



# operations review



# operations review cement & construction materials



CMS Group's origins are as a cement manufacturer and the **Cement & Construction Materials SBU** remains a cornerstone of the Group's activities. In response to the continuing development needs of Sarawak, we produced and sold a record volume of cement in 2003.

## **Cement Manufacturing – CMS Cement Sdn Bhd**

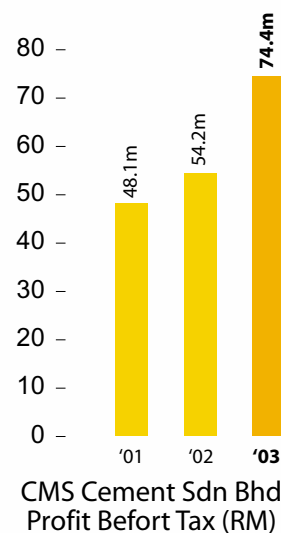
Cement Manufacturers Sarawak Sdn Bhd was incorporated in 1974 and commenced operations in 1978. It was the first company in East Malaysia to manufacture quality ordinary Portland cement, and also the first Sarawak-based company to be listed on Bursa Malaysia in 1989.

With a combined annual production capacity of 1.75 million metric tons (MT) from its plants in Kuching and Bintulu, CMS Cement meets the demand for cement throughout Sarawak, backed by an established and efficient distribution network. A firm commitment to quality and a strong track record means CMS Cement is confident of its ability to face greater competition, whether from domestic sources or elsewhere in the region.

CMS Cement's Kuching Plant boasts an impressive list of Quality accolades, including ISO 9001:2000 (for Quality Management Systems), ISO/IEC 17025 (for laboratory accreditation), ISO 14001 (for Environmental Management Systems), and OHSAS 18001 (for occupational health and safety standards). In addition, CMS Cement's Bintulu Plant attained the ISO 9001:2000 Quality Management System certification in September 2003.

By mid 2004, we will commission a new mixing facility at the Bintulu Plant. When operational, the RM4 million facility will be able to produce blended cement for specific use, such as concrete dams and marine works.

CMS Cement reported record sales in 2003. Increased demand saw production volume at 1.15 million MT, up 20% on the previous year, generating an operating profit of RM74.4 million in 2003 compared to RM54.2 million in 2002.





#### **Quarrying – Sebuyau Kuari Sdn Bhd / Penkuari Sdn Bhd**

CMS Group's quarry operations are the largest in Sarawak. Our current production capacity of 2 million MT per annum provides reliable and consistent supplies of granite, microtonalite and limestone for Sarawak's infrastructure sector, meeting demand from both the Government and private sectors. Proven reserves amount to an additional 43 million MT and ensure continuity of supply well into the foreseeable future.

Demand for aggregates, in particular, continues to be encouraging and, coupled with production efficiencies, the quarrying operations reported pre-tax profits of RM8.7 million, 23% above last year's profit.

#### **Premix Manufacturing – PPES Premix Sdn Bhd and PPES Premix (Miri) Sdn Bhd**

PPES Premix Sdn Bhd and PPES Premix (Miri) Sdn Bhd are Sarawak's largest premix producers. With facilities in Kuching, Sri Aman, Sarikei, Sibu, Bintulu and Miri, each premix plant boasts its own analytical laboratory to ensure adherence to the highest technical standards. The premix group supplies high quality asphalt for construction of roads, flyovers, airport runways and the surrounds of buildings.

The premix operations have been successful in their bids for road upgrading projects throughout the State. Consequently, they have been able to record promising profits of RM3.9 million in 2003.

For the future, the award of the long-term road maintenance contracts to CMS Group member companies, Sara Road Maintenance and PPES Works, ensures that significant long-term benefits will accrue to the premix operations as the major sub-contractor for the supply of asphalt concrete in the State. The Company is also examining other road surfacing materials to ensure the most technology advanced products are available to the Group.

#### **Concrete Products Manufacturing – CMS Concrete Products Sdn Bhd and PPES Concrete Product Sdn Bhd**

CMS Group's concrete manufacturing subsidiaries are specialist manufacturers of pre-formed concrete products, including I-beams, U-beams, culverts, concrete piles, cement bricks and road kerbs.

With the increase in infrastructure projects in the State, the concrete products manufacturing operations turned in a pre-tax profit of RM2.5 million.

#### **Insulated Housing Components – CMS Modular Housing Sdn Bhd**

CMS Modular Housing Sdn Bhd manufactures high quality patented pre-fabricated steel-framed housing components at its plant in Sejingkat, Kuching. These modular systems offer substantial savings in cost, labour and construction time, as well as guarantee a high quality finished building with excellent insulation properties.

