CAHYA MATA SARAWAK BERHAD

(Company No: 21076-T)

(Incorporated in Malaysia)

Interim Financial Report

Condensed consolidated statements of comprehensive income for the period ended 31 March 2019

	Note	3 months ended 31.03.2019 RM'000	3 months ended 31.03.2018 RM'000	Changes (%)	3 months ended 31.03.2019 RM'000	3 months ended 31.03.2018 RM'000	Changes (%)
Revenue	A8	418,177	354,987	18%	418,177	354,987	18%
Cost of sales		(349,700)	(308,001)		(349,700)	(308,001)	
Gross profit		68,477	46,986	46%	68,477	46,986	46%
Other income		12,974	3,341		12,974	3,341	
Administrative expenses		(16,963)	(13,448)		(16,963)	(13,448)	
Selling and marketing expenses		(4,688)	(4,411)		(4,688)	(4,411)	
Other expenses		(2,114)	(5,324)		(2,114)	(5,324)	
Operating profit		57,686	27,144	113%	57,686	27,144	113%
Finance costs		(8,755)	(7,640)		(8,755)	(7,640)	
Share of results of associates		13,348	36,050		13,348	36,050	
Share of results of joint ventures		157	1,404		157	1,404	
Profit before taxation		62,436	56,958	10%	62,436	56,958	10%
Income tax expense	B5	(13,763)	(13,404)		(13,763)	(13,404)	
Profit for the period		48,673	43,554	12%	48,673	43,554	12%
Other comprehensive income							
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:							
Foreign currency translation		0	(4)		0	(4)	
Share of other comprehensive income of associates		2,764	(5,055)		2,764	(5,055)	
Share of other comprehensive income of joint ventures		0	(23)		0	(23)	
Other comprehensive income for the period		2,764	(5,082)		2,764	(5,082)	
Total comprehensive income for the period		51,437	38,472	34%	51,437	38,472	34%
Profit attributable to:							
Owners of the Company		40,763	38,977	5%	40,763	38,977	5%
Non-controlling interests		7,910	4,577		7,910	4,577	
		48,673	43,554		48,673	43,554	
Total comprehensive income attributable to:							
Owners of the Company		43,492	33,927		43,492	33,927	
Non-controlling interests		7,945	4,545		7,945	4,545	
		51,437	38,472		51,437	38,472	
		sen	sen		sen	sen	
Earnings per share attributable to owners of the Company:							
Basic/diluted	B13	3.80	3.63		3.80	3.63	

The condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to the interim financial report.

Cahya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of financial position as at 31 March 2019

	Note	Unaudited As at 31.03.2019 RM'000	Audited As at 31.12.2018 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		943,002	746,217
Prepaid land lease payments		41,913	42,508
Land held for property development		227,441	227,629
Investment properties		5,127	5,156
Right-of-use assets		95,046	0
Intangible assets		7,680	726
Goodwill		83,233	62,954
Investments in associates		869,907	979,791
Investments in joint ventures		23,956	23,916
Deferred tax assets		14,044	19,034
Other receivables		54,536	50,182
Investment securities		4,269	3,958
		2,370,154	2,162,071
Current assets			
Property development costs		190,717	192,993
Inventories		325,062	334,248
Trade and other receivables		468,937	314,038
Other current assets		111,283	81,985
Investment securities		102,402	100,201
Derivative financial asset		81,271	81,271
Tax recoverable		5,896	7,017
Cash and bank balances		734,700	920,539
		2,020,268	2,032,292
TOTAL ASSETS		**4,390,422**	**4,194,363**
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		867,902	867,902
Treasury shares		(8,564)	(12,277)
Other reserves		13,173	13,589
Retained earnings		1,721,164	1,679,692
		2,593,675	2,548,906
Non-controlling interests		507,220	367,305
Total equity		3,100,895	2,916,211
Non-current liabilites			
Deferred tax liabilities		39,936	35,947
Loans and borrowings	**B7**	647,937	562,628
Trade and other payables		68,599	61,859
		756,472	660,434
Current liabilities			
Income tax payable		11,557	18,109
Loans and borrowings	**B7**	53,255	53,905
Trade and other payables		437,694	454,659
Other current liabilities		30,549	91,045
		533,055	617,718
Total liabilities		1,289,527	1,278,152
TOTAL EQUITY AND LIABILITIES		**4,390,422**	**4,194,363**
Net assets per share attributable to ordinary owners of the Company (RM)		**2.42**	**2.38**

The condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to the interim financial report.

