

SCGM Bhd [Registration No: 200701021012 (779028-H)]
Notes To The Interim Report
For The Financial Quarter Ended 31 January 2020 (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 2019. 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 2020.

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 2019, 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
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

(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 at the beginning of the current financial year and have not been applied by the Group:

Description	Effective for annual periods beginning on or after
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
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

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A1 Basis of Preparation (cont'd)

Description	Effective for annual periods beginning on or after
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
Definition of a Business (Amendments to MFRS 3 Business Combinations)	1 January 2020
Definition of Material (Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2020
Interest Rate Benchmark Reform (Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures)	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Classification of Liabilities as Current or Non-current (Amendment to MFRS 101 Presentation of Financial Statements)	1 January 2022
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 2019.

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.

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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.

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 1,038,600 treasury shares held by the Company since the end of the last financial quarter remained unchanged during the current quarter under review. The average price paid for the treasury shares was RM2.224 per share.

During the current quarter, there was no conversion of warrants to ordinary shares. As at 31 January 2020, 19,359,636 warrants remained unexercised.

A7 Dividend Paid

The amount of dividend paid and declared since the end of the last financial year was as follows:

The Directors declared fourth interim single tier dividend in respect of the financial year ended 30 April 2019 of 0.25 sen per ordinary share, amounting to RM481,403 on 27 June 2019 and paid on 26 July 2019.

The Directors declared first interim single tier dividend in respect of the financial year ending 30 April 2020 of 0.25 sen per ordinary share, amounting to RM481,403 on 24 September 2019 and paid on 23 October 2019.

The Directors declared second interim single tier dividend in respect of the financial year ending 30 April 2020 of 1.00 sen per ordinary share, amounting to RM1,925,610 on 9 December 2019 and paid on 10 January 2020.

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 2020 RM'000		Preceding Year Corresponding Quarter 31 January 2019 RM'000	
		%		%
Export sales	19,607	38%	19,326	35%
Local sales	32,029	62%	36,311	65%
	<u>51,636</u>		<u>55,637</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 and 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 2020, the Group has the capital expenditure in respect of property, plant and equipment as follows:-

	31.01.2020
	RM'000
Approved and contracted for:-	
- Equipment, plant and machinery	208
	=====
Approved and not contracted for:-	
- Equipment, plant and machinery	5,435
	=====

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A14 Significant Related Party Transactions

Significant related party transactions of the Group are as follows:-

	Group		Company	
	9 months ended		9 months ended	
	31 January		31 January	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Sales to a company connected with certain Directors	1,804	2,142	-	-
	=====	=====	=====	=====
Purchases from a company connected with certain Directors	312	310	-	-
	=====	=====	=====	=====
Dividend income from the subsidiary	-	-	3,300	4,900
	=====	=====	=====	=====

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1 Performance Review

Quarter ended 31 January 2020 (3Q20) versus quarter ended 31 January 2019 (3Q19)

The Group posted a 7.2% decrease in revenue to RM51.636 million in 3Q20 compared to RM55.637 million in the previous corresponding quarter resulting from lower local sales. Local sales declined 11.8% to RM32.029 million from RM36.311 million in 3Q19, mainly due to lower sales of non-customised food and beverage (F&B) packaging products and other non-core packaging products catered for electronic and other sectors, in line with the Group's strategy to focus on higher margin customised packaging products. Additionally, the revenue decline was partly attributable to lower-than-usual sales in 3Q20, which was affected by Chinese New Year holiday period and ban on heavy vehicles during the holiday period. This was partly mitigated by the 1.5% increase in export sales to RM19.607 million from RM19.326 million in 3Q19, as a result of the Group's intensive marketing programme to expand into new overseas markets, thus resulting in increase of export revenue contribution to 38%, from the previous 35% in 3Q19.

Despite registering a lower revenue in 3Q20, the Group's profit before tax jumped 817.6% to RM3.638 million in the quarter under review versus RM0.507 million loss before tax in 3Q19 due to better sales mix, reduced resin prices and lower interest expense.