In January 2003, CMS Modular secured a 5-year contract with Daya Perumahan Sdn Bhd, a subsidiary of the Housing Development Commission, to supply CMS Insul Roof systems for housing development projects in Sarawak, beginning with projects implemented under the 8<sup>th</sup> Malaysia Plan. An estimated 10,755 units of low-cost housing are planned for the period 2003 – 2006.

CMS Modular Housing achieved RM4.1 million in sales in 2003. However, high interest and depreciation costs resulted in an operating loss of RM14.9 million for the year.

An exercise commenced during the year to refocus this subsidiary away from the housing sector alone and more toward insulation products and materials in general.

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## Prospects for 2004 and Beyond

With the implementation of AFTA in 2003, although cement prices in Malaysia are still under price controls, import tariffs for cement have fallen to between 0% and 5%. However, this has not affected CMS Cement's dominant position in Sarawak, due to the Company's competitive advantages in distribution, logistics and the quality of its products, a position which we actively protect.

For the future, in response to efforts by both the State and Federal Governments, on-going infrastructure developments in the State will ensure a steady future demand for all types of construction materials. The CMS Group is also well positioned to take advantage of the forecast increase in demand arising from several major projects. These include the Kuching International Airport upgrading, Tanjung Manis Deep Sea Port, the Bakun Hydro Electric Dam project with its spin-off projects, development of a shopping mall in Kuching, the Sarawak International Medical Centre, the proposed new Sarawak State Legislative Assembly complex and the Sarawak Convention & Exhibition Centre.

In addition, synergy from within the CMS Group, especially road construction and long-term road maintenance projects, will provide further openings to enhance profits for this SBU in 2004 and beyond.

Competitive pressure and future business opportunities present avenues for us to lower costs, increase productivity and improve the quality of our products and services. Also, to maintain competitiveness, the Company must provide on-going training for its employees. Their creativity and adaptability to rapid change in the business are the key to further success.

**Othman Abdul Rani,**  
Head of Cement & Construction Materials and Steel SBUs



# operations review steel



The **Steel SBU** is represented by **CMS Steel Berhad** and **Setri Sdn Bhd**.

CMS Steel Berhad, a joint-venture with Amsteel Corporation Berhad, is the largest player in Sarawak's steel industry. Its 300,000 MT per annum capacity mill at Sejingkat, Kuching is able to meet both current and future demand throughout East Malaysia and Brunei. The Company produces high-tensile deformed and mild steel round bars and wire rods, mainly for the construction sector, while its subsidiary, Setri Sdn Bhd, produces wire mesh for the construction industry.

Demand for steel products picked up markedly in 2003, reflecting similar demand from Sarawak's construction sector. Coupled with reasonable availability of raw materials for the production of steel bars, CMS Steel reported a smaller loss of RM2.6 million for 2003, a significant improvement from the loss of RM8.7 million in the previous year.

A shortage of billets hampered production early in the year, but the situation improved thereafter. However, the demands of the China market keeps billets in short supply worldwide, and it is a continuing focus of attention to secure adequate raw materials.

## **Prospects for 2004 and Beyond**

Continued strong demand for steel products is anticipated with the implementation of major construction and infrastructure projects in the state, such as the Sarawak International Medical Centre, Bakun Hydro Electric Dam, extension of the Kuching International Airport, as well as the continuation of existing projects by both the Government and private sectors.

The price control structure for steel products is problematic as it does not reflect world market prices for raw materials which have been on a sharp upward spiral. We support a more market reflective system, and already operate on this basis. This should generate additional advances in plant utilisation and profitability going forward.

# operations review

## construction & road maintenance



The **Construction & Road Maintenance SBU** is the civil engineering and construction works arm of CMS Group, comprising **PPES Works (Sarawak) Sdn Bhd** and four subsidiaries :

- **Sara Road Maintenance Sdn Bhd**
- **Pavement Technology (M) Sdn Bhd**
- **PPES Works Property Sdn Bhd**
- **PPES Properties Sdn Bhd**

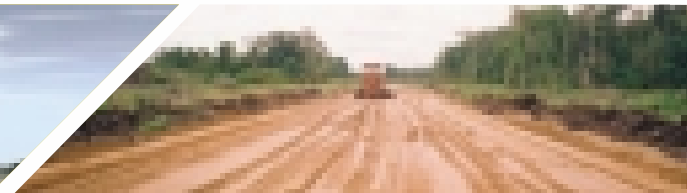
Each company specializes in a specific field of civil engineering and construction. Collectively their experience, expertise and capabilities, combined with those of other related companies within the CMS Group, create a synergy that enables this SBU to competitively pursue a wide range of business opportunities.

We must position ourselves to always be in a state of readiness , and to improve our ability to react faster than our competitors, with innovative and dynamic ideas and by responding positively to our customers requests and expectations.

