base lending rates plus a margin agreed upon by our bankers when the respective term loans were granted.

As at LPD, there was no default on payments of either interest and/or principal sums in respect of any borrowings throughout the past FYE 2008 and the subsequent financial period thereof immediately preceding the date of this Prospectus. Samchem Group are not in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations, or the investments by holders of securities in us.

**10. FINANCIAL INFORMATION (Cont'd)**

Currently, our Group does not have an interest rate hedging policy or any foreign borrowings. Our Group will monitor the interest rate movement and will take necessary steps to minimise interest rate risk whenever deemed appropriate such as implementing a hedge policy. The Group manages its interest rate risk by maintaining a mix of fixed and floating rate borrowings. However, no assurance can be given that any future significant interest rates movements will not have a material adverse impact on our Group's business, operating results and financial condition.

As at 31 December 2008, our Group's gearing ratio stood at 2.18 times.

**10.4.4 Financial instruments for hedging purposes**

For the FYE 2008, approximately 4.93% of our Group's revenue and approximately 44.12% of our purchases are exposed to foreign exchange. The following is the breakdown of the Group's revenue and purchases transacted in local and foreign currencies:

| Currency     | Revenue         |                                 | Purchases       |                                   |
|--------------|-----------------|---------------------------------|-----------------|-----------------------------------|
|              | Amount (RM'000) | Proportion of Group Revenue (%) | Amount (RM'000) | Proportion of Group Purchases (%) |
| RM           | 337,848         | 95.07                           | 168,054         | 55.88                             |
| USD          | 17,517          | 4.93                            | 132,708         | 44.12                             |
| <b>Total</b> | <b>355,365</b>  | <b>100.00</b>                   | <b>300,762</b>  | <b>100.00</b>                     |

Our Group does not hedge its foreign currency exposures but will undertake to regularly monitor and review the need to enter into forward foreign exchange contract. As at LPD, we have a forward foreign exchange contract line, which allows the Group to enter into forward contracts of up to RM68.92 million. Our Group maintains a USD bank account to deposit USD receipts and to make payments in USD, thus, creating a natural hedge against any unfavourable foreign currency movements.

The Group has not entered into any interest rates swap to hedge against the adverse fluctuations in the interest rates. Our Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

**10.4.5 Impact of inflation**

Our Group's financial performance for the past three (3) FYE 2008 was not materially affected by inflation.

**10.4.6 Material capital commitments**

Save as disclosed below, as at LPD, our Board is not aware of any material capital commitments incurred or known to be incurred by our Group that has not been provided for, which upon becoming enforceable, may have a material impact on its financial results/position:

|  | RM'000        |
|--|---------------|
| <b>Approved and contracted for:</b>  |               |
| Acquisition of land in Johor and Vietnam                                   | 139           |
| Construction of warehouse and factory in Johor                             | 195           |
| Construction of blending plant and acquisition of machinery in Johor       | 253           |
| Sub-total  | 587           |
| <b>Approved and not contracted for:</b>                                    |               |
| Construction of plant and facilities for blending and drumming in Selangor | 7,000         |
| Construction of plant and facilities for drum recycling in Selangor        | 8,000         |
| Sub-total  | 15,000        |
| <b>Total</b>   | <b>15,587</b> |

**10. FINANCIAL INFORMATION (Cont'd)**

Our Group expects to finance the above material capital commitments through a combination of internal funds, external sources as well as proceeds raised from the IPO.

As at LPD, our trade lines and loan facilities available is RM168.74 million of which RM89.84 million has been utilised. Coupled with our positive cashflows, we should have the necessary surplus funds available to fund the abovementioned material capital commitments. Further, our Directors do not foresee any difficulties in obtaining additional borrowings to fund further capital commitments, if required.

**10.4.7 Contingent liabilities**

As at LPD, our Board is not aware of any contingent liabilities, which have become enforceable or is likely to become enforceable, which in the opinion of our Board, will or may substantially affect the financial results or position of our Group.

**10.4.8 Key financial ratios**

The key financial ratios of the Group for the past three (3) FYE 2008 are as follows:-

|  | <b>FYE 2006</b> | <b>FYE 2007</b> | <b>FYE 2008</b> |
|--|-----------------|-----------------|-----------------|
| Trade receivables turnover ratio (months) <sup>1</sup> | 3.63            | 3.54            | 2.67            |
| Trade payables turnover ratio (months) <sup>2</sup>    | 1.92            | 1.45            | 0.66            |
| Inventories turnover ratio (months) <sup>3</sup>       | 0.99            | 1.40            | 1.17            |
| Current ratio (times)                                  | 0.97            | 1.20            | 1.24            |
| Gearing ratio (times) <sup>4</sup>                     | 2.90            | 2.67            | 2.18            |

*Notes:*

- (1) *Trade receivables as at year end over revenue*
- (2) *Trade payables as at year end over cost of sales*
- (3) *Inventories as at year end over cost of sales*
- (4) *Total interest-bearing borrowings divided by shareholders equity attributable to the Group*

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**10. FINANCIAL INFORMATION (Cont'd)**

The ageing analysis of our trade receivables as at FYE 2008 is as follows:

|                                      | Within credit period |              |              |               | Exceeding credit period |                    | Total   |
|--------------------------------------|----------------------|--------------|--------------|---------------|-------------------------|--------------------|---------|
|                                      | 0 – 30 days          | 31 – 60 days | 61 – 90 days | 91 – 120 days | 120 – 180 days          | > 180 days         |         |
|                                      | RM'000               | RM'000       | RM'000       | RM'000        | RM'000                  | RM'000             | RM'000  |
| Trade receivables                    | 17,871               | 20,192       | 18,689       | 14,414        | 6,871                   | 2,944              | 80,981  |
| (Less: Provision for doubtful debts) | -                    | -            | -            | -             | -                       | (1,781)            | (1,781) |
|                                      | 17,871               | 20,192       | 18,689       | 14,414        | 6,871                   | 1,163 <sup>1</sup> | 79,200  |
| Percentage of total                  | 22.56%               | 25.49%       | 23.60%       | 18.20%        | 8.68%                   | 1.47%              | 100.00% |

