

SCGM Bhd [Registration No: 200701021012 (779028-H)]
Notes To The Interim Report
For The Financial Quarter Ended 31 July 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 2020. 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 July 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 2020, 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 2 Share-based Payment	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
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

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A1 Basis of Preparation (cont'd)

(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
Covid-19-Related Rent Concessions (Amendment to MFRS 16 Leases)	1 June 2020
Amendments to MFRS 4: Extension of the Temporary Exemption from Applying MFRS 9	At issue date of 17 August 2020
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
MFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current (Amendment to MFRS 101 Presentation of Financial Statements)	1 January 2023
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 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 2020, 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.

A3 Auditors' Reports on Preceding Annual Financial Statements

There was no qualification in the financial statements for the financial year ended 30 April 2020.

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.

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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 31 July 2020, 19,359,636 warrants remained unexercised but expired. Pursuant to that, warrants reserve in relation to the unexercised warrants will be reversed in the next financial year.

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 2020 of 1.50 sen per ordinary share, amounting to RM2,888,417 on 29 June 2020 and paid on 29 July 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 31 July 2020 RM'000	%	Preceding Year Corresponding Quarter 31 July 2019 RM'000	%
Export sales	21,157	37%	17,656	32%
Local sales	36,066	63%	38,005	68%
	<u>57,223</u>		<u>55,661</u>	

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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.

A14 Capital Commitments

As at 31 July 2020, the Group has the capital expenditure in respect of property, plant and equipment as follows:-

	31.07.2020
	RM'000
Approved and contracted for:-	
- Equipment, plant and machinery	4,936
	=====
Approved and not contracted for:-	
- Equipment, plant and machinery	3,373
	=====

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A15 Significant Related Party Transactions

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

	Group		Company	
	3 months ended		3 months ended	
	31 July		31 July	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Sales to a company connected with certain Directors	429	543	-	-
	=====	=====	=====	=====
Purchases from a company connected with certain Directors	192	77	-	-
	=====	=====	=====	=====
Dividend income from the subsidiary	-	-	3,000	700
	=====	=====	=====	=====

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 July 2020 (1Q21) versus quarter ended 31 July 2019 (1Q20)

The Group posted a 2.8% increase in revenue to RM57.223 million in 1Q21 compared to RM55.661 million in the previous corresponding quarter resulting from higher export sales. Export sales increased by 19.8% to RM21.157 million from RM17.656 million in 1Q20 on higher deliveries of customised food and beverage (F&B) packaging. This helped to partially offset the 5.1% decline in local sales to RM36.066 million from RM38.005 million in 1Q20, mainly due to lower sales of standardised 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. The Group also sold face masks and face shields under its new Personal Protective Equipment (PPE) product line to the domestic market.

In line with the increased revenue in 1Q21, the Group's profit before tax jumped 293.4% to RM8.674 million in the quarter under review versus RM2.205 million profit before tax in 1Q20 due to favourable product mix, reduced resin prices, lower interest expense and higher gain on foreign exchange. In addition, the Group incurred lower electricity and rental expenses in 1Q21, as the factory in Telok Panglima Garang was consolidated with the Kulai plant since March 2020.

Simultaneously, the Group's net profit improved significantly to RM8.266 million in 1Q21 from RM2.199 million in 1Q20 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.

B2 Variation of Results against Preceding Quarter

For 1Q21, the Group revenue increased 15.2% to RM57.223 million from RM49.662 million in the quarter ended 30 April 2020 (4Q20). This was because the Group was able to increase its manpower to 100% from May 2020 onwards under the Conditional Movement Control Order (CMCO), compared to 50% manpower during the Movement Control Order (MCO) from March to April 2020. Also, the Group commenced production of face masks in May 2020, which contributed positively to 1Q21 revenue.

The Group recorded 47.8% higher profit before tax of RM8.674 million in 1Q21 compared to profit before tax of RM5.869 million in 4Q20, which is attributable to improved sales mix, lower resin costs and lower interest expense. In line with the increased revenue, the Group noted 20.4% higher net profit of RM8.266 million in 1Q21 versus RM6.863 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.