**Jamel Ibrahim**

Head of Construction & Road Maintenance SBU





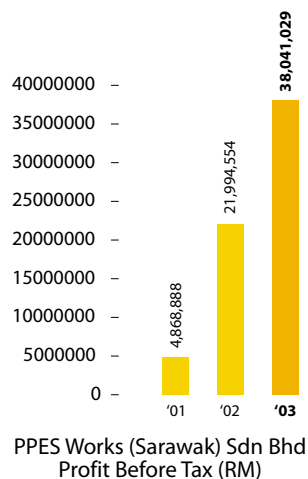
### PPES Works (Sarawak) Sdn Bhd

Incorporated in 1990, PPES Works is Sarawak's leading construction and civil engineering company. It has already under its belt an extensive portfolio of major civil and building works throughout the State, developing considerable experience in :

- marine works, such as bridges, causeways, barrages, and land reclamation
- a wide range of civil works, such as airports, flyovers, roads, highways, industrial buildings, services and utilities infrastructure

In 2003, the Company completed the Tanjung Manis Airport (contract value RM53m) and Phase 1 of the Dalat Hospital (contract value RM42m). Good progress was also made in the construction of 2 coastal road projects - the Tg. Kidurong-Suai-Bakam coastal road (contract value RM581m), which is scheduled for completion in September 2005 and the Triso-Melebu-Pusa coastal road (contract value RM127.5m) which is scheduled for completion in October 2004.

Two major projects were successfully bid for through open tender, namely the site preparation for an independent oil terminal in Senari, Kuching (contract value RM20.76m) and the construction and completion of operations buildings and the yard for the 2nd Inner Harbour at Bintulu Port (contract value RM116m). These successful bids clearly demonstrate the SBU's competitiveness and reflect the quality and expertise of its bid management and contract administration teams.



PPES Works was awarded a long-term maintenance contract of over 650km of Federal roads in Sarawak for the next 15 years, thereby providing the company with a stable and recurring revenue. The privatization agreement, which was signed with the Government of Malaysia in July 2003, covers Federal roads located in Kuching, Samarahan, Sri Aman, Betong and Sarikei divisions of Sarawak. The contract is valued at approximately RM25 million per year, based on present rates and existing inventory of Federal roads in the concession area.

Indeed, it is PPES Work's enviable reputation for quality and customer service, value engineering and attention to detail which has allowed it to rise to become the market leader in Sarawak's construction sector. We set uncompromising standards for our work and procedures and this has, no doubt, contributed to a healthy current order book of some RM1 billion.

#### Growth Prospects:

PPES Works is well positioned to respond to the fast pace of infrastructure development planned for Sarawak. It is currently developing and expanding its in-house engineering capabilities in order to directly undertake greater portions of construction works, thus reducing reliance on sub-contractors and joint-venture partners. In April 2004, jointly with our project partners, the Company signed a Memorandum of Understanding with the Sarawak State Government for the design and construction of a new Dewan Undangan Negeri (State Legislative Assembly) building at Petra Jaya, Kuching. A detailed proposal has also been submitted to the State for the construction of a Sarawak Convention & Exhibition Centre. Other potential projects include the proposed aluminium smelting plant in Similajau, the new Federal Administrative Centre at Matang and several major road projects in the State.

# operations review construction & road maintenance

## Sara Road Maintenance Sdn Bhd

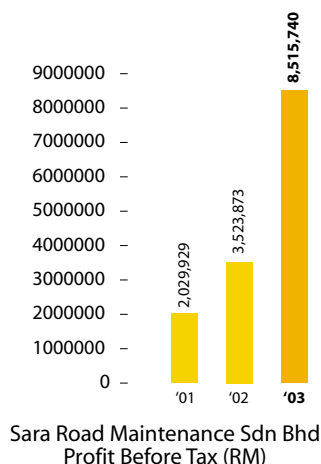
Incorporated in 1994, Sara Road Maintenance specialises in the management and maintenance of roads. The year 2003 was a significant milestone for the Company, with the award by the State Government of a 15-year concession for the management and maintenance of all JKR State roads in Sarawak, commencing 1 January 2003 and progressing as follows :

Phase 1 : Kuching and Samarahan divisions  
Phase 2 (commencing July 2003) : Sri Aman, Betong and Sarikei divisions  
Phase 3 (commencing January 2004) : Remaining State Roads

The total inventory of State roads to be maintained is 3,973 km, with a contract value of approximately RM86 million per year (excluding instructed works, which will involve additional payments from the State Government).

The award of this valuable contract is the result of Sara Road Maintenance's excellent performance over a two-year trial period, with the Company maintaining over 800km of State roads in the Kuching and Kota Samarahan divisions, to a total value of RM32 million.

Sara Road Maintenance is committed to staying ahead of the competition by developing and implementing new and more efficient technologies in road maintenance, and by making extra efforts on behalf of its customers and the traveling public.