Note:

(1) As at LPD, trade receivables of RM1,163,402 has been received

We generally grant our customers credit terms between 30 days and 120 days. The specific credit terms for each customer may differ as we consider, inter-alia, the background and credit-worthiness of the customer, payment history of the customer, relationship with the customer and sales volume. Our trade receivables turnover ratio had generally decreased marginally from 3.63 months in FYE 2006 to 2.67 months in FYE 2008. The decrease was mainly due to our ability to shorten our collection period as a result of an increased effort in monitoring overdue customer accounts. As at LPD, approximately 80% of the outstanding balances of our trade receivables in respect of FYE 2008 have been received. Our Directors are of the opinion that most of the trade debts exceeding the normal credit period are recoverable after taking into consideration the long term relationship between our customers and the Company and as various credit control measures are in place and being implemented by our Group to minimise customer default.

For FYE 2008, a provision of RM1,781,370 was made for amounts due from sixty-six (66) customers with debts outstanding exceeding 6 months, of which five (5) customers are under legal action. There are no disputes or legal action taken against the remaining sixty-one (61) customers. The five (5) customers under legal action had debts amounting to RM307,946 whilst the sixty-one (61) customers had debts amounting to RM1,473,424. Our Board took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied ourselves that all bad debts had been written off and that adequate provision had been made for doubtful debts.

Credit terms granted by suppliers generally range from 30 days to 90 days. Our trade payables turnover ratio had decreased from 1.92 months in FYE 2006 to 0.66 months in FYE 2008. It is the practice of our Group to make early payments to its suppliers with the intention of maintaining our track record and reputation as a good paymaster. With such proven track record and reputation, our Group is able to secure better and/or favourable terms with our respective suppliers and obtain more distributorship rights. Inventories turnover ratio increased to 1.40 months in FYE 2007 from 0.99 months in FYE 2006 mainly attributable to the higher level of stock that was kept to meet anticipated increase in demand. However, inventories turnover ratio decreased from 1.40 months in FYE 2007 to 1.17 months in FYE 2008 as stock level is kept at an optimum level of approximately one month.

**10. FINANCIAL INFORMATION (Cont'd)**

The gearing ratio of our Group has been reducing over the periods under review from 2.90 times in FYE 2006, to 2.67 times in FYE 2007 and to 2.18 times in FYE 2008. As at 31 December 2008, 79.0% of the total borrowings comprise bankers' acceptances (trade financing facility). The trade financing facility was drawdown to pay for the purchase of chemical products from suppliers. The high proportion of trade financing facility utilised by our Group, was to deliberately reduce our credit terms with our suppliers and to make prompt payment to our suppliers in order to secure favourable pricing, secure more distributorships as well as to develop a good reputation in the industry.

As at FYE 2008, the current ratio of our Group is 1.24 times which means the Group is capable of meeting its current financing obligations as its current assets such as inventories and receivables are readily convertible to cash together with its cash at bank to meet the repayment of the outstanding trade financing facility. If the outstanding trade financing facility were to be excluded in the computation of the gearing ratio, the gearing of our Group for the FYE 2008 would be reduced to 0.46 times.

Nevertheless, our Group will continue to improve the gearing ratio via prudent management of the Group's working capital and operating cash flows as explained in Section 10.4.2 of this Prospectus.

**10.4.9 Treasury Policies and Objectives**

We have been financing our operations through cash generated from our operations and external source of funds. Our external source of funds comprises of credit terms granted by our suppliers as well as bank borrowings. The normal credit terms granted to us by our suppliers range from 30 days to 90 days. Details of our borrowings are set out in Section 10.4.3 above.

We trade mainly in RM as well as other foreign currencies mainly in USD and as such we maintain cash accounts in RM and USD.

Our imports are mainly denominated in USD. For sales, domestic sales are mainly in RM, whilst export sales are mainly in USD. Where purchases are in USD and credit terms given by suppliers, we would use export proceeds in USD to pay suppliers as a natural hedge. If necessary, we will also hedge the transaction forward with a bank by booking a future fixed rate to pay our suppliers to minimise our foreign exchange risk.

**10.5 Trend analysis**

As at the LPD, to the best of our Director's knowledge and belief, our operations have not been and are not expected to be affected by any of the following:-

- (i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those disclosed in Section 10.3.1, Section 10.3.2, Section 3 and Section 4 of this Prospectus;
- (ii) known trends, demands, commitments, events or uncertainties that have or that we reasonably expect to have resulted in a material impact on our Group's revenue and/or profits save for those that have been disclosed in Section 10.3.1, Section 10.3.2, Section 3 and Section 4 of this Prospectus;
- (iii) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's liquidity and capital resources, save for those that have been disclosed in Section 10.3.1, Section 10.3.2, Section 3 and 4 of this Prospectus;

## 10. FINANCIAL INFORMATION *(Cont'd)*

- (iv) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save for those that have been disclosed in Section 10.3.1, Section 10.3.2 and Section 3 of this Prospectus;
- (v) material commitments for capital expenditure, save as those disclosed in Section 10.4.6 of this Prospectus; and
- (vi) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, positions and operations of our Group save as disclosed in Section 10.3.1, Section 10.3.2 and Section 3 of this Prospectus.

