

CAHYA MATA SARAWAK BERHAD

(Company No: 21076-T)

(Incorporated in Malaysia)

Interim Financial Report

Condensed consolidated statements of comprehensive income for the period ended 30 June 2019

	Note	3 months ended		Changes (%)	6 months ended		Changes (%)
		30.06.2019	30.06.2018		30.06.2019	30.06.2018	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	A8	399,174	395,278	1%	817,351	750,265	9%
Cost of sales		(321,719)	(298,018)		(671,419)	(606,019)	
Gross profit		77,455	97,260	-20%	145,932	144,246	1%
Other income		3,129	2,661		16,103	6,002	
Administrative expenses		(13,281)	(12,151)		(30,244)	(25,599)	
Selling and marketing expenses		(3,823)	(3,784)		(8,511)	(8,195)	
Other expenses		(228)	2,701		(2,342)	(2,623)	
Operating profit		63,252	86,687	-27%	120,938	113,831	6%
Finance costs		(8,534)	(7,656)		(17,289)	(15,296)	
Share of results of associates		12,360	38,829		25,708	74,879	
Share of results of joint ventures		(1,455)	1,122		(1,298)	2,526	
Profit before taxation		65,623	118,982	-45%	128,059	175,940	-27%
Income tax expense	B5	(16,823)	(18,559)		(30,586)	(31,963)	
Profit for the period		48,800	100,423	-51%	97,473	143,977	-32%
Other comprehensive income							
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:							
Foreign currency translation		1	0		1	(4)	
Share of other comprehensive income of associates		(565)	4,776		2,199	(279)	
Share of other comprehensive income of joint ventures		0	0		0	(23)	
Other comprehensive income for the period		(564)	4,776		2,200	(306)	
Total comprehensive income for the period		48,236	105,199	-54%	99,673	143,671	-31%
Profit attributable to:							
Owners of the Company		41,332	91,626	-55%	82,095	130,603	-37%
Non-controlling interests		7,468	8,797		15,378	13,374	
		48,800	100,423		97,473	143,977	
Total comprehensive income attributable to:							
Owners of the Company		40,716	96,407		84,208	130,334	
Non-controlling interests		7,520	8,792		15,465	13,337	
		48,236	105,199		99,673	143,671	
		sen	sen		sen	sen	
Earnings per share attributable to owners of the Company:							
Basic/diluted	B13	3.85	8.53		7.65	12.16	

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

Cahaya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of financial position as at 30 June 2019

	Note	Unaudited As at 30.06.2019 RM'000	Audited As at 31.12.2018 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,016,332	746,217
Prepaid land lease payments		41,456	42,508
Land held for property development		228,997	227,629
Investment properties		5,098	5,156
Right-of-use assets		93,418	0
Intangible assets		7,376	726
Goodwill		83,233	62,954
Investments in associates		881,585	979,791
Investments in joint ventures		20,790	23,916
Deferred tax assets		16,396	19,034
Other receivables		63,900	50,182
Investment securities		11,640	3,958
		<u>2,470,221</u>	<u>2,162,071</u>
Current assets			
Property development costs		161,971	192,993
Inventories		362,195	334,248
Trade and other receivables		530,344	314,038
Other current assets		63,965	81,985
Investment securities		104,978	100,201
Derivative financial asset		81,271	81,271
Tax recoverable		4,124	7,017
Cash and bank balances		548,779	920,539
		<u>1,857,627</u>	<u>2,032,292</u>
TOTAL ASSETS		<u>4,327,848</u>	<u>4,194,363</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		867,902	867,902
Treasury shares		(5,625)	(12,277)
Other reserves		16,465	13,589
Retained earnings		1,683,457	1,679,692
		<u>2,562,199</u>	<u>2,548,906</u>
Non-controlling interests		<u>500,505</u>	<u>367,305</u>
Total equity		<u>3,062,704</u>	<u>2,916,211</u>
Non-current liabilities			
Deferred tax liabilities		39,920	35,947
Loans and borrowings	B7	641,237	562,628
Trade and other payables		68,608	61,859
		<u>749,765</u>	<u>660,434</u>
Current liabilities			
Income tax payable		17,335	18,109
Loans and borrowings	B7	57,474	53,905
Trade and other payables		387,503	454,659
Other current liabilities		53,067	91,045
		<u>515,379</u>	<u>617,718</u>
Total liabilities		<u>1,265,144</u>	<u>1,278,152</u>
TOTAL EQUITY AND LIABILITIES		<u>4,327,848</u>	<u>4,194,363</u>
Net assets per share attributable to ordinary owners of the Company (RM)		<u>2.39</u>	<u>2.38</u>