Cahya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of changes in equity for the period ended 31 March 2019

		< ---------- Attributable to Owners of the Company ---------- >					
			< ---------- Non-distributable ---------- >			Distributable	
	Total equity RM'000	**Total RM'000**	**Share capital RM'000**	**Treasury shares RM'000**	**Other reserves RM'000**	**Retained earnings RM'000**	**Non-controlling interests RM'000**
At 1 January 2019	2,916,213	2,548,906	867,902	(12,277)	13,589	1,679,692	367,307
Profit net of tax	48,673	40,763	0	0	0	40,763	7,910
Other comprehensive income, net of tax	(952)	(987)	0	0	(987)	0	35
Total comprehensive income	47,721	39,776	0	0	(987)	40,763	7,945
Transactions with owners:-							
Acquisition of treasury shares	(8,064)	(8,064)	0	(8,064)	0	0	0
Disposal of treasury shares	13,169	13,169	0	11,777	0	1,392	0
Total transactions with owners	5,105	5,105	0	3,713	0	1,392	0
Acquisition of a subsidiay	8,423	0	0	0	0	0	8,423
Deemed acquisition of a subsidiary	123,550	0	0	0	0	0	123,550
Share of associates' reserves	0	0	0	0	571	(571)	0
Share of joint ventures' reserves	(117)	(112)	0	0	0	(112)	(5)
At 31 March 2019	3,100,895	2,593,675	867,902	(8,564)	13,173	1,721,164	507,220

Cahya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of changes in equity for the period ended 31 March 2019

		< -------------- Attributable to Owners of the Company -------------- >				
			< ----- Non-distributable ------ >		Distributable	
	Total equity	**Total**	**Share capital**	**Other reserves**	**Retained earnings**	**Non-controlling interests**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2018 (Restated)	2,679,645	2,350,269	867,902	9,092	1,473,275	329,376
Effect of adoption of MFRS 15	3,946	3,810	0	0	3,810	136
As restated	2,683,591	2,354,079	867,902	9,092	1,477,085	329,512
Profit net of tax	43,554	38,977	0	0	38,977	4,577
Other comprehensive income, net of tax	(5,082)	(5,050)	0	(5,050)	0	(32)
Total comprehensive income	38,472	33,927	0	(5,050)	38,977	4,545
Share of associates' reserves	0	0	0	1,235	(1,235)	0
At 31 March 2018	2,722,063	2,388,006	867,902	5,277	1,514,827	334,057

Cahya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of cash flows for the period ended 31 March 2019

	3 months ended 31.03.2019 RM'000	3 months ended 31.03.2018 RM'000
Profit before taxation	62,436	56,958
Adjustments for non-cash items:		
Non-cash items	(5,236)	(20,312)
Operating cash flows before changes in working capital	57,200	36,646
Changes in working capital		
Increase in current assets	(66,693)	(41,239)
Decrease in non-current assets	188	13,385
Increase in right-of-use assets	(96,797)	0
Decrease in current liabilities	(103,754)	(125,862)
Increase in non-current liabilities	5,740	1,559
Increase in lease liabilities	96,797	0
Cash flows used in operations	(107,319)	(115,511)
Interest received	7,146	8,227
Interest paid	(1,784)	(7,678)
Income tax paid, net of refund	(13,912)	(15,416)
Net cash flows used in operating activities	(115,869)	(130,378)
Investing activities		
Acquisition of investment securities	(1,202)	(719)
Acquisition of investment properties	0	(196)
Acquisition of property, plant and equipment	(16,810)	(6,399)
Distribution of profits from joint ventures	0	3,746
Dividends from investments	941	70
Net cash outflow from acquisition of a subsidiary	(26,158)	0
Net cash outflow arising from deemed acquisition of a subsidiary	(14,656)	0
Proceeds from disposal of property, plant and equipment	266	283
Advancement of shareholders' loan	(5,300)	0
Others	16	0
Net cash used in investing activities	(62,903)	(3,215)
Financing activities		
Acquisition of treasury shares	(8,064)	0
Deposit pledged to a licensed bank	(1,400)	0
Drawdown of borrowings	1,500	0
Repayments of borrowings	(12,410)	(7,865)
Net proceeds from disposal of treasury shares	13,169	0
Repayment of lease liabilities	(1,228)	0
Net cash used in financing activities	(8,433)	(7,865)
Net decrease in cash and cash equivalents	(187,205)	(141,458)
Effect of foreign exchange changes in cash and cash equivalents	(34)	(866)
Cash and cash equivalents as at 1 January	918,440	975,781
Cash and cash equivalents as at 31 March	731,201	833,457
Cash and cash equivalents as at 31 March comprised the following:		
Cash and short term deposits	734,700	835,511
Less: Deposits pledged to licensed banks	(3,499)	(2,054)
	731,201	833,457