Information on our Group's business and financial prospects, significant trends in sales, costs and selling prices is set out in this section, Sections 3 and 4 of this Prospectus. Discussion on the overview of the industrial chemical distribution industry, its prospects and outlook are further discussed in Section 5 of this Prospectus. Given the outlook of the industrial chemical distribution industry as set out in Section 5 of this Prospectus, our Group's competitive strengths and advantages as set out in Section 4.5.5 and our Group's dedication to implement the future plans and strategies as set out in Section 4.5.18 of this Prospectus, our Board is optimistic about the future prospects of our Group.

### 10.6 Government / Economic/ Fiscal / Monetary Policies

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations, is set out in Section 3.1(xii) of this Prospectus. Save for the risks disclosed above, there is no government, economic, fiscal or monetary policies or factors that have materially impacted our historical profits for the past three (3) FYE 2008.

### 10.7 Dividend policy

On 18 December 2008, SCSB and SCSB Subsidiaries had declared a net dividend of 30% from its PAT generated between 1 January 2008 and 30 September 2008 to its shareholders, which collectively amounted to approximately RM4,180,679.

Save for SC Enviro, the subsidiaries of SCSB prior to the Acquisitions namely SC Industries, Eweny Chemicals, TN Chemie, TN Industries, SC Logistics, SCsphere and SC Enviro, (collectively referred to as ("SCSB Subsidiaries")) declared a net dividend of 30% from its PAT for the period beginning 1 January 2008 to 30 September 2008 ("Dividend Declared by SCSB Subsidiaries"). The total dividend received by SCSB from the Dividend Declared by SCSB Subsidiaries amounted to approximately RM1,061,282. Consequently, SCSB declared a net dividend based on 30% of the Dividend Declared by SCSB Subsidiaries received amounting to RM318,384 and 30% from its PAT for the period beginning 1 January 2008 to 30 September 2008 amounting to approximately RM2,346,178 to its respective shareholders.

The declaration of interim dividends and the recommendation of final dividend are subject to the discretion of our Board and any final dividend for the year is subject to our shareholders' approval. It is our intention to pay dividends to shareholders in the future. However, such payments will depend upon a number of factors, including our Group's financial performance, capital expenditure requirements, availability of tax credits, general financial conditions and any other factors considered relevant by our Board.

Actual dividends proposed and declared may vary depending on the financial performance and cashflow of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

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**10. FINANCIAL INFORMATION (Cont'd)**

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**10.8 Material Litigation**

As set out in Section 14.4 of this Prospectus, neither our Company nor our subsidiary companies are engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which has a material effect on the financial position of our Company or our subsidiary companies and our Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the financial or business position of our Company or our subsidiary companies as at LPD.

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**10. FINANCIAL INFORMATION (Cont'd)**

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**10.9 Reporting Accountant's Letter on the Proforma Consolidated Financial Information**



**Ernst & Young**  
Af: 0039  
Level 23A, Menara Milenium  
Jalan Damanleia  
Pusat Bandar Damansara  
50490 Kuala Lumpur, Malaysia  
Mail address: P.O. Box 11040  
50734 Kuala Lumpur, Malaysia  
Tel: +603 7495 8000  
Fax: +603 2095 5332 (General line)  
+603 2095 9076  
+603 2095 9078  
www.ey.com

(Prepared for inclusion in this Prospectus)

29 April 2009

The Board of Directors  
Samchem Holdings Berhad  
Lot 6, Jalan Sungai Kayu Ara 32/39  
Seksyen 32  
40460 Shah Alam  
Selangor Darul Ehsan

**Samchem Holdings Berhad ("Samchem")  
Reporting accountants' letter on the proforma consolidated financial information**

We report on the proforma consolidated financial information of Samchem and its subsidiaries ("Samchem Group") as set out in the attached Notes, which we have stamped for the purpose of identification. The proforma consolidated financial information have been prepared for illustrative purposes only on the basis of assumptions as set out in the Notes and after making certain adjustments to show what:

- (a) the financial results of Samchem Group for the three (3) financial years ended 31 December 2008 would have been, if the group structure as at the date of the Prospectus had been in place since the beginning of the years being reported thereon;
- (b) the financial position of Samchem Group as at 31 December 2008 would have been, if the group structure as at the date of the Prospectus had been in place on that date, adjusted for the proceeds from the public issue and utilisation of funds; and
- (c) the cash flows of Samchem Group for the financial year ended 31 December 2008 would have been, if the group structure as at the date of the Prospectus had been in place since the beginning of the financial year.

The proforma consolidated financial information, because of its nature, may not be reflective of Samchem Group's actual financial results, financial position and cash flows.

It is solely the responsibility of the Board of Directors of Samchem to prepare the proforma consolidated financial information. Our responsibility is to form an opinion on the proforma consolidated financial information and to report our opinion to you based on our work.

10. FINANCIAL INFORMATION (Cont'd)




**Samchem Holdings Berhad**  
**Reporting accountants' letter on the proforma consolidated financial information**  
**(contd.)**

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated financial information to the audited financial statements of subsidiaries of Samchem for the three (3) financial years ended 31 December 2008 and the audited financial statements of Samchem for the period from 27 April 2007 (date of incorporation) to 31 December 2007 and financial year ended 31 December 2008, considering the evidence supporting the adjustments and discussing the proforma consolidated financial information with the directors of Samchem.