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

Cahaya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of changes in equity for the period ended 30 June 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	2,916,211	2,548,906	867,902	(12,277)	13,589	1,679,692	367,305
Profit net of tax	97,473	82,095	0	0	0	82,095	15,378
Other comprehensive income, net of tax	2,453	2,365	0	0	2,365	0	88
Total comprehensive income	99,926	84,460	0	0	2,365	82,095	15,466
Transactions with owners:-							
Acquisition of treasury shares	(8,338)	(8,338)	0	(8,338)	0	0	0
Disposal of treasury shares	16,657	16,657	0	14,990	0	1,667	0
Dividends on ordinary shares	(79,374)	(79,374)	0	0	0	(79,374)	0
Issuance of shares to a non-controlling interest	300	0	0	0	0	0	300
Dividends paid to non-controlling interests	(14,534)	0	0	0	0	0	(14,534)
Total transactions with owners	(85,289)	(71,055)	0	6,652	0	(77,707)	(14,234)
Acquisition of a subsidiary	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	511	(511)	0
Share of joint ventures' reserves	(117)	(112)	0	0	0	(112)	(5)
At 30 June 2019	3,062,704	2,562,199	867,902	(5,625)	16,465	1,683,457	500,505

Cahaya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of changes in equity for the period ended 30 June 2019

	< ----- Attributable to Owners of the Company ----- >						
	Total equity RM'000	Total RM'000	< ----- Non-distributable ----- >			Distributable	Non- controlling interests RM'000
			Share capital RM'000	Other reserves RM'000	Retained earnings 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	143,977	130,603	0	0	130,603	13,374	
Other comprehensive income, net of tax	(307)	(270)	0	(270)	0	(37)	
Total comprehensive income	143,670	130,333	0	(270)	130,603	13,337	
Transactions with owners:-							
Dividends on ordinary shares	(85,950)	(85,950)	0	0	(85,950)	0	
Dividends paid to non-controlling interests	(15,574)	0	0	0	0	(15,574)	
Total transactions with owners	(101,524)	(85,950)	0	0	(85,950)	(15,574)	
Share of associates' reserves	(67)	(64)	0	196	(260)	(3)	
At 30 June 2018	2,725,670	2,398,398	867,902	9,018	1,521,478	327,272	

Cahaya Mata Sarawak Berhad

(Company No: 21076-T)