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to the interim financial report.

Part A – Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

These condensed consolidated interim financial statements, for the period ended 31 March 2019 are unaudited and have been prepared in accordance with MFRS 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2018.

A2. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2019, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2019.

- Annual Improvements to MFRS Standards 2015 - 2017 Cycle:
  - (i) Amendments to MFRS 3: Business Combinations
  - (ii) Amendments to MFRS 11: Joint Arrangements
  - (iii) Amendments to MFRS 112: Income Taxes
  - (iv) Amendments to MFRS 123: Borrowing Costs
- Amendments to MFRS 9: Prepayment Features with Negative Compensation
- Amendments to MFRS 119: Employee Benefits - Plan Amendment, Curtailment or Settlement
- Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures
- MFRS 16: Leases
- IC Interpretation 23: Uncertainty over Income Tax Treatments

(a) Annual Improvements to MFRS Standards 2015 - 2017 Cycle

The Annual Improvements to MFRS Standards 2015 - 2017 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Group's and the Company's financial statements.

A2. Changes in accounting policies (contd.)

(a) Annual Improvements to MFRS Standards 2015 - 2017 Cycle (contd.)

(i) Amendments to MFRS 3: Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019.

(ii) Amendments to MFRS 11: Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in MFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies these amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019.

(iii) Amendments to MFRS 112: Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies these amendments for annual reporting periods beginning on or after 1 January 2019. When an entity first applies these amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

(iv) Amendments to MFRS 123: Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies these amendments to borrowing costs incurred on or after the beginning of the annual reporting periods beginning on or after 1 January 2019.

A2. Changes in accounting policies (contd.)

(b) Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies MFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). In applying MFRS 9, an entity does not account for any losses of the associate, or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying MFRS 128 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions. As the amendments eliminate ambiguity in the wording of the standard, the directors of the Company do not expect the amendments to have any impact on the Group's and the Company's financial statements.

(c) MFRS 16: Leases

MFRS 16 replaced MFRS 117 Leases, IC Interpretation 4 Determining Arrangements contains a Lease, IC Interpretation 115 Operating Lease - Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has applied MFRS 16 using modified retrospective approach and comparative information for 2018 has not been restated.

The Group assesses each contract whether an arrangement was or contained a lease under IC Interpretation 4 Determining Arrangements contains a Lease. Under MFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to MFRS 16, the Group elected to apply the new definition of a lease to all the contracts.

As a Lessor

The Group leases some its properties and were classified as operating lease. The accounting policies for the Group as a lessor remained the same as in MFRS 117. Hence, no requirement for any adjustments on the transition to MFRS 16 to be made.

As a Lessee

The Group leases many assets, comprising land, properties, vessel, vehicle and equipment. As a lessee, previously the Group classified leases as operating leases or finance lease based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under MFRS 16, the Group recognises right-of-use assets and lease liabilities for most of its operating leases – these leases are on-balance sheet at initial application. At transition, the right-of-use asset is measured at an amount equal to lease liability whilst the lease liability is measured at the present value of the remaining lease payments using the Group's incremental borrowing rate.

