

SCGM Bhd [Registration No: 200701021012 (779028-H)]
Notes To The Interim Report
For The Financial Quarter Ended 30 April 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 30 April 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, interpretations and amendments

Malaysian Financial Reporting Standards (MFRSs)	Effective for annual reporting 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, interpretations and amendments issued but not yet effective

At the date of authorisation of these interim financial statements, the following 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:

Malaysian Financial Reporting Standards (MFRSs)	Effective for annual reporting 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)

(II) Standards, interpretations and amendments issued but not yet effective (cont'd)

Malaysian Financial Reporting Standards (MFRSs)	Effective for annual reporting 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
Covid-19-Related Rent Concessions (Amendment to MFRS 16 Leases)	1 June 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 MFRSs contained in the document entitled “Annual Improvements to MFRS Standards 2018-2020”	1 January 2022
Reference to the Conceptual Framework (Amendments to MFRS 3 Business Combinations)	1 January 2022
Property, Plant and Equipment-Proceeds before Intended Use (Amendments to MFRS 116 Property, Plant and Equipment)	1 January 2022
Onerous Contracts-Cost of Fulfilling a Contract (Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets)	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

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A2 Summary of Significant Accounting Policies

Adoption of new or revised MFRSs

Significant accounting policies adopted by the Group in this interim financial statements are consistent with those of the audited financial statements for year ended 30 April 2019, except for adoption of the new and revised MFRSs, interpretations and amendments approved by the Malaysian Accounting Standards Board and applicable for current financial year. The initial application of the new and revised MFRSs, interpretations and amendments has no material impacts to this interim financial statements except for the following :-

MFRS 16 Leases

MFRS 16, Leases replaces the guidance in MFRS 117, Leases, IC Interpretation 4 Determining Whether an Arrangement Contains A Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of A Lease.

Essentially, the new Standard requires all lease arrangements (“right-of-use assets”) to be recognised on the statements of financial position. The structure of the statements of profit or loss will change as the previous lease expense will be replaced by a depreciation charge on the right-of-use assets and the interest expenses on the corresponding lease liability. The related cash flows will be divided into a repayment of the lease liability and interest portion, thus changing the structure of the cash flows.

The Group will apply MFRS 16 for the first time using the modified retrospective method of which the comparative amounts for the period prior to the first adoption of the new Standard will not be restated. The following analyses the impact of transition to MFRS 16 on the statement of financial position of the Group :-

Statement of Financial Position

	Impact of change in accounting policy		
	Closing Balance as at 30 Apr 2019 RM'000	MFRS 16 adjustment RM'000	Opening Balance as at 1 May 2019 RM'000
Assets			
Property, Plant and Equipment	213,435	(11,193)	202,242
Prepaid Land Lease Payments	160	(160)	-
Right-of-use Assets	-	11,389	11,389
	213,595	36	213,631
Liabilities			
Finance Lease Liabilities – current	2,856	(2,856)	-
Finance Lease Liabilities – non-current	4,697	(4,697)	-
Lease Liabilities – current	-	2,892	2,892
Lease Liabilities – non-current	-	4,697	4,697
	7,553	36	7,589

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A3 Auditors' Reports on Preceding Annual Financial Statements

There was no qualification in the financial statements for the financial year ended 30 April 2019.

A4 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.

A5 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.

A6 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.

A7 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 30 April 2020, 19,359,636 warrants remained unexercised.

A8 Dividends Paid

The amounts 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 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 ended 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 ended 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.

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A8 Dividends Paid (cont'd)

The Directors declared third interim single tier dividend in respect of the financial year ended 30 April 2020 of 0.50 sen per ordinary shares, amounting to RM962,806 on 30 March 2020 and paid on 30 April 2020.

A9 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 30 April 2020		Preceding Year Corresponding Quarter 30 April 2019	
	RM'000	%	RM'000	%
Export sales	18,212	37%	15,449	30%
Local sales	31,450	63%	35,251	70%
	<u>49,662</u>		<u>50,700</u>	

A10 Valuation of Property, Plant and Equipment

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

A11 Material Subsequent Events

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

A12 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.