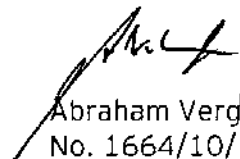
In our opinion:

- (i) the proforma consolidated financial information has been properly prepared under reverse acquisition accounting principles based on the audited financial statements of Samchem and its subsidiaries which have been prepared in accordance with the applicable Financial Reporting Standards in Malaysia and in a manner consistent with both the format of the financial statements and the accounting policies adopted by Samchem; and
- (ii) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing the proforma consolidated financial information.

Yours faithfully

  
Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia

  
Abraham Vergese a/T.V. Abraham  
No. 1664/10/10(J)  
Chartered Accountant


10. FINANCIAL INFORMATION (*Cont'd*)**SAMCHEM HOLDINGS BERHAD**  
(Incorporated in Malaysia)**NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION****1. Introduction**

The proforma consolidated financial information, comprising the proforma consolidated income statements for the three (3) financial years ended 31 December 2008, the proforma consolidated balance sheet as at 31 December 2008, and the proforma consolidated cash flow statement for the financial year ended 31 December 2008 have been prepared for inclusion in the Prospectus of Samchem Holdings Berhad ("Samchem") in connection with the listing of Samchem on the Main Board of the Bursa Malaysia Securities Berhad.

**2. Abbreviations**

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

|                    |   |
|--------------------|---|
| Eweny Chemicals    | Eweny Chemicals Sdn. Bhd.   |
| IPO                | Initial Public Offering   |
| Samchem or Company | Samchem Holdings Berhad   |
| The Group          | Samchem and its subsidiaries namely SCSB, SC Industries, Eweny Chemicals, TN Chemie, TN Industries, SC Logistics, SCsphere, SC Enviro and associates namely Yong Tai Samchem Sdn. Bhd. and PT Multi Square respectively |
| SCSB               | Samchem Sdn. Bhd.   |
| SC Enviro          | Samchem Enviro Cycle Sdn. Bhd.  |
| SCsphere           | Samchemsphere Export Sdn. Bhd.  |
| SCsphere Indochina | Samchemsphere Indochina (Vietnam) Company Limited   |
| SC Industries      | Samchem Industries Sdn. Bhd.  |
| SC Logistics       | Samchem Logistics Services Sdn. Bhd.  |
| TN Chemie          | TN Chemie Sdn. Bhd.   |
| TN Industries      | TN Industries Sdn. Bhd.   |

 **ERNST & YOUNG** (AF: 0039)

Chartered Accountants, Kuala Lumpur  
For identification purposes only

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**10. FINANCIAL INFORMATION (Cont'd)**

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**3. Listing scheme**

As part of the listing scheme, Samchem undertook the following:

**3.1 Acquisitions**

Acquisitions by Samchem of:

- (i) 1,000,000 shares in SC Industries representing 100% equity interest in SC Industries;
- (ii) 500,000 shares in Eweny Chemicals representing 100% equity interest in Eweny;
- (iii) 1,000,000 shares in TN Chemie representing 100% equity interest in TN Chemie;
- (iv) 350,000 shares in TN Industries representing 70% equity interest in TN Industries;
- (v) 175,000 shares in SC Logistics representing 70% equity interest in SC Logistics;
- (vi) 70,000 shares in SCsphere representing 70% equity interest in SCsphere;
- (vii) 380,000 shares in SC Enviro representing 76% equity interest in SC Enviro; and
- (viii) 12,065,760 shares in SCSB representing 100% equity interest in SCSB (collectively known as Acquiree Companies).

from the respective vendors of the Acquiree Companies for an aggregate purchase consideration of RM69,244,317 to be satisfied:

- (i) by way of issuance of 114,636,996 new ordinary shares of RM0.50 each in Samchem ("Samchem shares") at an issue price of RM0.50 per share; and
- (ii) the creation of amount owing by Samchem to SCSB amounting to RM11,925,826.

The abovementioned acquisitions have been completed on 21 February 2009.

**3.2 Public Issue**

(i) Minimum subscription:

Public issue of 15,551,000 new Samchem shares of RM0.50 each at an issue price of RM0.71 per Samchem share.

(ii) Maximum subscription:

Public issue of 21,363,000 new Samchem shares of RM0.50 each at an issue price of RM0.71 per Samchem share.

**3.3 Offer for Sale**

Offer for sale of 19,500,000 new Samchem shares of RM0.50 each at an offer price of RM0.71 per Samchem share.

**3.4 Listing**

Upon completion of the Public Issue and Offer for Sale, Samchem will seek the listing of and quotation for its entire enlarged issued and paid-up share capital on the Main Board of the Bursa Malaysia Securities Berhad.



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**10. FINANCIAL INFORMATION (Cont'd)**

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**4. Basis of preparation of proforma consolidated financial information**

**4.1** The proforma consolidated financial information has been prepared to illustrate:

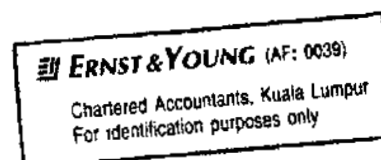
- (a) the financial results of the Group for the past three financial years ended 31 December 2008 would have been if the Group structure as at the date of this Prospectus had been in existence throughout the financial years under review;
- (b) the financial position of the Group as at 31 December 2008 would have been if the Group structure as of the date of this Prospectus had been in place on that date, adjusted for the acquisition of the subsidiaries, the public issue and the payment of the estimated listing expenses; and
- (c) the cash flows of the Group for the financial year ended 31 December 2008 would have been if the Group structure as of the date of this Prospectus had been in existence throughout the financial year ended 31 December 2008, adjusted for the acquisition of subsidiaries, the public issue and the payment of the estimated listing expenses.

The above proforma consolidated financial information has been accounted for as a reverse acquisition through the application of FRS 3: Business Combinations. Further information on the reverse acquisition accounting is disclosed in Section 6.1.