A2. Changes in accounting policies (contd.)

(c) MFRS 16: Leases (contd.)

When applying the modified retrospective approach, the Group has applied the following practical expedients on a lease-by-lease basis to the previous operating lease:

i. Apply a single discount rate to a portfolio of leases with reasonable similar characteristics;
ii. Account for leases which the lease term ends within 12 months from the date of initial application as short-term lease;
iii. Exclude initial direct costs from the measurement of the right-to-use asset at the date of initial application; and
iv. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has applied commercial judgement to determine the lease term for those leases with renewal options and this in turn will impact on the amount of right-to use assets and lease liabilities recognised. The Group has elected not to recognise right-of use assets and lease liabilities for low value assets and short-term leases. The lease payments for these leases are expense on a straight-line basis over the lease term.

As a result of the adoption of MFRS 16 in respect of the leases previously classified as operating lease, the Group recognised RM96,796,816 of right-of-use assets and lease liabilities. The Group discounted lease payments at weighted average rate of 5%. Accordingly, the Group has recognised amortisation of right-of-use assets of RM1,750,555 and finance costs of RM1,266,223 for these leases for the three months ended 31 March 2019.

(d) IC Interpretation 23: Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112 and does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the estimation of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Group and the Company will apply the interpretation from its effective date.

A3. Seasonal or cyclical factors

The business operations of the Group are generally non-cyclical or seasonal. Ordinarily, however, there is a lower level of activity during the 1st quarter of the year.

A4. Unusual items due to their nature, size and incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the period ended 31 March 2019.

A5. Changes in estimates

There were no changes in estimates that have had a material effect on the current quarter's results.

A6. Debt and equity securities

During the current quarter ended 31 March 2019, the Company repurchased 2,490,700 of its issued ordinary shares from the open market at an average price of RM3.24 per share. The total consideration paid for the repurchase including transaction costs was RM8,064,448 and this was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 127 (4) of the Companies Act 2016.

During the current quarter ended 31 March 2019, the Company had resold 4,250,000 treasury shares from the open market for a total consideration of RM13,168,710, net of commission. After the resale of the treasury shares, the Company holds 2,671,100 treasury share in its books.

A7. Dividends paid

There was no dividend paid during the quarter ended 31 March 2019.

A8. Segmental information

	3 months ended	
	31.03.2019	31.03.2018
	RM'000	RM'000
Segment Revenue		
Cement	146,393	131,826
Construction materials & trading	113,013	93,928
Construction & road maintenance	129,749	111,361
Property development	44,545	26,278
Strategic investments	2,478	2,531
Others	19,394	16,900
Total revenue including inter-segment sales	455,572	382,824
Elimination of inter-segment sales	(37,395)	(27,837)
	418,177	354,987
Segment Results		
Operating profit/(loss):		
Cement	10,997	6,571
Construction materials & trading	20,978	9,187
Construction & road maintenance	15,331	18,130
Property development	15,079	2,001
Strategic investments	(2,346)	(573)
Others	(1,726)	(3,552)
	58,313	31,764
Unallocated corporate expenses	(9,382)	(12,260)
Share of results of associates	13,348	36,050
Share of results of joint ventures	157	1,404
Profit before tax	62,436	56,958
Income tax expenses	(13,763)	(13,404)
Profit for the year	48,673	43,554

A9. Changes in composition of the Group

There have been no changes in the composition of the Group for the quarter ended 31 March 2019, except for the following:

(a) On 14 January 2019, the Group subscribed for an additional 64,242,800 new ordinary shares in Malaysian Phosphate Additives (Sarawak) Sdn. Bhd. ("MPASSB") through its wholly-owned subsidiary, Samalaju Industries Sdn. Bhd. ("SISB"), for a total cash consideration of RM64,242,800, thereby increasing the total equity in this associate from 49.94% to 60%. Subsequent to the share subscription, MPASSB became a subsidiary of SISB.