Condensed consolidated statement of cash flows for the period ended 30 June 2019

	6 months ended 30.06.2019 RM'000	6 months ended 30.06.2018 RM'000
Profit before taxation	128,059	175,940
Adjustments for non-cash items:		
Non-cash items	1,539	(50,098)
Operating cash flows before changes in working capital	129,598	125,842
Changes in working capital		
Increase in current assets	(89,168)	(74,139)
(Increase)/decrease in non-current assets	(1,368)	13,145
Decrease in current liabilities	(125,444)	(84,774)
Increase/(decrease) in non-current liabilities	5,749	(29,141)
Cash flows used in operations	(80,633)	(49,067)
Interest received	10,603	15,566
Interest paid	(17,139)	(16,254)
Income tax paid, net of refund	(25,552)	(27,454)
Net cash flows used in operating activities	(112,721)	(77,209)
Investing activities		
Acquisition of investment securities	(9,933)	(1,766)
Acquisition of investment properties	0	(392)
Acquisition of property, plant and equipment	(106,167)	(33,887)
Additional investment in an associate	0	(43,550)
Additional investment in joint ventures	0	(30)
Distribution of profits from joint ventures	1,646	4,918
Dividends from associates	4,085	6,537
Dividends from investments	4,542	961
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	1,057	349
Advancement of shareholders' loan	(13,658)	0
Others	(60)	0
Net cash used in investing activities	(159,302)	(66,860)
Financing activities		
Acquisition of treasury shares	(8,338)	(6,634)
Deposit pledged to a licensed bank	(13)	(43)
Drawdown of borrowings	7,200	19,200
Repayments of borrowings	(19,418)	(13,710)
Dividends paid to shareholders of the Company	(79,374)	(85,950)
Dividends paid to non-controlling interests	(14,534)	(15,574)
Net proceeds from disposal of treasury shares	16,657	0
Proceeds from issuance of preference shares to a non-controlling interest	300	0
Repayment of lease liabilities	(2,401)	0
Net cash used in financing activities	(99,921)	(102,711)
Net decrease in cash and cash equivalents	(371,944)	(246,780)
Effect of foreign exchange changes in cash and cash equivalents	171	(176)
Cash and cash equivalents as at 1 January	918,440	975,781
Cash and cash equivalents as at 30 June	546,667	728,825
Cash and cash equivalents as at 30 June comprised the following:		
Cash and short term deposits	548,779	730,922
Less: Deposits pledged to licensed banks	(2,112)	(2,097)
	546,667	728,825

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

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

Part A – Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

These condensed consolidated interim financial statements, for the period ended 30 June 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.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

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.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 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.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

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 RM93,418,018 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 RM3,378,799 and finance costs of RM2,448,768 for these leases for the three months ended 30 June 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.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

A3. Seasonal or cyclical factors

The business operations of the Group are generally non-cyclical or seasonal.

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 30 June 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 30 June 2019, the Company repurchased 80,000 of its issued ordinary shares from the open market at an average price of RM3.42 per share. The total consideration paid for the repurchase including transaction costs was RM273,363 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 30 June 2019, the Company had resold 1,000,000 treasury shares from the open market for a total consideration of RM3,487,800, net of commission. After the resale of the treasury shares, the Company holds 1,751,100 treasury shares in its books.

A7. Dividends paid

The final tax exempt (single-tier) dividend of 7.40 sen per share for the financial year ended 31 December 2018 amounting to RM79,374,222 was paid on 24 May 2019.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

A8. Segmental information

	3 months ended		6 months ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Cement	137,838	130,468	284,232	262,294
Construction materials & trading	141,544	106,605	254,557	200,533
Construction & road maintenance	110,889	153,894	240,638	265,255
Property development	33,239	28,083	77,784	54,361
Strategic investments *	2,544	2,310	5,022	4,841
Others	16,234	18,343	35,627	35,243
Total revenue including inter-segment sales	442,288	439,703	897,860	822,527
Elimination of inter-segment sales	(43,114)	(44,425)	(80,509)	(72,262)
	<u>399,174</u>	<u>395,278</u>	<u>817,351</u>	<u>750,265</u>
Segment Results				
Operating profit/(loss):				
Cement	20,673	32,620	31,670	39,191
Construction materials & trading	18,979	14,225	39,957	23,412
Construction & road maintenance	18,666	26,625	33,997	44,755
Property development	5,870	9,299	20,949	11,300
Strategic investments *	(1,537)	(406)	(3,883)	(979)
Others	1,741	3,162	15	(390)
	<u>64,392</u>	<u>85,525</u>	<u>122,705</u>	<u>117,289</u>
Unallocated corporate expenses	(9,674)	(6,494)	(19,056)	(18,754)
Share of results of associates	12,360	38,829	25,708	74,879
Share of results of joint ventures	(1,455)	1,122	(1,298)	2,526
Profit before tax	<u>65,623</u>	<u>118,982</u>	<u>128,059</u>	<u>175,940</u>
Income tax expenses	(16,823)	(18,559)	(30,586)	(31,963)
Profit for the year	<u>48,800</u>	<u>100,423</u>	<u>97,473</u>	<u>143,977</u>

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

A9. Changes in composition of the Group

There have been no changes in the composition of the Group for the quarter ended 30 June 2019.