The Group's net profit also improved significantly to RM4.181 million in 3Q20 from RM0.694 million net loss in 3Q19 due to partial utilisation of last year's capital allowance and reinvestment allowance brought forward.

Nine months ended 31 January 2020 (9M20) versus nine months ended 31 January 2019 (9M19)

For 9M20, revenue dipped 4.8% to RM160.821 million from RM168.869 million in 9M19, mainly due to lower sales of non-customised F&B packaging products and other non-core packaging products catered for electronic and other sectors, in line with the Group's strategy to focus on higher margin customised packaging products and higher-than-usual sales from the tax-free period in June to August 2018 after removal of GST. Additionally the revenue decline was partly attributable to lower-than-usual sales in 3Q20, which was affected by Chinese New Year holiday period and ban on heavy vehicles during the holiday period.

However, Group pre-tax profit significantly improved by 218.3% to RM10.011 million from RM3.145 million previously, largely due to improved sales mix, lower cost of raw materials, lower interest expense and higher recovery of debts previously provided with allowance for doubtful debts.

The Group's net profit rose more than 5-fold to RM10.414 million from RM2.020 million previously, largely due to the partly utilisation of last year's capital allowance and reinvestment allowance brought forward.

B2 Variation of Results against Preceding Quarter

For 3Q20, the Group revenue decreased 3.5% to RM51.636 million from RM53.524 million in the quarter ended 31 October 2019 (2Q20). This was due to lower sales contribution from non-customised F&B packaging i.e. lunch boxes, cups and plates, and other non-core packaging products catered for electronic and other sectors, in line with the Group's strategy to focus on customised packaging products.

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B2 Variation of Results against Preceding Quarter (Cont'd)

The Group recorded a 12.7% lower profit before tax of RM3.638 million in 3Q20 compared to profit before tax of RM4.168 million in 2Q20, which is attributable to lower local sales, foreign exchange losses due to strengthening of Ringgit Malaysia against major foreign currencies and lower recovery of debts previously provided with allowance for doubtful debts. Despite the dip in revenue, the Group noted 3.6% higher net profit of RM4.181 million in 3Q20 versus a net profit of RM4.034 million in the preceding quarter, largely due to partial utilisation of last year's capital allowance and reinvestment allowance brought forward.

B3 Future Prospects

SCGM remains cautiously optimistic of its business growth for the near term, in light of the current weak market sentiments caused by the COVID-19 outbreak and its resulting uncertainty on the domestic and global economy.

In compliance with the directive from the Ministry of International Trade and Industry, the Group is currently operating at 50% production capacity during the Restricted Movement Order period.

The Group has also implemented additional sanitation protocols in safeguarding the well-being of our employees and visitors. This includes compulsory and regular temperature screening, hand sanitizing stations installed at all entrance points of the Group's premises, frequent daily disinfection of office and production sites, and educating workers on proper hand washing procedures. Additionally, we have supplied production workers with surgical gloves, face masks, face shields and hair nets, which are required to be worn throughout working periods. Office staff are required to wear face masks.

At the same time, SCGM's exports has not been impacted by the COVID-19 outbreak, as the Group's distribution network of supplying to Singapore clients via Johor causeway and other countries through Johor ports remains intact.

In line with the growing concern over the health and safety of our frontline healthcare professionals, SCGM expanded its product portfolio by developing, producing and supplying medical personnel with protective equipment, i.e. medical face shields and face masks to hospitals and medical centres throughout Malaysia.

The Group repurposed its existing production line and invested RM1.0 million in capital expenditure to purchase new machineries for the production of 2 types of face shields and face mask for medical personnel.

Since February 2020, the Group commenced production and supply of two types of medical face shields by repurposing one existing production line and purchasing 3 units of ultrasonic sealing machines. In anticipation of higher demand for medical face shields, SCGM will purchase additional two ultrasonic sealing machines. To date, the Group has delivered RM2.9 million sales of medical face shields.

Additionally, SCGM will purchase new machinery for the production of face masks, which is expected to arrive in April 2020.

SCGM is mindful of possible fluctuations of the main raw material prices i.e. resin, after the sharp decline in global crude oil prices since early March 2020 and the continued weakening of Malaysian Ringgit against the U.S. Dollar.