A13 Contingent Liabilities

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

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A14 Capital Commitments

As at 30 April 2020, the Group has the capital expenditure in respect of property, plant and equipment as follows:-

	30.04.2020 RM'000
Approved and contracted for:-	
- Equipment, plant and machinery	666 =====
Approved and not contracted for:-	
- Equipment, plant and machinery	2,417 =====

A15 Significant Related Party Transactions

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

	Group 12 months ended 30 April		Company 12 months ended 30 April	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Sales to a company connected with certain Directors	2,476 =====	2,716 =====	- =====	- =====
Purchases from a company connected with certain Directors	449 =====	418 =====	- =====	- =====
Dividend income from the subsidiary	- =====	- =====	4,300 =====	5,400 =====

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 30 April 2020 (4Q20) versus quarter ended 30 April 2019 (4Q19)

The Group posted a 2.0% decrease in revenue to RM49.662 million in 4Q20 compared to RM50.700 million in the previous corresponding quarter resulting from lower local sales. Local sales declined 10.8% to RM31.450 million from RM35.251 million in 4Q19, 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 demand from local market was unfavourably impacted by the implementation of movement control order (MCO) by the Malaysian government due to global COVID-19 pandemic during the quarter under review. This was partly mitigated by the 17.9% increase in export sales to RM18.212 million from RM15.449 million in 4Q19, as all ports in Malaysia remained in operation and distribution lorries were allowed to travel between Malaysia and Singapore throughout the MCO period.

Despite registering a lower revenue in 4Q20, the Group's profit before tax jumped 221.5% to RM5.869 million in the quarter under review versus RM4.831 million loss before tax in 4Q19 due to introduction and sales of a new personal protective equipment (PPE) product line, i.e. face shields, reduced resin prices, lower interest expense and higher gain on foreign exchange.

The Group's net profit also improved significantly to RM6.863 million in 4Q20 from RM7.139 million net loss in 4Q19 due to the partial utilisation of unutilised reinvestment allowance brought forward from prior year, and partial recognition of deferred tax asset on unabsorbed reinvestment allowance previously not recognised.

Twelve months ended 30 April 2020 (12M20) versus twelve months ended 30 April 2019 (12M19)

For 12M20, revenue dipped 4.1% to RM210.483 million from RM219.569 million in 12M19, 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 during the Goods and Services Tax (GST) free period from June 2018 to August 2018 after abolition of GST in 12M19. Additionally the demand from local market especially the F&B industry was unfavourably impacted by the implementation of movement control order (MCO) by the Malaysian government due to global COVID-19 pandemic since March 2020.

The Group achieved pre-tax profit expansion by 1041.9% to RM15.880 million from RM1.686 million loss before tax in previous year backed by an improvement in gross margin, which the Group attributed to its effort to optimise the sales mix, lower cost of resin materials and lower interest expense.

The Group's profit after tax improved more than 4-fold to RM17.277 million from RM5.119 million net loss previously, due to the partial utilisation of unutilised reinvestment allowance brought forward from prior year, and partial recognition of deferred tax asset on unabsorbed reinvestment allowance previously not recognised.

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B2 Variation of Results against Preceding Quarter

For 4Q20, the Group revenue decreased 3.8% to RM49.662 million from RM51.636 million in the quarter ended 31 January 2020 (3Q20). The demand from local and export markets was unfavourably impacted by the lockdown measures implemented by many countries including Malaysia to stem the spread of COVID-19 during the quarter under review. This was partly mitigated by the introduction and sales of a new PPE product line, i.e. face shields since February 2020. The Group has delivered RM4.2 million sales of face shields during the quarter under review.

The Group recorded a 61.3% higher profit before tax of RM5.869 million in 4Q20 compared to profit before tax of RM3.638 million in 3Q20, which is attributable to improved sales mix, lower resin costs, higher gain on foreign exchange due to weakening of Ringgit Malaysia against major foreign currencies and lower interest expense. Despite the dip in revenue, the Group noted 64.1% higher net profit of RM6.863 million in 4Q20 versus a net profit of RM4.181 million in the preceding quarter, due to the partial utilisation of unutilised reinvestment allowance brought forward from prior year, and partial recognition of deferred tax asset on unabsorbed reinvestment allowance previously not recognised.

B3 Future Prospects

The ongoing impact of the COVID-19 pandemic since early 2020, amid the intensifying US-China trade tensions, has added to the global economy's uncertainties and posed greater risks to its recovery in the medium term.

The Malaysian Government implemented a prolonged movement control order (MCO) since March 2020 in a bid to contain the spread of COVID-19, which resulted in changes in consumer behaviour and adjustments in employees' work hours in the industrial and service sectors due to orders to stay at home for non-essential services.

In compliance with the directive from the Ministry of International Trade and Industry, the Group operated at 50% manpower capacity during the MCO period, and increased to 100% manpower during the Conditional MCO in end-April 2020.

As Malaysia gradually resumes nearly all economic activities, SCGM continues to be vigilant to keep employees safe from COVID-19 in the workplace by strict compliance to all standard operating procedures (SOP) and directives issued by Malaysian government.