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B3 Future Prospects

Coronavirus disease 2019 (COVID-19) continues to influence the general demand of packaging and PPE from individuals and institutions. The extension of the Recovery Movement Control Order (RMCO) in Malaysia till 31 December 2020 prompts further changes in consumer behaviour as people adjust their lifestyles in the new normal. In view of this, the Group remains steadfast in serving the needs of both the medical and F&B sectors.

In the PPE segment, the Group will expand our face mask production capacity, and has committed RM0.7 million to purchase 4 units of face mask production machines that will increase our annual capacity from 1.2 million pieces per month to 6.0 million pieces per month. These new machines are expected to come onstream in September 2020.

The Group aims to cater to demand for face masks and face shields from the domestic and overseas markets. On 28 July 2020, SCGM received approval from the Ministry of Domestic Trade and Consumer Affairs to export 50% of its face mask capacity to Singapore.

At the same time, the Group will retain its focus on producing customised products for the F&B sector, and reinforce our position as a leading thermo-form packaging provider in the region.

B4 Variance of Profit Forecast / Profit Guarantee

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

B5 Tax Expense / (Income)

	Individual 3 months ended 31 July		Cumulative 3 months ended 31 July	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Income Tax Expense:				
Current period	708	6	708	6
Deferred Tax (Income):				
Current period	(300)	-	(300)	-
	408	6	408	6

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.

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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 July 2020 are as follows:-

	Current RM'000	Non-Current RM'000	Total RM'000
Unsecured:			
Lease Liabilities	1,753	2,866	4,619
Borrowings	40,557	45,057	85,614
	<u>42,310</u>	<u>47,923</u>	<u>90,233</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 final single tier dividend of 0.35 sen per ordinary share in respect of the financial year ended 30 April 2020 has been approved during the Annual General Meeting on 28 September 2020 and payable on 28 October 2020.

The Directors proposed first interim single tier dividend in respect of the financial year ending 30 April 2021 of 1.70 sen per ordinary share and payable on 12 November 2020 to members registered on 28 October 2020.

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B12 Earnings Per Share

	Individual 3 Months Ended 31.07.20 RM'000	Individual 3 Months Ended 31.07.19 RM'000	Cumulative 3 Months Ended 31.07.20 RM'000	Cumulative 3 Months Ended 31.07.19 RM'000
<u>Basic Earnings Per Share</u>				
Profit attributable to equity holders of the parent	8,266	2,199	8,266	2,199
Weighted average number of ordinary shares in issue ('000)*	192,561	192,561	192,561	192,561
Basic earnings per share (sen)	4.29	1.14	4.29	1.14

	Individual 3 Months Ended 31.07.20 RM'000	Individual 3 Months Ended 31.07.19 RM'000	Cumulative 3 Months Ended 31.07.20 RM'000	Cumulative 3 Months Ended 31.07.19 RM'000
<u>Basic Earnings Per Share</u>				
Profit attributable to equity holders of the parent	8,266	2,199	8,266	2,199
Weighted average number of ordinary shares in issue ('000)	192,561*	192,696#	192,561*	192,696#
Basic earnings per share (sen)	4.29	1.14	4.29	1.14

* 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 July 2020.

Comparative figures were based on quarterly announcement made for the 3 months period ended 31 July 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 Before Tax

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

	Individual 3 Months Ended 31.07.20 RM'000	Individual 3 Months Ended 31.07.19 RM'000	Cumulative 3 Months Ended 31.07.20 RM'000	Cumulative 3 Months Ended 31.07.19 RM'000
(Gain)/Loss on foreign exchange:				
Realised	(366)	(158)	(366)	(158)
Unrealised	186	218	186	218
Gain on disposal of property, plant and equipment	-	(5)	-	(5)
Interest income	(14)	(23)	(14)	(23)
Interest expense	922	1,354	922	1,354
Allowance for impairment of receivables	300	-	300	-
Allowance for impairment of receivables no longer required	(119)	(78)	(119)	(78)
Inventories written down / (reversal) of inventories written down	743	236	743	236
Depreciation of right-of-use assets	355	290	355	290
Depreciation of property, plant and equipment	3,365	3,415	3,365	3,415
	=====	=====	=====	=====