(b) On 28 February 2019, the Group completed the acquisition of 56,000 ordinary shares, representing 56% of the equity interest in Borneo Granite Sdn. Bhd. ("BGSB"), through its 51% owned subsidiary, CMS Resources Sdn. Bhd. ("CMSR"), for a total cash consideration of RM31,000,000. Following the acquisition, BGSB became a subsidiary of CMSR.

(c) On 4 March 2019, PPES Works (Sarawak) Sdn. Bhd. ("PPESW"), a 51% owned subsidiary company of CMS Works Sdn. Bhd. ("CMSW"), which in turn is a wholly owned subsidiary company of the Company, incorporated a joint venture company, PPES Works CCCC JV Sdn. Bhd. ("PPESW CCCC JV").

PPESW CCCC JV was incorporated as a private company limited by shares with initial issued share capital of RM10.00 comprising ten (10) ordinary shares, is 70% held by PPESW and 30% by China Communications Construction Company (M) Sdn. Bhd..

The purpose of PPESW CCCC JV is to participate in the tender for the construction and completion of (1) The Balance of Works to Complete the Coastal Road Network, Sarawak; (2) The Second Trunk Road, Sarawak; if successful, to be the joint venture vehicle to execute the said projects.

A10. Fair value of instruments

(a) Determination of fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments, by class, which are not carried at fair value in the financial statements. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

	31 March 2019		**31 December 2018**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	RM'000	RM'000	RM'000	RM'000
Financial liabilities:				
Interest-bearing loans and borrowings				
- Bankers' acceptances	1,500	1,500	4,900	4,900
- Term loans	78,015	78,015	83,372	83,372
- Obligation under finance lease	1,108	1,108	1,261	1,261
- Revolving credits	25,000	25,000	27,000	27,000
- Lease liabilities	95,569	95,569	-	-
- Islamic medium term notes	500,000	517,652	500,000	516,975
	701,192	718,844	616,533	633,508

A10. Fair value of instruments (contd.)

(b) Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices in active markets for identical assets or liabilities,

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at the reporting date, the Group held the following financial assets and liabilities that were measured at fair value by level of fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total**
	RM'000	RM'000	RM'000	RM'000
31 March 2019				
Financial assets				
Investment securities				
- Income debt securities fund	-	98,202	-	98,202
- Real Estate Investment Trust	4,200	-	-	4,200
- Redeemable preference shares	-	-	4,269	4,269
Derivative financial assets	-	-	81,271	81,271
	4,200	98,202	85,540	187,942
31 December 2018				
Financial assets				
Investment securities				
- Income debt securities fund	-	96,101	-	96,101
- Real Estate Investment Trust	4,100	-	-	4,100
- Redeemable preference shares	-	-	3,958	3,958
Derivative financial assets	-	-	81,271	81,271
	4,100	96,101	85,229	185,430

There have been no transfers between any levels during the current interim period and the comparative period.

A11. Capital & other commitments

The amount of commitments not provided for in the interim financial statements as at 31 March 2019 and 31 December 2018 was as follows:

Capital commitments

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Approved and contracted for:		
- Property, plant and equipment	378,701	39,476
- Investments in associates	22,661	-
- Investments in redeemable preference shares in joint ventures	49,601	49,911
	450,963	89,387
Approved but not contracted for:		
- Property, plant and equipment	345,705	312,274
- Intangible assets	4,310	4,310
- Investments in associates	190,000	271,314
	540,015	587,898
	990,978	677,285

A12. Changes in contingent liabilities and contingent assets

There were no material changes in the contingent liabilities or contingent assets since the last annual reporting date.