The drive for improved technology utilizes both the Company's internal resources – the in-house Engineering Division and the Technical Support Division of PPES Works – and external resources, whereby Sara Road Maintenance is constantly seeking and evaluating alternative and complementary systems for its Road Maintenance Management System.

Concrete evidence of the Company's commitment to customer service is "Hotline Jeraya". Launched in December 2003, this toll-free telephone service (1-800-888-666) with a dedicated e-mail address (hotlinejlnraya@works.cmsb.com.my) is a smart-partnership with road users state-wide. Feedback from the public is used to monitor road conditions, highlight areas requiring attention, improve its overall service and reduce response time during emergencies. In addition, Sara Road Maintenance is seeking to attain the ISO 9001:2000 QMS certification by the third quarter of 2004.

## Growth Prospects:

Sara Road Maintenance is aggressively seeking to expand its order book through the maintenance of roads currently maintained by local authorities, as well as estate roads and private roads under the control of statutory bodies and private companies, such as ports, airports and industrial sites. The Company is also seeking to expand into the maintenance of other national and international roads, using its valuable expertise and experience as a springboard.

## Pavement Technology (M) Sdn Bhd

Incorporated in 1995, Pavement Technology is a specialist provider of construction, maintenance and rehabilitation technology for road pavements, with particular focus on cement stabilization for both new road construction and road recycling. The in-house Direct Construction Unit uses advanced road recycling equipment and technology to handle road upgrading and other road construction works. Its principal processes – cement stabilization, pavement profiling, and recycling of existing pavement materials – are all environmentally friendly, and contribute towards the promotion of sustainable engineering and construction. Pavement Technology's expertise also offers customers significant advantages of cost, speed of construction, pavement performance and design life.

Pavement Technology completed projects worth over RM35 million in 2003, compared to RM15.3 million in 2002. Most of these projects were undertaken on behalf of, or in partnership with, other CMS Group member companies, demonstrating the valuable synergy Pavement Technology brings to the Group.







Pavement Technology is currently working to attain the ISO 9001:2000 Quality Management System certification by the end of 2004.

#### Growth Prospects:

Plans are in hand to further develop the Company's expertise - in bitumen stabilization, soil stabilization, premix recycling and other products related to pavement works. This will help transform Pavement Technology into an integrated road technology provider servicing every aspect of the road construction and maintenance sector's requirements. With such capabilities, Pavement Technology will be able to tackle turnkey road surfacing and recycling projects, either on its own or in partnership with other CMS Group member companies, and expand into Peninsular Malaysia, Sabah and the BIMP-EAGA region of Brunei, Philippines and Indonesia.

#### Construction & Road Maintenance SBU Projects/Contracts in Hand 2003/4

	Contract Value (RM)
Tg. Gelang – Kpg. Sungai Nai coastal road	32,480,000
Triso – Melebu – Pusa coastal road	127,500,000
Kpg. Buloh – Sebuyau coastal road	52,690,000
Jalan Pusa in Sri Aman	10,000,000
Tg. Kidurong - Suai- Bakam coastal road	581,170,000
Jalan Bintulu / Similajau in Bintulu Division	27,858,000
Jalan Kabong / Nyabor / Roban in Betong	12,000,000
Jalan Ng Bangkit / Muara Lebaan in Bintangor, Sarikei Division	52,000,000
Sarikei Hospital	66,000,000
Maintenance of Federal Roads in Sarawak	366,970,500
Package 1, Site Preparation for Independent Oil Terminal, Senari, Kuching	20,762,966
Management and Maintenance of State Roads in Sarawak	1,500,000,000
EPCC of Miri Pipeline (Sector IV) Relocation / Protection Project	2,009,430
Operation buildings & Yard for 2nd Inner Harbour at Bintulu Port	116,423,776
Construction/completion of proposed Jalan Mulukun-Ng. Gaat, Kapit Division	109,000,000
<b>Total</b>	<b>3,076,591,672</b>

#### PPES Works Property Sdn Bhd

Incorporated in 1995, PPES Works Property specializes in property development and construction of commercial, industrial, institutional and residential projects. The Company's major focus for the next 10 years is the development of its 240 acre property on the Kuching Isthmus, an integral part of the Kuching Township Development Plan. Planning is underway for two design-build projects - Tunku Putra International School campus (to be completed by the end of 2005), and the proposed Sarawak Convention & Exhibition Centre (beginning in early 2004 and scheduled for completion by mid-2006).

#### PPES Properties Sdn Bhd

Incorporated in 1994, PPES Properties specializes in property development, including re-development and renovation of existing properties for rental and sale. It is currently a joint-venture partner in the development of a 30-acre mixed use property in Bintawa, Kuching. It is also developing residential properties at the exclusive Fairway Villas residential estate in Petra Jaya, Kuching.