**4.2** The proforma financial information have been prepared for illustrative purposes, based on the audited financial statements of Samchem and its subsidiaries for the past three financial years ended 31 December 2008 using the bases and accounting principles consistent with those adopted in the audited financial statements, after giving effect to the proforma adjustments which is considered appropriate.

The audited financial statements of Samchem and its subsidiaries for the financial years ended 31 December 2008 have been prepared in accordance with the applicable Financial Reporting Standards in Malaysia.

**4.3** The auditors' reports on the respective financial statements were not subject to any qualifications or modifications for all the financial years under review.



## 10. FINANCIAL INFORMATION (Cont'd)

## 5.0 Proforma consolidated income statements of Samchem Group

5.1 The proforma consolidated income statements for the past three financial years ended 31 December 2008, which have been prepared for illustrative purposes to show the aggregate results of the Group, are based on accounting policies consistent with those adopted in the preparation of the audited financial statements of Samchem and its subsidiaries and are prepared on the assumption that the current structure of the Group existed throughout the financial years under review.

|                                   | <--Financial year ended 31 December--> |               |               |
|-----------------------------------|--|---------------|---------------|
|                                   | 2006                                   | 2007          | 2008          |
|                                   | RM                                     | RM            | RM            |
| Revenue                           | 296,862,583                            | 336,558,261   | 355,365,233   |
| Cost of sales                     | (263,008,288)                          | (297,722,879) | (314,765,810) |
| Gross profit                      | 33,854,295                             | 38,835,382    | 40,599,423    |
| Other income                      | 957,270                                | 3,776,855     | 2,161,247     |
| Selling and distribution expenses | (6,633,231)                            | (7,272,051)   | (7,066,920)   |
| Administrative expenses           | (5,552,969)                            | (6,843,254)   | (7,633,398)   |
| Other expenses                    | (2,541,568)                            | (3,519,678)   | (4,287,008)   |
| Operating profit                  | 20,083,797                             | 24,977,254    | 23,773,344    |
| Finance costs                     | (4,776,461)                            | (5,726,546)   | (7,482,374)   |
| Share of results of associates    | 93,365                                 | 510,113       | 586,314       |
| Profit before tax                 | 15,400,701                             | 19,760,821    | 16,877,284    |
| Income tax expense                | (4,403,161)                            | (5,305,114)   | (4,644,406)   |
| Profit for the year               | 10,997,540                             | 14,455,707    | 12,232,878    |
| <b>Attributable to:</b>           |  |               |               |
| Equity holders of the Company     | 11,001,449                             | 14,398,958    | 12,169,435    |
| Minority interests                | (3,909)                                | 56,749        | 63,443        |
|                                   | 10,997,540                             | 14,455,707    | 12,232,878    |

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## 10. FINANCIAL INFORMATION (Cont'd)

## 5.0 Proforma consolidated income statements of Samchem Group (contd.)

5.1 The proforma consolidated income statements in year 2007 and 2008 have been prepared after reclassifying the cost of sales of SC Logistics, which comprise hire and maintenance of delivery trucks and third party transportation cost, amounting to RM1,275,187 (2007: RM1,012,442) to selling and distribution expenses. The reclassification was made to reflect such expenses as part of distribution expenses incurred by the Group and hence, enable comparability with the proforma consolidated results of the prior years. Accordingly, the effect of the reclassification from cost of sales to selling and distribution expenses is as follows:

|                                  | As stated in<br>audited financial<br>statements<br>RM | Re-<br>classification<br>RM | As restated<br>RM |
|----------------------------------|---|-----------------------------|-------------------|
| <b>2007</b>                      |   |                             |                   |
| Cost of sales                    | 298,735,321   | (1,012,442)                 | 297,722,879       |
| Selling and distribution expense | 6,259,609   | 1,012,442                   | 7,272,051         |
| <b>2008</b>                      |   |                             |                   |
| Cost of sales                    | 316,040,997   | (1,275,187)                 | 314,765,810       |
| Selling and distribution expense | 5,791,733   | 1,275,187                   | 7,066,920         |

5.2 The performance indices of the Group based on the proforma consolidated income statements for the past three financial years ended 31 December 2008 are as follows:

|   | 2006        | 2007        | 2008        |
|---|-------------|-------------|-------------|
| Number of ordinary shares<br>assumed in issue * | 114,637,000 | 114,637,000 | 114,637,000 |
| Revenue (RM)                                    | 296,862,583 | 336,558,261 | 355,365,233 |
| Gross profit (RM)                               | 33,854,295  | 38,835,382  | 40,599,423  |
| Profit before tax (RM)                          | 15,400,701  | 19,760,821  | 16,877,284  |
| Gross earnings per Share (RM)                   | 0.13        | 0.17        | 0.15        |
| Net earnings per share (RM)                     | 0.10        | 0.13        | 0.11        |
| Gross profit margin (%)                         | 11.40       | 11.54       | 11.42       |
| Profit before tax margin (%)                    | 5.19        | 5.87        | 4.75        |
| Profit after tax margin (%)                     | 3.70        | 4.30        | 3.44        |
| Effective tax rate (%)                          | 28.59       | 26.85       | 27.52       |
| Interest expense (RM)                           | 4,776,461   | 5,726,546   | 7,482,374   |
| Interest coverage ratio (times)                 | 4.20        | 4.36        | 3.18        |

\* Based on the number of ordinary shares in issue after the completion of the Acquisitions but before the proposed Public Issue.