A13. Related party transactions

The following table provides information on the transactions which have been entered into with related parties during the period ended 31 March 2019 and 31 March 2018 as well as the balances with the related parties as at 31 March 2019 and 31 March 2018:

		Interest/fee/ rental income from/sales to related parties RM '000	Purchases from/payment for services to related parties RM '000	Amounts owed by related parties RM '000	Amounts owed to related parties RM '000
Associates:					
- Kenanga Investment Bank Bhd	2019	863	-	-	-
	2018	1,704	-	-	-
- KKB Engineering Bhd and its subsidiary	2019	-	4,491	-	-
	2018	-	9,613	-	5,648
- Kenanga Investors Bhd	2019	-	-	-	-
	2018	-	-	-	-
- Sacofa Sdn Bhd	2019	482	10	175	9
	2018	439	66	161	278
- OM Materials (Sarawak) Sdn Bhd	2019	2,696	-	10,935	-
	2018	2,285	-	7,188	-
Joint Ventures:					
- PPES Works Wibawa	2019	-	-	-	-
	2018	-	-	-	-
- PPES Works Naim Land	2019	-	-	-	-
	2018	58	-	52	-
- PPES Works Larico	2019	242	-	532	-
	2018	320	-	363	-
- PPES Works PCSB	2019	8	-	131	
	2018	218	2,216	197	2,216
- COPE Private Equity Sdn Bhd	2019	13	-	4	-
	2018	28	-	10	-
Others					
- A corporate shareholder	2019	157	-	-	-
	2018	3,892	-	3,892	-
Key management personnel of the Group:					
- Directors' interests	2019	-	1,784	-	718
	2018	-	1,482	-	396

All outstanding balances with these related parties are unsecured and are to be settled in cash within the financial year.

Part B – Explanatory notes pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

B1. Review of performance

Year-to-date, 2019 ("PE2019") vs Year-to-date, 2018 ("PE2018")

Revenue increased by 18% while profit before tax (PBT) and profit after tax and non-controlling interest (PATNCI) increased by 10% and 5% respectively in comparison to the preceding year's corresponding period.

All Divisions except the Strategic Investment Division reported higher revenue in PE2019 compared to PE2018.

However, all Divisions except the Construction & Road Maintenance Divisions reported higher PBT.

The Strategic Investment Division reported higher losses in PE2019 due to higher losses from the education subsidiary and losses from Malaysian Phosphate Additives (S) Sdn. Bhd. (MPAS). Previously, MPAS was classified under associates.

PBT and PATNCI improved in PE2019 due to higher revenue and gross profit margin. The higher gross profit margin was attributable to a land sale by the Property Development Division. However, this has been partially negated by lower share of results of associates and joint ventures.

The performances of the Group's respective Divisions are analysed as follows:

(a) **Cement Division -** reported a 67% higher PBT of RM11.00 million in PE2019 over PE2018's PBT of RM6.57 million. The better performance was mainly due to 11% higher revenue and lower clinker production cost per MT resulting from 24% higher production volume as well as lower repair costs. The repair costs were lower in PE2019 as the annual maintenance shutdown in January 2019 at the clinker plant was shorter in comparison to the shutdown in January 2018 which was considered a major overhaul of the aging clinker plant then. Sales volume of cement and concrete products have increased by 9% and 70% respectively.

(b) **Construction Materials & Trading Division -** reported a strong PBT of RM20.98 million for PE2019, which was 128% higher than the PBT of RM9.19 million for PE2018. The higher PBT was attributable to 20% higher revenue, 2% higher gross profit margin and a reversal of provision for soil erosion remedial work. Excluding the reversal of provision, the Division's PBT for PE2019 would still be higher than PE2018.

(c) **Construction & Road Maintenance Division -** reported a lower PBT of RM15.33 million in PE2019, which was 15% lower than PE2018's profit of RM18.13 million (excluding share of results of joint ventures), despite 17% higher revenue. This was mainly due to 4% lower overall gross profit margin as a result of cost revisions in projects and higher road maintenance costs.

B1. Review of performance (contd.)

Year-to-date, 2019 ("PE2019") vs Year-to-date, 2018 ("PE2018") (contd.)

(d) **Property Development Division -** reported an excellent PBT of RM15.08 million in PE2019 in comparison to a PBT of RM2.00 million in PE2018, representing an increase of 654%. This was mainly attributable recognition of a land sale, higher number of condominium units sold and higher rental income from unsold apartments.

(e) **Strategic Investments Division** - reported a higher loss of RM2.35 million in PE2019 as compared to a loss of RM573 thousand in PE2018.

