

SCGM Bhd (Company no: 779028-H)
Notes To The Interim Report
For The Financial Quarter Ended 31 January 2019 (Unaudited)

Part A - Explanatory Notes Pursuant to MFRS 134

A1 Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with the MFRS 134 *Interim Financial Reporting* and applicable disclosure provisions of the Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 April 2018. The explanatory notes attached to this condensed consolidated interim financial report, provide an explanation of the events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group for the financial period ended 31 January 2019.

The significant accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 30 April 2018, except for the adoption of the following which are applicable to the financial statements and are relevant to the operations:

(I) Adoption of standards and interpretations

Description	Effective for annual periods beginning on or after
MFRS 2: Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
Annual Improvements to MFRSs 2014-2016 Cycle	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018

(II) Standards and interpretations issued but not yet effective

At the date of authorisation of these interim financial statements, the followings standards and interpretations were issued but not yet effective and have not been applied by the Group:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
MFRS 16 Leases	1 January 2019
Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
IC Interpretation 23: Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 2 Share-based Payment	1 January 2020
Amendments to MFRS 3 Business Combinations	1 January 2020
Amendments to MFRS 6 Exploration for and Evaluation of Mineral Resources	1 January 2020
Amendments to MFRS 14 Regulatory Deferral Accounts	1 January 2020

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A1 Basis of Preparation (cont'd)

Amendments to MFRS 101 Presentation of Financial Statements	1 January 2020
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 134 Interim Financial Reporting	1 January 2020
Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets	1 January 2020
Amendments to MFRS 138 Intangible Assets	1 January 2020
Amendments to IC Interpretation 12 Service Concession Arrangements	1 January 2020
Amendments to IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
Amendments to IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2020
Amendments to IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2020
Amendments to IC Interpretation 132 Intangible Assets – Web Site Costs	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

A2 Auditors' Reports on Preceding Annual Financial Statements

There was no qualification in the financial statements for the financial year ended 30 April 2018.

A3 Seasonal or Cyclical Factors

The business operations of the Group were not materially affected by seasonal or cyclical factors during the current quarter under review.

A4 Unusual Significant Items

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

A5 Changes in Estimates

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

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A6 Changes in Debt and Equity Securities

There have been no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for current quarter and financial year-to date.

Total number of 838,600 treasury shares held by the Company since the end of the last financial year remained unchanged during the current quarter under review. The average price paid for the treasury shares was RM2.55 per share.

During the current quarter, there was no conversion of warrants to ordinary shares. As at the reporting date, 19,359,636 warrants remained unexercised.

A7 Dividends Paid

The amount of dividends paid and declared since the end of the last financial year were as follows:

The Directors declared fourth interim single tier dividend in respect of the financial year ended 30 April 2018 of 1.5 sen per ordinary share, amounting to RM2,891,417 on 22 June 2018 and paid on 25 July 2018.

The Directors declared first interim single tier dividend in respect of the financial year ending 30 April 2019 of 0.5 sen per ordinary share, amounting to RM963,806 on 20 September 2018 and paid on 25 October 2018.

The Directors declared second interim single tier dividend in respect of the financial year ending 30 April 2019 of 0.5 sen per ordinary share, amounting to RM963,806 on 13 December 2018 and paid on 18 January 2019.

A8 Segmental Reporting

Detailed segmental reporting is not provided as the the Group's primary business segment is principally engaged in the manufacturing and trading of plastic products and its operation is principally located in Malaysia.

	Current Year Quarter 31 January 2019 RM'000		Preceding Year Corresponding Quarter 31 January 2018 RM'000	
		%		%
Export sales	19,326	35%	19,125	36%
Local sales	36,311	65%	34,291	64%
	<u>55,637</u>		<u>53,416</u>	

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A9 Valuation of Property, Plant and Equipment

There was no valuation of the property, plant and equipment in the current quarter under review.

A10 Material Subsequent Events

There were no material events subsequent to the end of the current quarter up to the date of this announcement.

A11 Changes in the Composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year-to-date.

A12 Contingent Liabilities

There were no material contingent liabilities to be disclosed as at the date of this report.

A13 Capital Commitments

As at 31 January 2019, the Group has the capital expenditure in respect of property, plant and equipment are as follows:-

	31.01.2019
	RM'000
Approved and contracted for:-	
- Equipment, plant and machinery	468
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PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1 Performance Review

Quarter ended 31 January 2019 (3Q19) versus quarter ended 31 January 2018 (3Q18)

For 3Q19, the Group recorded revenue of RM55.637 million, rising 4.2% from RM53.416 million in the previous corresponding quarter. This was largely due to higher local demand for food and beverage packaging, while overseas demand level was maintained.

The Group recorded a loss before tax of RM0.507 million in the quarter under review, compared to RM5.445 million profit before tax in 3Q18, resulting from higher raw material prices, increased finance costs, and higher operating expenditure incurred in both the old and new plants in the transition period.

Nine months ended 31 January 2019 (9M19) versus nine months ended 31 January 2018 (9M18)

For 9M19, revenue grew 6.1% to RM168.869 million, from RM159.186 million. However, group net profit dropped to RM2.020 million from RM16.245 million in 9M18. The decrease resulted from higher operating costs incurred in both the old and new plants in the transition period, higher depreciation from enlarged machinery base, increased cost of utilities in line with usage, as well as higher raw material and finance costs.

B2 Variation of Results against Preceding Quarter

For 3Q19, the Group recorded revenue of RM55.637 million, dipping slightly from RM57.426 million in the quarter ended 31 October 2018 (2Q19). This was due to higher than usual sales in 2Q19 resulting from the tax-free period from June to September 2018 after the removal of Goods and Services Tax.