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**10. FINANCIAL INFORMATION (Cont'd)**

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**5.3 Notes to the proforma consolidated income statements**

- (i) The proforma consolidated income statements for the past three financial years ended 31 December 2008 are prepared based on the audited income statements of Samchem for the financial period from 29 November 2007 (date of incorporation) to 31 December 2007 and financial year ended 31 December 2008; SCSB, Eweny Chemicals, TN Chemie, TN Industries, SC Logistics and SC Industries for the past three financial years ended 31 December 2008, SCsphere for the financial period from 10 November 2006 (date of incorporation) to 31 December 2007 and financial year ended 31 December 2008 and SC Enviro for the financial period from 27 April 2007 (date of incorporation) to 31 December 2007 and financial year ended 2008.
- (ii) The results of Heng Li Trading Co. Sdn. Bhd. ("Heng Li") were not included in the proforma consolidated income statements as Heng Li was acquired by Eweny Chemicals with a view to sell within 12 months. Heng Li was acquired by Eweny on 25 May 2007. A share sale agreement was entered by Eweny Chemicals for the disposal of entire Heng Li shares on 21 May 2008. The disposal of Heng Li was completed on 16 January 2009. The exclusion of its results will not have any significant impact on the proforma consolidated income statements.
- (iii) The results of SCsphere Indochina were not included in the proforma consolidated income statements as it was incorporated on 13 May 2008. SCsphere Indochina is currently dormant.

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## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma consolidated balance sheets

The proforma consolidated balance sheets of the Group as set out below are prepared solely for illustrative purposes only to show the effects of the Acquisitions and Public Issue referred to in Section 3 had these transactions been effected on 31 December 2008.

|                               | Audited<br>Company<br>Balance<br>Sheet as at<br>31 Dec 2008 | Adjustments<br>for<br>Acquisitions | (I)<br>Proforma<br>Group<br>After<br>Acquisitions | Minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | (II)<br>Proforma<br>Group after<br>Proforma (I)<br>and minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | Maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds | (II)<br>Proforma<br>Group after<br>Proforma (I)<br>and maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds |
|-------------------------------|---|------------------------------------|---|--|---|--|---|
|                               | RM  | RM                                 | RM  | RM   | RM  | RM   | RM  |
| <b>ASSETS</b>                 |   |                                    |   |  |   |  |   |
| <b>Non-current assets</b>     |   |                                    |   |  |   |  |   |
| Property, plant and equipment | -   | 25,724,653                         | 25,724,653  | 3,500,000  | 29,224,653  | 3,500,000  | 29,224,653  |
| Prepaid land lease payments   | -   | 3,159,670                          | 3,159,670   |  | 3,159,670   |  | 3,159,670   |
| Investment properties         | -   | 2,092,268                          | 2,092,268   |  | 2,092,268   |  | 2,092,268   |
| Investments in associates     | -   | 2,516,132                          | 2,516,132   |  | 2,516,132   |  | 2,516,132   |
| Goodwill                      | -   | 275,421                            | 275,421   |  | 275,421   |  | 275,421   |
| Other investments             | -   | 669,851                            | 669,851   |  | 669,851   |  | 669,851   |
|                               | -   |                                    | <u>34,437,995</u>                                 |  | <u>37,937,995</u>   |  | <u>37,937,995</u>   |

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## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma consolidated balance sheets (contd.)

|                                 | Audited<br>Company<br>Balance<br>Sheet as at<br>31 Dec 2008 | Adjustments<br>for<br>Acquisitions | (I)<br>Proforma<br>Group<br>After<br>Acquisitions | Minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | (II)<br>Proforma<br>Group after<br>Proforma (I)<br>and minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | Maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds | (II)<br>Proforma<br>Group after<br>Proforma (I)<br>and maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds |
|---------------------------------|---|------------------------------------|---|--|---|--|---|
|                                 | RM  | RM                                 | RM  | RM   | RM  | RM   | RM  |
| <b>Current assets</b>           |   |                                    |   |  |   |  |   |
| Inventories                     | -   | 30,615,766                         | 30,615,766  |  | 30,615,766  |  | 30,615,766  |
| Trade and other receivables     | -   | 83,385,123                         | 83,385,123  |  | 83,385,123  |  | 83,385,123  |
| Marketable securities           | -   | 21,921                             | 21,921  |  | 21,921  |  | 21,921  |
| Tax recoverable                 | -   | 624,250                            | 624,250   |  | 624,250   |  | 624,250   |
| Cash and bank balances          | 1,467   | 41,521,059                         | 41,522,526  | 4,041,210  | 45,563,736  | 8,167,730  | 49,690,256  |
|                                 | 1,467   |                                    | 156,169,586                                       |  | 160,210,796   |  | 164,337,316   |
| Non-current asset held for sale | -   | 562,578                            | 562,578   |  | 562,578   |  | 562,578   |
|                                 | 1,467   |                                    | 156,732,164                                       |  | 160,773,374   |  | 164,899,894   |
| <b>TOTAL ASSETS</b>             | 1,467   |                                    | 191,170,159                                       |  | 198,711,369   |  | 202,837,889   |

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## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma consolidated balance sheets (contd.)