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:

	30 June 2019		31 December 2018	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	RM'000	RM'000	RM'000	RM'000
Financial liabilities:				
Interest-bearing loans and borrowings				
- Bankers' acceptances	5,700	5,700	4,900	4,900
- Term loans	72,657	72,657	83,372	83,372
- Obligation under finance lease	957	957	1,261	1,261
- Revolving credits	25,000	25,000	27,000	27,000
- Lease liabilities	94,397	94,397	-	-
- Islamic medium term notes	500,000	519,911	500,000	516,975
	<u>698,711</u>	<u>718,622</u>	<u>616,533</u>	<u>633,508</u>

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

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
30 June 2019				
Financial assets				
Investment securities				
- Income debt securities fund	-	100,778	-	100,778
- Real Estate Investment Trust	4,200	-	-	4,200
- Redeemable preference shares	-	-	11,640	11,640
Derivative financial assets	-	-	81,271	81,271
	<u>4,200</u>	<u>100,778</u>	<u>92,911</u>	<u>197,889</u>
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
	<u>4,100</u>	<u>96,101</u>	<u>85,229</u>	<u>185,430</u>

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

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

A11. Capital & other commitments

The amount of commitments not provided for in the interim financial statements as at 30 June 2019 and 31 December 2018 was as follows:

Capital commitments

	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000
Approved and contracted for:		
- Property, plant and equipment	389,140	39,476
- Investments in associates	13,739	-
- Investments in redeemable preference shares in joint ventures	42,230	49,911
	<u>431,370</u>	<u>89,387</u>
Approved but not contracted for:		
- Property, plant and equipment	303,208	312,274
- Intangible assets	4,310	4,310
- Investments in associates	190,000	271,314
	<u>511,257</u>	<u>587,898</u>
	<u>942,627</u>	<u>677,285</u>

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.

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A13. Related party transactions

The following table provides information on the transactions which have been entered into with related parties during the period ended 30 June 2019 and 30 June 2018 as well as the balances with the related parties as at 30 June 2019 and 31 December 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	1,657	-	-	-
	2018	2,922	-	-	-
- KKB Engineering Bhd and its subsidiary	2019	-	4,881	-	-
	2018	-	16,137	-	5,232
- SACOFA Sdn Bhd	2019	939	35	307	-
	2018	897	69	52	4
- OM Materials (Sarawak) Sdn Bhd	2019	4,401	-	10,410	-
	2018	4,232	-	9,316	-
Joint Ventures:					
- PPES Works Naim Land	2019	-	-	-	-
	2018	100	-	85	-
- PPES Works Larico	2019	448	-	667	-
	2018	529	-	486	-
- PPES Works PCSB	2019	19	-	131	-
	2018	519	9,068	378	6,881
- COPE Private Equity Sdn Bhd	2019	14	-	-	-
	2018	16	-	-	-
Others					
- A corporate shareholder	2019	2,744	-	19	-
	2018	12,590	-	18	-
Key management personnel of the Group:					
- Directors' interests	2019	-	2,673	-	326
	2018	-	2,255	-	244

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

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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”)

The Group’s profit before tax (PBT) and profit after tax and non-controlling interest (PATNCI) decreased by 27% and 37% respectively in comparison to the preceding year’s corresponding period, despite a 9% higher revenue.

The lower results were mainly due to lower profit contribution by the Group’s 25% owned associate, OM Materials (Sarawak) Sdn Bhd. The Cement and Construction & Road Maintenance Divisions also reported lower profits but the lower profits had been negated by the Construction Materials & Trading and Property Development Divisions’ stronger PBT.

As a result, EPS and ROE declined accordingly.