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B3 Future Prospects (Cont'd)

Since March 2020, the Group had fully consolidated its production in Telok Panglima Garang, Selangor with the headquarters' production in Kulai, Johor, which enables SCGM to enjoy better economies of scale and achieve higher output per worker. SCGM will continue to do its best in fulfilling all its customers' packaging needs of essential products.

B4 Variance of Profit Forecast / Profit Guarantee

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

B5 Tax (Income) / Expense

	Individual		Cumulative	
	3 months ended		9 months ended	
	31 January		31 January	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Income Tax Expense / (Income):				
Current period	290	(123)	300	87
Overprovision in prior year	(3)	-	(3)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	287	(123)	297	87
Deferred Tax (Income) / Expenses:				
Current period	(830)	310	(700)	1,038
	<hr/>	<hr/>	<hr/>	<hr/>
	(543)	187	(403)	1,125
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The effective tax rate of the Group for the current quarter was lower than the statutory tax rate mainly due to the partial utilisation of last year's capital allowance and reinvestment allowance brought forward.

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.

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B8 Borrowings and Debt Securities

The Group's Borrowings as at 31 January 2020 are as follows:-

	Current RM'000	Non-Current RM'000	Total RM'000
Unsecured:			
Finance lease creditors	2,120	3,289	5,409
Borrowings	45,532	49,211	94,743
	<u>47,652</u>	<u>52,500</u>	<u>100,152</u>

All the borrowings were denominated in Ringgit Malaysia.

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 2020 of 0.5 sen per ordinary share and payable on 30 April 2020 to members registered on 14 April 2020.

B12 Earnings / (Loss) Per Share

	Individual 3 Months Ended 31.01.20 RM'000	Individual 3 Months Ended 31.01.19 RM'000	Cumulative 9 Months Ended 31.01.20 RM'000	Cumulative 9 Months Ended 31.01.19 RM'000
<u>Basic Earnings / (Loss) Per Share</u>				
Profit / (Loss) attributable to equity holders of the parent	4,181	(694)	10,414	2,020
Weighted average number of ordinary shares in issue ('000)*	192,696	192,696	192,606	192,606
Basic earnings / (loss) per share (sen)	2.17	(0.36)	5.41	1.05

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

	Individual 3 Months Ended 31.01.20 RM'000	Individual 3 Months Ended 31.01.19 RM'000	Cumulative 9 Months Ended 31.01.20 RM'000	Cumulative 9 Months Ended 31.01.19 RM'000
<u>Basic Earnings / (Loss) Per Share</u>				
Profit / (Loss) attributable to equity holders of the parent	4,181	(694)	10,414	2,020
Weighted average number of ordinary shares in issue ('000)	192,696*	192,761#	192,606*	192,761#
Basic earnings / (loss) per share (sen)	2.17	(0.36)	5.41	1.05

* Adjusted for 1,038,600 shares purchased and retained as treasury shares from the total number of issued shares of 193,599,641 as at 31 January 2020.

Comparative figures were based on quarterly announcement made for the 9 months period ended 31 January 2019.

Diluted Earnings Per Share

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

B13 Profit / (Loss) Before Tax

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

	Individual 3 Months Ended 31.01.20 RM'000	Individual 3 Months Ended 31.01.19 RM'000	Cumulative 9 Months Ended 31.01.20 RM'000	Cumulative 9 Months Ended 31.01.19 RM'000
(Gain)/Loss on foreign exchange:				
Realised	(37)	(99)	(229)	(65)
Unrealised	577	33	559	1
Gain on disposal of property, plant and equipment	(434)	(69)	(446)	(69)
Interest income	(17)	(13)	(54)	(40)
Amortisation of prepaid land lease payments	1	1	2	2
Interest expense	1,210	1,423	3,798	4,003
Allowance for impairment of receivables no longer required	(68)	-	(323)	(10)
Inventories written down / (reversal) of inventories written down	(512)	(5)	(398)	(138)
Depreciation of property, plant and equipment	3,681	3,661	11,076	11,022
	=====	=====	=====	=====