|  | Audited<br>Company<br>Balance<br>Sheet as at<br>31 Dec 2008 | Adjustments<br>for<br>Acquisitions | (I)<br>Proforma<br>Group<br>After<br>Acquisitions | Minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | (II)<br>Proforma<br>Group after<br>Proforma (I)<br>and minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | Maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds | (II)<br>Proforma<br>Group after<br>Proforma (I)<br>and maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds |
|--|---|------------------------------------|---|--|---|--|---|
|  | RM  | RM                                 | RM  | RM   | RM  | RM   | RM  |
| <b>EQUITY AND LIABILITIES</b>            |   |                                    |   |  |   |  |   |
| <b>Equity</b>                            |   |                                    |   |  |   |  |   |
| Share capital                            | 2   | 57,318,498                         | 57,318,500  | 7,775,500  | 65,094,000  | 10,681,500   | 68,000,000  |
| Share premium                            | -   | -                                  | -   | -  | -   | 986,230  | 986,230   |
| Foreign currency translation<br>reserve  | -   | 155,630                            | 155,630   | -  | 155,630   | -  | 155,630   |
| (Accumulated loss)/<br>retained earnings | (59,156)  | 36,505,566                         | 36,446,410  | (234,290)  | 36,212,120  | -  | 36,446,410  |
| Reverse acquisition deficit              | -   | (40,968,380)                       | (40,968,380)                                      | -  | (40,968,380)  | -  | (40,968,380)  |
| Minority interest                        | (59,154)  | 486,320                            | 52,952,160  | -  | 60,493,370  | -  | 64,619,890  |
| <b>Total equity</b>                      | (59,154)  | 486,320                            | 53,438,480  | -  | 60,979,690  | -  | 65,106,210  |
| <b>Non-current liabilities</b>           |   |                                    |   |  |   |  |   |
| Deferred tax liabilities                 | -   | 104,349                            | 104,349   | -  | 104,349   | -  | 104,349   |
| Borrowings                               | -   | 11,137,583                         | 11,137,583  | -  | 11,137,583  | -  | 11,137,583  |
|  | -   | -                                  | 11,241,932  | -  | 11,241,932  | -  | 11,241,932  |

## 10. FINANCIAL INFORMATION (Cont'd)

## 6.0 Proforma consolidated balance sheets (contd.)

|                                     | Audited<br>Company<br>Balance<br>Sheet as at<br>31 Dec 2008 | Adjustments<br>for<br>Acquisitions | Proforma<br>Group<br>After<br>Acquisitions | Minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | Proforma (I)<br>and minimum<br>subscription<br>of IPO and<br>utilisation<br>of funds | Maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds | Proforma (II)<br>Group after<br>Proforma (I)<br>and maximum<br>subscription<br>of IPO and<br>utilisation<br>of funds |
|-------------------------------------|---|------------------------------------|--|--|--|--|--|
|                                     | RM  | RM                                 | RM   | RM   | RM   | RM   | RM   |
| <b>Current liabilities</b>          |   |                                    |  |  |  |  |  |
| Trade and other payables            | 60,621  | 19,107,988                         | 19,168,609                                 | 19,168,609   | 19,168,609   | 19,168,609   | 19,168,609   |
| Borrowings                          | -   | 104,436,604                        | 104,436,604                                | 104,436,604  | 104,436,604  | 104,436,604  | 104,436,604  |
| Dividend payables                   | -   | 2,697,232                          | 2,697,232                                  | 2,697,232  | 2,697,232  | 2,697,232  | 2,697,232  |
| Current tax payable                 | -   | 187,302                            | 187,302                                    | 187,302  | 187,302  | 187,302  | 187,302  |
| <b>Total liabilities</b>            | <b>60,621</b>   | <b>126,489,747</b>                 | <b>126,489,747</b>                         | <b>126,489,747</b>   | <b>126,489,747</b>   | <b>126,489,747</b>   | <b>126,489,747</b>   |
|                                     | <b>60,621</b>   | <b>137,731,679</b>                 | <b>137,731,679</b>                         | <b>137,731,679</b>   | <b>137,731,679</b>   | <b>137,731,679</b>   | <b>137,731,679</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>1,467</b>  | <b>191,170,159</b>                 | <b>191,170,159</b>                         | <b>198,711,369</b>   | <b>198,711,369</b>   | <b>202,837,889</b>   | <b>202,837,889</b>   |
| Number of ordinary shares in issue  | 4   | 114,637,000                        | 114,637,000                                | 130,188,000  | 130,188,000  | 136,000,000  | 136,000,000  |
| Net tangible assets (RM)            | (59,154)  | 52,676,739                         | 52,676,739                                 | 60,217,949   | 60,217,949   | 64,344,469   | 64,344,469   |
| Net tangible assets per share (RM)  | (14,788.50)   | 0.46                               | 0.46                                       | 0.46   | 0.46   | 0.47   | 0.47   |

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## 10. FINANCIAL INFORMATION (Cont'd)

### 6.1 Notes to the proforma consolidated balance sheets

The proforma consolidated balance sheets include, on a proforma basis, the following transactions assuming they were effected on 31 December 2008:

#### Proforma (I)

Proforma (I) incorporates the Acquisitions as set out in Section 3.1 above.

The Acquisitions of subsidiaries have been accounted for as a reverse acquisition through the application of FRS 3: Business Combinations and SCSB has been identified as the deemed acquirer. FRS 3 requires that consolidated balance sheets prepared following a reverse acquisition reflect the fact that Samchem is a continuation of SCSB. Accordingly, the following items have been effected:

- (i) the assets and liabilities of SCSB have been recognised and measured at their pre-combination carrying amounts;
- (ii) the retained earnings and other equity balances recognised in the consolidated balance sheets represent the retained earnings and other equity balances of SCSB before the business combination; and
- (iii) the equity structure appearing in the consolidated balance sheets (i.e the value, number and type of equity instruments issued) reflects the equity structure of Samchem, including the equity instruments issued by Samchem to effect the combination.