# operations review property development



The **Property Development SBU** is dedicated to fulfilling the housing needs of Sarawak's rapidly expanding urban population. The SBU is currently developing a township on 2,115 hectares, located strategically 7km north of Kuching city centre. This new growth area, named **Bandar Baru Samariang**, aims to create a model riverine township with commanding views of Gunung Santubong and the waterways of Sungai Santubong and Batang Samariang.

The Property Development SBU saw a marked improvement in performance in 2003, registering a profit before tax of RM2.9 million, compared to a profit before tax of RM1.5 million in the previous year.

## **Projek Bandar Samariang Sdn Bhd**

Projek Bandar Samariang Sdn Bhd is a joint-venture between CMSB and the Employees Provident Fund, Board and is the owner and developer of the landmark Bandar Baru Samariang Township Project which began in 1997.

The township is being developed in phases over a 30-year period. When completed, it will be home to 200,000 residents, with 39,000 residential units and commercial and industrial developments built amongst a well-planned environment of parks, a marina, sport complexes, and educational institutions.

Phase 1, currently under development, consists of 2,500 units of rumah rakyat, nearly 3,000 units of medium cost and better quality homes, and 273 units of commercial property.





By the end of 2003, all units of rumah rakyat had been handed-over to the Housing Development Commission, whilst 635 units of medium cost houses and 56 commercial units have been completed and occupied by their new owners.

Among the highlights of 2003 for Projek Bandar Samariang was the launch of "Lakeside", offering detached lots of land and the all new double-storey semi-detached houses. The sales launch in May 2003 attracted an encouraging response for these competitively priced properties, on mixed zone land with a 99-year lease.

Another milestone was the decision by Inti College Sarawak to make Bandar Baru Samariang the site for its new Sarawak permanent campus. In August 2003, we signed a Sale & Purchase Agreement with Inti IABS Sdn Bhd for the sale of a 100-acre site. Upon completion, the purpose-built complex, comprising academic and administration buildings, hostels and other facilities, will cater to 5,000 students.

For 2004, the emphasis will be to increase the population base of the new township. To do this, the Company will maintain its competitive pricing strategy for its quality products.

In addition, development will begin on a 16-acre park featuring a lake and recreation facilities. A new 50m wide road will also be constructed during the year, providing access from the main road of Jalan Sultan Tengah (beside Sekolah Agama) to Phase 1 of Bandar Baru Samariang.

#### **Project Management and Marketing – CMS Properties Sdn Bhd**

Formed in 1994, CMS Properties is the project and marketing manager for the Bandar Baru Samariang Township Project. The Company reported a profit of RM161,000 in 2003 for marketing and management fees received from Bandar Baru Samariang.

We look forward to a further strengthening of the medium cost housing market at Bandar Samariang in 2004. With more medium cost housing units being sold, potential buyers are realizing the advantages of residing at Bandar Samariang and the good value that the properties represent. Existing buyers are also beginning to benefit from capital gains which should act as a further spur to growth for the area.

In addition, the completion of both the primary and secondary schools and the commencement of the new INTI campus in 2004 will provide a solid education infrastructure for the township. The existing commercial centre is vibrant and the release of new commercial units is much anticipated by buyers.

A 16-acre park, complete with a lake, will further enhance the quality of life of residents. The Company is also actively exploring a major recreational facility within the township.

As long as the general economic sentiment in the State and the Nation remains positive, the township has sufficient critical mass of over 15,000 residents to ensure steady growth into the future.

**Robert Geneid**  
Head of Property Development SBU

# operations review services



We are committed to continuously updating and adapting our educational practices to create an innovative and enriching programme designed to provide every student with a positive and challenging learning environment.

**Jennifer Chow**, Principal, Tunku Putra International School



CMS Group's **Services SBU** comprises businesses operating in **trading, education** and the provision of **technology application services**. Like the Cement and Construction Materials SBU, many of its activities are complementary to the Group's core businesses of finance and infrastructure, providing valuable synergy to the Group's overall business strategy.

## **Trading - PPES Trading Sdn Bhd**

PPES Trading, incorporated in 1990, is a leading supplier of water treatment chemicals, original vehicle and equipment spare parts, and ductile iron, HDPE pipes & fittings. Its subsidiary, Sara Sumber Sdn Bhd, supplies Komatsu heavy equipment spare parts. PPES Trading is a quality-driven company, having attained the ISO 9002:1994 certification in 1997, and has upgraded this certification to ISO 9001:2000 in March 2004.

Although general trading conditions improved, PPES Trading's operating profit in 2003 was much reduced at RM2.9m compared to RM4.8m in 2002. Sale of pipes and water fittings were far below expectation due to delays in two budgeted water projects. However the delays have not caused these sales to be lost; they are simply deferred to a later date.

Encouraged by improved trading conditions, the Company is now looking into the possibility of having its own sales offices in strategic locations throughout Sarawak to market CMS Group's construction materials. The medium and long term prospects for growth and increased profitability remain very positive.