(f) **Others** – reported a lower loss of RM0.40 million PE2019 as compared to a loss of RM3.55 million in PE2018 due mainly to lower foreign exchange loss.

(g) **Unallocated corporate expenses** – CMSB recorded a lower loss in PE2019 compared to PE2018 mainly due to higher dividend income from investment securities and net fair value gain on investment securities.

(h) **Share of results of joint-ventures -** recorded a lower share of profit of RM157 thousand compared to RM1.40 million in PE2018.

B2. Material changes in profit before tax for the quarter (Quarter 1, 2019 vs Quarter 4, 2018)

	1st Qtr 2019 RM'000	4th Qtr 2018 RM'000	Changes %
Revenue	418,177	496,812	-16%
Gross profit	68,477	96,680	-29%
Share of results of associates	13,348	6,141	117%
Profit before tax	62,436	83,076	-25%

The Group's PBT for 1Q19 was 25% lower than 4Q18 due to lower revenue and lower gross profit margin but partially mitigated by higher share of results of associates. Generally, first quarter's result is normally affected by the wet and festive seasons. In addition, 4Q18 PBT had been enhanced by gain on sale of irredeemable convertible preference shares in OM Materials (Sarawak) Sdn Bhd and fair value gain on investment in SACOFA warrants.

The Cement Division's PBT for 1Q19 was lower than 4Q18 mainly due to higher repair costs and higher clinker costs.

The Construction Materials & Trading Division's revenue for 1Q19 was significantly lower than 4Q18. This had been offset by the reversal of provision for soil erosion remedial works.

B2. Material changes in profit before tax for the quarter (Quarter 1, 2019 vs Quarter 4, 2018) (contd.)

The Construction & Road Maintenance Division's revenue and PBT for 1Q19 were lower than 4Q18 due to less instructed work and costs revisions for certain projects.

The Property Development Division reported better performance in 1Q19 compared to 4Q18 mainly due to recognition of a land sale.

B3. Prospects for the year ending 31 December 2019

The operating environment is expected to remain challenging which the Group is well positioned to overcome due to its robust financial portfolio of diversified and strategic Sarawak-based businesses.

We remain focused on growing our portfolio of businesses by taking advantage of the opportunities in Sarawak especially in the area of energy intensive businesses. With our increasingly strong business fundamentals, coupled with other measures taken by Management including steps taken to position the Group for long term sustainable revenue and profitability growth, we are confident to deliver a satisfactory financial performance for the year 2019.

The prospects on each Division for the remaining period of the financial year are as follows:

The Cement division started the year with higher PBT against previous year's corresponding period, mainly due to higher sales volume. Going forward, Management is optimistic in achieving the sales target for year 2019. Overall operation costs were within manageable level for 1Q19 but imported clinker prices are expected to increase. For the next 6 months or more, the clinker prices are not expected to have the big price hike as in year 2018 and therefore, stable clinker costs are expected for 2nd and 3rd quarters of 2019.

The Construction Materials and Trading Division is expected to have mixed results in 2019 for the performance of the various operations. Quarry and Trading operations is expected to perform well but the premix operation would experience tough competition. The quarry and premix operations combined had secured RM141 million worth of orders from JKR under the 2019 Phase I funding for MARRIS program. In addition, many outstanding orders from the private sector are still lining up to be supplied on top of the already secured DCR supply to package 5 and package 6 of the Pan Borneo Highway project. However, the premix operation seemed to lose its competitive ground in the private sector due to entry of new players especially in the northern region as well as the Pan Borneo Highway project works contractors who had set up their own premix plants producing not only for their own packages but also selling to the private sector as well. Nevertheless, Management would relook at its pricing strategy to go for tight margin with high volume. In view of the acute shortage of crushed aggregates and limestone quarry sand, market prices had increased by RM2 to RM4 per ton. The quarry operation has benefited from the price increase but premix operations would suffer higher production cost and depressed margin.

B3. Prospects for the year ending 31 December 2019 (contd.)