#### Proforma (II)

Proforma (II) incorporates the effects of Proforma (I) and the Public Issue of at least 15,551,000 ("minimum subscription") and up to 21,363,000 ("maximum subscription") new Samchem shares of RM0.50 each at RM0.71 per share as set out in Section 3.2 and proposed utilisation of the gross proceeds from the Public Issue as follows:

|   | Minimum<br>subscription<br>RM | Maximum<br>subscription<br>RM |
|---|-------------------------------|-------------------------------|
| Acquisition of plant and machinery      | 3,000,000                     | 3,000,000                     |
| Purchase of trucks                      | 500,000                       | 500,000                       |
| Working capital                         | 4,041,210                     | 8,167,730                     |
| Estimated listing expenses              | 3,500,000                     | 3,500,000                     |
|   | 11,041,210                    | 15,167,730                    |
| Share premium arising from Public Issue | 3,265,710                     | 4,486,230                     |
| Less: Estimated listing expenses        | (3,265,710)                   | (3,500,000)                   |
|   | -                             | 986,230                       |


Estimated listing expenses relating to the flotation exercise of RM3,500,000 are charged to the available share premium account and for the purpose of this proforma, these expenses have been settled using the proceeds from the Public Issue.

## 10. FINANCIAL INFORMATION (Cont'd)

## 7.0 Proforma consolidated cash flow statement

The proforma consolidated cash flow statement of the Group for the financial year ended 31 December 2008, which has been prepared for illustrative purposes only, are based on the assumption that the current structure of the Group existed throughout the financial years under review.

|  | <b>After the Acquisitions and the<br/>Public Issue</b> |  |
|--|--|--|
|  | <b>Minimum<br/>Subscription<br/>RM</b>                 | <b>Maximum<br/>Subscription<br/>RM</b> |
| <b>Cash Flows from Operating Activities</b>                |  |  |
| Profit before tax  | 16,877,284   | 16,877,284                             |
| Adjustments for:   |  |  |
| Gain on disposal of property, plant and equipment          | (192,207)  | (192,207)                              |
| Loss on disposal of property, plant and equipment          | 1,537  | 1,537                                  |
| Provision for diminution in value of marketable securities | 28,249   | 28,249                                 |
| Inventories written down                                   | 919,128  | 919,128                                |
| Provision for doubtful debts                               | 1,545,780  | 1,545,780                              |
| Bad debts written off                                      | 8,215  | 8,215                                  |
| Bad debts recovered  | (29,377)   | (29,377)                               |
| Depreciation of investment properties                      | 21,926   | 21,926                                 |
| Depreciation of property, plant and equipment              | 1,606,598  | 1,606,598                              |
| Amortisation of prepaid land lease payments                | 40,572   | 40,572                                 |
| Unrealised loss on foreign exchange                        | 516,614  | 516,614                                |
| Interest expense   | 7,482,374  | 7,482,374                              |
| Interest income  | (1,140,407)  | (1,140,407)                            |
| Share of profit of associates                              | (586,314)  | (586,314)                              |
| Operating profit before working capital changes            | 27,099,972   | 27,099,972                             |
| Decrease in receivables                                    | 19,461,964   | 19,461,964                             |
| Decrease in inventories                                    | 3,116,325  | 3,116,325                              |
| Decrease in payables                                       | (17,503,135)   | (17,503,135)                           |
| Cash generated from operations                             | 32,175,126   | 32,175,126                             |
| Interest paid  | (7,482,374)  | (7,482,374)                            |
| Tax paid   | (7,488,972)  | (7,488,972)                            |
| Net cash generated from operating activities               | 17,203,780   | 17,203,780                             |
| <b>Cash Flows from Investing Activities</b>                |  |  |
| Purchase of property, plant and equipment                  | (15,154,137)   | (15,154,137)                           |
| Proceeds from disposal of property, plant and equipment    | 422,869  | 422,869                                |
| Additional investment in investment-linked policy          | (30,345)   | (30,345)                               |
| Additions in prepaid land lease payments                   | (1,882,593)  | (1,882,593)                            |
| Interest received  | 1,140,407  | 1,140,407                              |
| Net cash used in investing activities                      | (15,503,799)   | (15,503,799)                           |


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## 10. FINANCIAL INFORMATION (Cont'd)

## 7.0 Proforma consolidated cash flow statement (contd.)

|   | After the Acquisitions and the<br>Public Issue |                               |
|---|--|-------------------------------|
|   | Minimum<br>Subscription<br>RM                  | Maximum<br>Subscription<br>RM |
| <b>Cash Flows from Financing Activities</b>               |  |                               |
| Proceeds from public issue                                | 11,041,210                                     | 15,167,730                    |
| Drawdown of hire purchase payables                        | 249,481  | 249,481                       |
| Drawdown of term loans                                    | 4,073,833                                      | 4,073,833                     |
| Repayment of bankers acceptances                          | (5,972,000)                                    | (5,972,000)                   |
| Dividend paid   | (2,664,562)                                    | (2,664,562)                   |
| Dividend paid to minority interests                       | (454,835)                                      | (454,835)                     |
| Estimated listing expenses                                | (3,500,000)                                    | (3,500,000)                   |
| Net cash generated from financing activities              | <u>2,773,127</u>                               | <u>6,899,647</u>              |
| <b>Net increase in cash and cash equivalents</b>          | 4,473,108                                      | 8,599,628                     |
| <b>Cash and cash equivalents at beginning of the year</b> | 29,763,161                                     | 29,763,161                    |
| <b>Cash and cash equivalents at end of the year</b>       | <u>34,236,269</u>                              | <u>38,362,789</u>             |
| <br>  |  |                               |
| Cash and cash equivalents comprise:                       |  |                               |
| Cash and bank balances                                    | 45,563,736                                     | 49,690,256                    |
| Bank overdrafts   | (11,327,467)                                   | (11,327,467)                  |
|   | <u>34,236,269</u>                              | <u>38,362,789</u>             |

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