With the vast business opportunities in Sarawak, particularly in the development of infrastructure projects, PPES Trading is positioning itself to be not only a supplier to the CMS Group but to external parties as well. This is expected to provide much opportunity for higher growth this year.

**Arbaeni Askam**, General Manager, PPES Trading Sdn Bhd



### **Education - Tunku Putra International School**

CMS Intpac Sdn Bhd, a joint-venture with Inti College and the renowned Prince Alfred College of Australia, owns and operates the Tunku Putra International School in Kuching. The School opened in 1997, catering to kindergarten, primary (national and international streams) and secondary (international stream). The School is a long-term investment in Sarawak's future, both in contributing to the development of the State's future leaders, and in providing educational facilities that will help attract the best talents to work in Sarawak.

At present the School has an enrolment of 265 students and a staff of 33 teachers. Classes are kept small, no larger than 25 students per class, to ensure quality attention is given to each student. The School's facilities include a computer room, library, music room, football field, playground, and basketball court. Swimming has been an on going activity at the School for the last seven years with emphasis on the children acquiring survival skills in the water. This activity has met with much success, and the School is now planning to enter for British Amateur Swimming Association Awards.

Among the highlights of 2003 were the excellent results of the School's second batch of National Primary 6 students who sat for the UPSR exams in September. Four out of the eleven students scored As in all subjects. Overall, there was a 100% pass in English and a 91% pass for Bahasa Melayu, Mathematics and Science. The School was one of five in Sarawak presented with a certificate by the Ministry of Education, Malaysia in recognition of its students' excellent performance.

A curriculum change exercise began in 2003 for the International Secondary level. The current Australian curriculum is being reviewed in preparation for the introduction of the International General Certificate of Secondary Education (IGCSE), which will involve an external examination, giving students pre-entry qualifications to continue their studies overseas.

The School stepped up its community awareness efforts in 2003. Issues concerning the environment were highlighted to the students, whilst real-life learning involved participation in several local environmental projects to raise awareness and funds. By making donations to the Sarawak Society for the Prevention of Cruelty in Animals (SSPCA) and sending a cheque to the World Wildlife Fund (WWF), the children felt a sense of achievement beyond that of merely reading about the challenges such organisations face. On-going environmental issues will continue to be an integral part of class discussions and problem-solving exercises for the foreseeable future.

CMS Intpac reported an operating loss of RM572,000 in 2003. CMS Group feels that such losses are fully sustainable in the short term, given the enormous social and intellectual contribution the School makes to society, and its excellent long-term prospects.

These prospects will start to be fully realized when the School moves to its new purpose-built campus, part of the Kuching Isthmus development, which is currently in the early stages of design and construction.

### **Technology Application Services – CMS Digital Sdn Bhd**

CMS Digital, an MSC-status company acquired and renamed in 2002, represents CMS Group's initial foray into the growing ICT (Information, Communication and Technology) sector. The Company intends to specialize in developing and providing technology applications in the following areas:

- Broadband network solution design and integration
- Enterprise-wide IT systems integration
- Applications and multimedia solutions development

CMS Digital currently provides consulting services to the CMS Group in areas related to the introduction and operation of enterprise e-business solutions, aimed at achieving quantifiable improvements to business processes in the Group's enterprise resource management. Implementation of these services, coupled with smart alliances with established industry players, will enable CMS Digital to offer strategic and competitive IT solutions and services to its focused market segments of e-Government, healthcare, utilities and telecommunications.

CMS Digital reported a loss of RM426,000 for the year of 2003. This was within expectations as the Company is still in its formative phase. It is currently pursuing several business opportunities that will enhance its future revenue stream.



# operations review banking



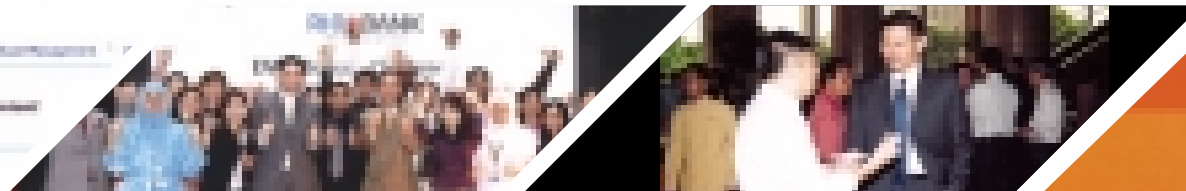
CMS Group's banking investments are represented by its 52% stake in Utama Banking Group Berhad (UBG) which is the largest shareholder (with a 32% stake) in RHB, Malaysia's third largest financial services group. UBG is also the majority shareholder in Utama Merchant Bank Berhad (UMBB).