The Group recorded a loss before tax of RM0.507 million in 3Q19, versus RM2.139 million profit before tax in 2Q19. This was due to lower sales, coupled with higher operating expenses from higher utilities, labour and finance costs, as well as lower gain on foreign exchange translation.

B3 Future Prospects

Food and beverage (F&B) packaging sales dominated SCGM's topline for the current quarter under review with 81% contribution. Therefore, the Group intends to continue focusing its sales efforts in attracting more F&B customers from the local and ASEAN markets.

Besides this, demand for environmentally-friendly packaging solutions is on the rise both locally and globally due to higher social awareness. As a result, the Group is looking to leverage on its vast experience in thermo-form plastic packaging, and promote its degradable product range to the target markets.

The Group is also in the midst of moving operations to its new Kulai plant, with the factory expected to be fully commissioned in the fourth quarter ending 30 April 2019. The higher capacity and increased automation will allow the Group to meet rising demand for plastic packaging, thus helping us achieve better financial performance in the future.

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B4 Variance of Profit Forecast / Profit Guarantee

There was no profit forecast or profit guarantee given in respect of the current period.

B5 Taxation

	Individual 3 months ended 31 January		Cumulative 9 months ended 31 January	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Tax expense:				
Current period	(123)	(684)	87	1,037
(Overprovision)/Underprovision in prior year	-	(48)	-	(48)
Deferred tax expenses:				
Current period	310	780	1,038	1,010
	<u>187</u>	<u>48</u>	<u>1,125</u>	<u>1,999</u>

The effective tax rate of the Group for the preceding year's corresponding quarter was lower than the statutory tax rate mainly due to the utilisation of reinvestment allowances.

B6 Status of Uncompleted Corporate Proposals

There are no outstanding uncompleted corporate proposals as at the date of this quarterly report.

B7 Quoted Securities

There were no purchases or disposals of quoted securities during the current quarter and financial year-to-date.

B8 Borrowings and Debt Securities

The Group's Borrowings as at 31 January 2019 are as follows:-

	Current RM'000	Non-Current RM'000	Total RM'000
Unsecured:			
Borrowings	56,493	58,082	114,575
Finance lease creditors	<u>3,114</u>	<u>5,409</u>	<u>8,523</u>
	<u>59,607</u>	<u>63,491</u>	<u>123,098</u>

All the borrowings were denominated in Ringgit Malaysia.

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B9 Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at the date of this report.

B10 Material Litigation

As at the date of this announcement, there are no material litigations against the Group or taken by the Group.

B11 Proposed Dividend

The Directors proposed third interim single tier dividend in respect of the financial year ending 30 April 2019 of 0.25 sen per ordinary shares and payable on 26 April 2019 to members registered on 11 April 2019.

B12 (Loss) / Earnings Per Share

	Individual 3 Months Ended 31.01.19 RM'000	Individual 3 Months Ended 31.01.18 RM'000	Cumulative 9 Months Ended 31.01.19 RM'000	Cumulative 9 Months Ended 31.01.18 RM'000
<u>Basic (Loss) / Earnings Per Share</u>				
(Loss) / Profit attributable to equity holders of the parent	(694)	5,397	2,020	16,245
Weighted average number of ordinary shares in issue ('000)*	192,761	192,761@	192,761	192,761@
Basic (loss)/earnings per share (sen)	(0.36)	2.80	1.05	8.43

@ Adjusted for Bonus Issue of 48,399,641 shares and 838,600 treasury shares held by the Company to be comparable with the current period's presentation.

	Individual 3 Months Ended 31.01.19 RM'000	Individual 3 Months Ended 31.01.18 RM'000	Cumulative 9 Months Ended 31.01.19 RM'000	Cumulative 9 Months Ended 31.01.18 RM'000
<u>Basic (Loss) / Earnings Per Share</u>				
(Loss) / Profit attributable to equity holders of the parent	(694)	5,397	2,020	16,245
Weighted average number of ordinary shares in issue ('000)	192,761*	193,211#	192,761*	176,799#
Basic (loss)/earnings per share (sen)	(0.36)	2.79	1.05	9.19

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B12 (Loss) / Earnings Per Share (cont'd)

* Adjusted for enlarged total number of 192.761 million shares (after the deduction of 838,600 shares purchased and retained as treasury shares from the total number of issued shares of 193,599,641 as at 31 January 2019).

Comparative figures were based on quarterly announcements made for the 9 months period ended 31 January 2018.

Diluted Earnings Per Share

There is no diluted earnings per share as there is no potential dilutive ordinary share.

B13 (Loss) / Profit before tax

(Loss) / Profit before tax is arrived at after charging/(crediting) the following items:-

	Individual 3 Months Ended 31.01.19 RM'000	Individual 3 Months Ended 31.01.18 RM'000	Cumulative 9 Months Ended 31.01.19 RM'000	Cumulative 9 Months Ended 31.01.18 RM'000
(Gain)/Loss on foreign exchange:				
Realised	(99)	138	(65)	126
Unrealised	33	321	1	485
Distribution reinvestment income	-	(221)	-	(878)
Interest income	(13)	(12)	(40)	(46)
Gain on redemption of financial asset carried at fair value through profit and loss	-	(13)	-	(26)
Amortisation of prepaid land lease payments	1	1	2	2
Fair value loss on financial asset carried at fair value through profit and loss – net	-	16	-	65
Interest expense	1,423	404	4,003	1,114
Inventories written down	-	(850)	783	637
Reversal of inventories written down	(5)	207	(921)	(1,646)
Depreciation of property, plant and equipment	3,423	2,925	10,784	8,164
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