The Construction & Road Maintenance Division is focusing on positioning itself to increase its order book through major new infrastructure projects recently announced by the State Government. Its second major focus is on the long term renewal of the State Road Maintenance Contract where it is well positioned as it has a full team of staff on-board, the investment it has made in state of the art equipment and the experience that it has gained over the last 16 years.

The Property Development Division's main focus in 2019 will be Bandar Samariang township where the Division plans to launch approximately 500 units of single storey terrace house.

The Division's other major project namely, its township development in Samalaju is a greenfield project and faces an uphill task in selling its residential and commercial development units as most public amenities are not in place yet.

The occupancy levels at its Workers' and Executive Lodges in Samalaju are not expected to experience any significant increases until major construction activity starts from existing or new industries at Samalaju Industrial Park. We expect an increase in up-take when the construction of the MPAS Plant gains momentum in 2019.

B4. Profit forecast or profit guarantee

Not applicable as there was no profit forecast nor profit guarantee issued.

B5. Income tax expense

	3 months ended	
	31.03.2019	31.03.2018
	RM'000	RM'000
Current income tax:		
- Malaysian income tax	8,779	13,341
- Under provision in respect of previous year	17	-
Deferred tax	4,967	63
Total income tax expense	13,763	13,404

The effective tax rates for the quarters ended 31 March 2018 and 31 March 2019 were lower than the statutory tax rate principally due to share of associates' profit which was net of tax.

B6. Corporate proposals

There were no other corporate proposals that have been announced but not completed as at the date of this announcement.

B7. Loans and borrowings

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Short term – Secured		
Revolving credits	15,000	17,000
Hire purchase	539	577
Short term – Unsecured		
Bankers' acceptances	1,500	4,900
Lease liabilities	4,788	-
Term loan	21,428	21,428
Revolving credits	10,000	10,000
	53,255	53,905
Long term – Secured		
Hire purchase	570	684
Long term – Unsecured		
Lease liabilities	90,781	-
Term loan	56,586	61,944
Islamic medium term notes	500,000	500,000
	647,937	562,628
Total	701,192	616,533

All loans and borrowings were denominated in Ringgit Malaysia.

B8. Off balance sheet financial instruments

As at the date of this report, there are no financial instruments with off balance sheet risks entered into by the Group.

B9. Derivatives

There were no derivatives entered into by the Group as at the end of the quarter under review.

B10. Gains/losses arising from fair value changes of financial liabilities

There were no gains/losses arising from fair value changes of financial liabilities.

B11. Changes in material litigation

There were no changes in material litigation since the last annual statement of financial position date of 31 December 2018.

B12. Dividend payable

No interim dividend has been declared for the financial period ended 31 March 2019 (31 March 2018: Nil).

B13. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period, net of tax, attributable to the owners of the Company by the weighted average number of ordinary shares outstanding, which takes into account the weighted average effect of changes in treasury shares transactions during the period.

The following reflect the profit and share data used in the computation of basic earnings per share:

	3 months ended	
	31.03.2019	31.03.2018
Profit net of tax attributable to owners of the Company used in the computation of earnings per share (RM'000)	40,763	38,977
Weighted average number of ordinary shares in issue ('000)	1,072,504	1,074,376
Basic earnings per share (sen)	3.80	3.63

The Group has no dilution in its earning per share in the current and the preceding financial period as there are no dilutive potential ordinary shares.

B14. Auditor's report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2018 was not subject to any qualification.

B15. Additional disclosure on profit for the period

	Quarter ended 31.03.2019 RM'000	Financial year ended 31.03.2019 RM'000
Profit for the period is arrived at after charging/(crediting):		
Amortisation of intangible assets	337	337
Amortisation of prepaid land lease payments	595	595
Amortisation of right-of use assets	1,751	1,751
Property, plant and equipment written off	-	-
Depreciation of property, plant and equipment	15,299	15,299
Depreciation of investment properties	29	29
Gain on foreign exchange - realised	(33)	(33)
Loss on foreign exchange - unrealised	543	543
Gain on disposal of property, plant and equipment	(27)	(27)
Interest expense	8,647	8,647
Interest income	(6,743)	(6,743)
Net fair value changes in investment securities	(1,310)	(1,310)