## **Completion of the Financial Services Merger**

The merger of RHB Bank with Bank Utama was completed in 2003, reaffirming RHB Bank's position as the third largest financial institution in Malaysia.

"Merger Day One" on 1 May 2003 marked the vesting of assets and liabilities of the former Bank Utama into RHB Bank; thereby bridging the two banks to establish a platform for both banks to work together as one. Respective areas of expertise have been used to further enhance and streamline RHB Bank's range of products and services, which have meant more benefits for the Bank's valued customers.

Following that, "Systems Day One" on 18 August 2003 marked the total systems integration of both RHB Bank and Bank Utama. With the IT platforms now operating as a single platform, RHB Bank became a bigger and stronger bank, with an extended network of 200 branches nationwide, 470 ATMs, a stronger presence in East Malaysia, and the promise of more innovative value-added products and services.





Laying the foundation to support future business growth became the target for the rest of 2003. The Group made much progress during the year through various efforts which included :

- Stronger management of NPLs to maximize recoveries and minimize provisions.
- Improved credit management.
- Continued growth in consumer banking through home loans, credit cards and wealth management. RHB Bank's home loan campaigns were stepped up in 2003, helping to build on its position as the country's second largest home loans provider. In credit cards, apart from aggressive sales campaigns, the RHB Platinum and the EVO Mastercard were launched.
- Providing better client focus through corporate banking and commercial banking. An example was the 2003 RHB Investor Forum, themed Managing Volatility in a Riskier World. The event was held in June and attended by some 400 corporate clients and participants.
- Expansion of the Bank's Islamic banking products and delivery channels.
- Strengthening the Bank's fixed income and forex businesses.
- Introducing new products and services such as Internet banking.
- Rationalisation of the Group's securities and securities-related services companies with the resources of its merchant bank to transform RHB Sakura into an investment banking group.

RHB Group's focus today is to improve profitability and operational efficiencies. With assets of RM73 billion as at end of December 2003, the Group is actively expanding and strengthening its customer base in order to cross-sell its products and services. This is in line with RHB's long-term goal to establish itself as Malaysia's premier financial products and services group, recognized for innovative products and its service standards.

RHB Group's performance in 2003 showed much improvement. For its financial year ended June 2003, RHB registered a profit after Irredeemable Non-Cumulative Convertible Preference Shares (INCPS) dividend but before tax and minority interest of RM111.9 million, compared to a loss of RM88.4 million in the previous year. And for the six months ended 31 December 2003, RHB Group's profit after INCPS dividend but before tax and minority interest was up 100% to RM153.2 million.

#### **Utama Merchant Bank Berhad**

Utama Merchant Bank Berhad (UMBB) recorded a profit before tax of RM25,000 in 2003. Net loans stood at RM211 million as at end of 2003, whilst investment in money market instruments doubled to RM334.6 million from the previous year.

On the sale of UBG's 85.1% stake in UMBB, negotiations with Hong Leong Credit Berhad were terminated in October 2003. Negotiations then commenced with Malaysian Industrial Development Finance Berhad. The agreed terms and conditions of the sale were approved by the Minister of Finance in April 2004, and the Share Sales Agreement was signed on 6 May 2004.

#### **Utama Banking Group Berhad – 2003 Financial Highlights**

Overall, CMS Group's share of loss from UBG for the year was RM13.85 million. This was mainly attributed to its share of RHB's loss after INCPS dividends and minority interest, an impairment of loss on RHB warrants and an operating loss at the company-level.

As at end of 2003, UBG's total assets stood at RM1.87 billion, whilst total shareholders' funds were RM953 million.

The performance of CMS Group's banking operations in 2004 will be dependent on the successful completion of the sale of Utama Merchant Bank Berhad and the results of RHB Group. Given the synergies to be tapped and an expanded customer base resulting from the merger with Bank Utama, the outlook for RHB Group is excellent. The current positive economic environment also augurs well for the newly strengthened financial services group.

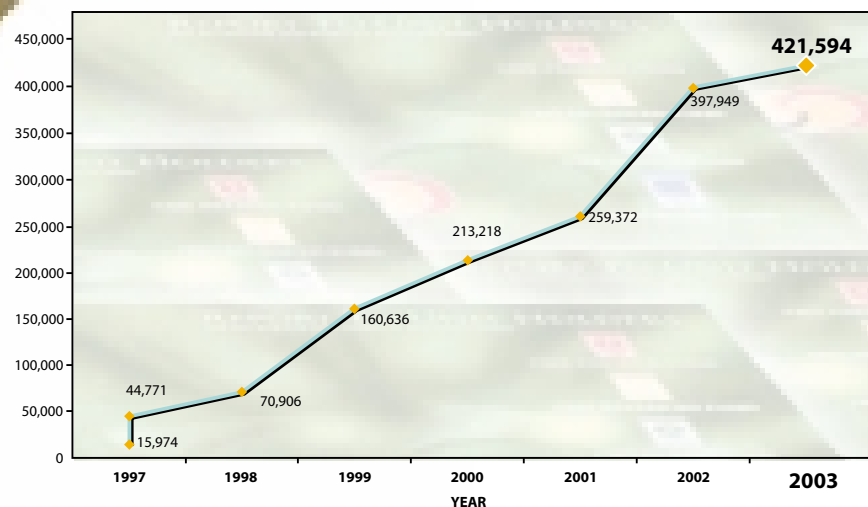
**Dato Sri Sulaiman Abdul Rahman Taib**, representing Head of Banking SBU