Going forward, SCGM will stay on course to serve recession-proof segments: the food and beverage (F&B) sector as its primary target, and medical personal protective equipment (PPE) as its secondary market.

In the F&B segment, SCGM will further intensify its marketing efforts in the domestic and export markets to continue growing its sales of F&B packaging products which are considered "essential products". At the same time, SCGM will continue to emphasise its production efforts on fulfilling demand for highly-customised F&B packaging.

In the PPE segment, SCGM expanded its product portfolio by adding face masks to its current range of face shields. The Group commissioned one new face mask making machine during the quarter under review and successfully commenced production and sales of face mask in May 2020.

Overall, SCGM will continue to be mindful of the resin prices as crude oil prices stage a recovery from the record lows in April 2020.

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B3 Future Prospects (cont'd)

At the same time, the consolidation of rented manufacturing plant in Telok Panglima Garang, Selangor with SCGM's headquarters and manufacturing plant in Kulai, Johor since March 2020 is expected to impact positively on the financial performance of the Group, due to increased output per worker and improved economies of scale. This also lowers our operating costs compared to maintaining two plants simultaneously.

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 3 months ended 30 April		Cumulative 12 months ended 30 April	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Income Tax Expense / (Income):				
Current period	706	(70)	1,006	17
Overprovision in prior year	-	(2)	(3)	(2)
	706	(72)	1,003	15
Deferred Tax (Income) / Expenses:				
Current period	(1,700)	2,380	(2,400)	3,418
	(994)	2,308	(1,397)	3,433

The effective tax rates of the Group for the current quarter and current year were lower than the statutory tax rate mainly due to the partial utilisation of unutilised reinvestment allowance brought forward from prior year, and partial recognition of deferred tax asset on unabsorbed reinvestment allowance previously not recognised.

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 30 April 2020 are as follows:-

	Current RM'000	Non-Current RM'000	Total RM'000
Unsecured:			
Lease Liabilities	2,058	3,396	5,454
Borrowings	42,784	47,169	89,953
	<u>44,842</u>	<u>50,565</u>	<u>95,407</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 fourth interim single tier dividend in respect of the financial year ended 30 April 2020 of 1.50 sen per ordinary share and payable on 29 July 2020 to members registered on 14 July 2020.

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B12 Earnings / (Loss) Per Share

	Individual 3 Months Ended 30.04.20 RM'000	Individual 3 Months Ended 30.04.19 RM'000	Cumulative 12 Months Ended 30.04.20 RM'000	Cumulative 12 Months Ended 30.04.19 RM'000
<u>Basic Earnings / (Loss) Per Share</u>				
Profit / (Loss) attributable to equity holders of the parent	6,863	(7,139)	17,277	(5,119)
Weighted average number of ordinary shares in issue ('000)*	192,696	192,696	192,595	192,595
Basic earnings / (loss) per share (sen)	3.56	(3.70)	8.97	(2.66)

	Individual 3 Months Ended 30.04.20 RM'000	Individual 3 Months Ended 30.04.19 RM'000	Cumulative 12 Months Ended 30.04.20 RM'000	Cumulative 12 Months Ended 30.04.19 RM'000
<u>Basic Earnings / (Loss) Per Share</u>				
Profit / (Loss) attributable to equity holders of the parent	6,863	(7,139)	17,277	(5,119)
Weighted average number of ordinary shares in issue ('000)	192,696*	192,761#	192,595*	192,761#
Basic earnings / (loss) per share (sen)	3.56	(3.70)	8.97	(2.66)

* 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 30 April 2020.

Comparative figures were based on quarterly announcement made for the 12 months period ended 30 April 2019.

Diluted Earnings Per Share

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

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B13 Profit / (Loss) Before Tax

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

	Individual 3 Months Ended 30.04.20 RM'000	Individual 3 Months Ended 30.04.19 RM'000	Cumulative 12 Months Ended 30.04.20 RM'000	Cumulative 12 Months Ended 30.04.19 RM'000
(Gain)/Loss on foreign exchange:				
Realised	137	168	(43)	103
Unrealised	(587)	(148)	(28)	(147)
Gain on disposal of property, plant and equipment	-	-	(451)	(69)
Interest income	(24)	(29)	(78)	(69)
Interest expense	1,058	1,581	4,856	5,584
Allowance for impairment of receivables	1,006	711	1,006	711
Allowance for impairment of receivables no longer required	(82)	-	(405)	(10)
Inventories written down / (reversal) of inventories written down	524	319	126	181
Depreciation of right-of-use assets	1,182	-	1,182	-
Depreciation of property, plant and equipment	2,546	3,680	13,622	14,702
	=====	=====	=====	=====

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