# operations review other financial services

The **Securities and Related Financial Services SBU** complements the Banking SBU, giving the Group a balanced and diversified presence in the Malaysian financial services sector. This SBU is involved in **stock-broking, funds management, unit trust management** and **mezzanine financing**. Despite challenging stock-market conditions throughout the year, this SBU reported RM5.1 million in operating profits for 2003, compared to RM5.2 million in the previous year.

## **Unit Trust Management - CMS Trust Management Berhad**

Having launched its maiden fund in November 1996, CMS Trust Management Berhad now manages 4 funds, namely CMS Premier Fund, CMS Balanced Fund, CMS Islamic Fund, and CMS Bond Fund. These funds cater to a broad spectrum of investors with various investment needs and risk tolerance levels.



### **CMS Trust Management**

Total Net Asset Value 31 Dec 1996 - 31 Dec 2003

CMS Premier Fund has consistently been a top performer, winning accolades for its rate of investment returns. In early 2004, for the third consecutive year, CMS Premier Fund was the winner of the "No. 1 Equity Growth Fund" for the 5-year category at The Edge-Lipper Malaysia Unit Trust Fund Awards, having chalked up a total return of 130.64% over the period as at 31 December 2003. It is consistency of performance such as this which delivers superior returns to investors.





In 2003, CMS Trust Management's total sales were RM113 million with a pre-tax profit of RM2.3 million. Total Net Asset Value (NAV) of all funds under management as at 31 December 2003 stood at RM421.6 million, with 778.2 million units in circulation.

#### **Funds Management - CMS Dresdner Asset Management Sdn Bhd**

CMS Dresdner Asset Management Sdn Bhd is a joint-venture between CMS Group and the Allianz Dresdner Asset Management Group, one of Europe's largest integrated financial services groups, with assets under management of over 1 trillion Euros.

CMS Dresdner's clients include CMS Trust Management, the Employees Provident Fund Board (EPF) and a broad portfolio of institutional and private clients. CMS Dresdner has been largely responsible for the excellent performance of CMS Trust Management's unit trusts since their inception. It reported an operating profit of RM1.7 million in 2003, due to higher management fees received, with an increase in funds under management to nearly RM700 million.

CMS Dresdner was recently announced winner of the "Best One-year Realised Return Equity Fund Manager 2003" award by the EPF.

#### **Mezzanine Financing - CMS Mezzanine Sdn Bhd**

Mezzanine lending has become increasingly challenging, and a decision has been made for the Group to withdraw from this business. However, as part of the withdrawal process, the Company reported an exceptional book profit of RM22 million in 2003, achieved from the sale of its land in Johor Bahru.

#### **Stock-broking - K&N Kenanga Holdings Berhad**

CMS Group holds a 25% stake in K&N Kenanga Holdings Berhad (K&N). This makes CMSB the largest single shareholder of one of Malaysia's leading stockbrokers.

K&N has a large remisier and dealer base and strategically-located branches in the growth areas of the Klang Valley, Johor, Sarawak and Penang.

In 2003, along with the rest of the Malaysian stock-broking industry, K&N faced poor market sentiment in the first 6 months of year, which improved in the remaining 6 months. Despite these adverse trading conditions, CMS Group was able to reap a profit of RM3.8 million in 2003 from its investment. Stronger sentiment going forward should see improving results from this activity.

We are on-track to tap the tremendous potential from markets in West Malaysia through the KL Regional Office and Penang Agency Office. The southern region is our next target.

In addition, the aggressive push by institutional unit trust agents (IUTA) is a very important aspect of our business expansion, with promising business growth through this distribution channel.

The recent announcement by Bank Negara Malaysia (BNM) to allow a unit trust fund the freedom to invest up to 10% of its net asset value (NAV) in overseas markets effective 1 April 2004 has been most welcome. We are in an advantageous and unique position, compared to most, if not all other fund houses, in view of CMS Dresdner's (our fund manager) expertise and infrastructure as a global fund manager. And with BNM's approval to allow a fund subscribed by non-residents the freedom to invest up to 100% of its NAV overseas, we are looking at the prospects of tapping the regional markets by launching global investment funds.

**S. Kumaravelloo Pillai**  
CEO, CMS Trust Management Berhad