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

- (a) **Cement Division** - reported a 19% lower PBT of RM31.67 million in PE2019 over PE2018’s PBT of RM39.19 million, despite 8% higher revenue. The lower PBT was due to higher imported clinker cost (raw material) and coal cost (fuel). The 8% higher revenue was on the back of higher sales volume of cement and concrete products which increased by 6% and 74% respectively.
- (b) **Construction Materials & Trading Division** - reported a strong PBT of RM39.96 million for PE2019, which was 71% higher than the PBT of RM23.41 million for PE2018. The higher PBT was attributable to 27% higher revenue, 1% higher GP margin and a reversal of provision for soil erosion remedial works. Even without the reversal of provision, the Division’s PBT for PE2019 of RM30.96 million would have been 32% stronger than PE2018.
- (c) **Construction & Road Maintenance Division** - reported a lower PBT of RM34.00 million in PE2019, which was 24% lower than PE2018’s profit of RM44.76 million (excluding share of results of joint ventures), notwithstanding 9% lower revenue. This was mainly due to 4% lower GP margin as there were arrears received for instructed works for periods 2014 - 2017 amounting to RM3.51 million in PE2018.
- (d) **Property Development Division** - reported an excellent PBT of RM20.95 million in PE2019 in comparison to a PBT of RM11.30 million in PE2018, representing an increase of 85%. This was mainly attributable to recognition of profit from a land sale, higher number of condominium and apartments units sold and higher rental income from unsold apartments.
- (e) **Strategic Investments Division** - reported a higher loss of RM3.88 million in PE2019 as compared to a loss of RM979 thousand in PE2018.

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B1. Review of performance (contd.)

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

- (f) **Others** - reported a marginal PBT of RM15 thousand in PE2019 as compared to a loss of RM390 thousand in PE2018 due to higher unrealised forex gain.
- (g) **Unallocated corporate expenses** - CMSB incurred 2% higher expenses in PE2019 compared to PE2018.
- (h) **Share of results of joint-ventures** - The Group recorded share of loss of RM1.30 million compared to a share of profit RM2.53 million in PE2018. The loss was mainly due to COPE-KPF Opportunities 1 Sdn Bhd’s unrealised loss on investments.

Quarter 2, 2019 (“2Q19”) vs Quarter 2, 2018 (“2Q18”)

	2nd Qtr 2019 RM'000	2nd Qtr 2018 RM'000	Changes %
Revenue	399,174	395,278	1%
Gross profit	77,455	97,260	-20%
Share of results of associates	12,360	38,829	-68%
Profit before tax	65,623	118,982	-45%

The Group’s PBT for 2Q19 was substantially lower than 2Q18. This was mainly attributable to the lower share of results of associates and joint ventures and lower GP margin.

The Cement Division’s GP margin for 2Q19 was lower than 2Q18 due to higher clinker cost and higher repair cost. This had led to lower PBT despite higher revenue in 2Q19 as compared to 2Q18.

B2. Material changes in profit before tax for the quarter (Quarter 2, 2019 vs Quarter 1, 2019)

	2nd Qtr 2019 RM'000	1st Qtr 2019 RM'000	Changes %
Revenue	399,174	418,177	-5%
Gross profit	77,455	68,477	13%
Share of results of associates	12,360	13,348	-7%
Profit before tax	65,623	62,436	5%

The Group’s PBT for the current quarter was 5% higher than the immediate preceding quarter despite lower revenue. This was mainly due to better GP margin.

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B2. Material changes in profit before tax for the quarter (Quarter 2, 2019 vs Quarter 1, 2019) (contd.)

The Cement Division's PBT for 2Q19 was higher than 1Q19 despite lower revenue. The lower revenue was due to festive seasons of Hari Raya and Gawai, both of which fell in early June this year. However, in 1Q19, the Cement Division had a maintenance shutdown of its clinker plant and incurred higher repair costs and higher clinker costs.

The Construction Materials & Trading Division's revenue for 2Q19 was significantly higher than 1Q19. The Division's GP margin for 2Q19 was 1% higher than 1Q19. However, its PBT for 2Q19 was slightly lower than 1Q19 because of the inclusion of a reversal of provision for soil erosion remedial works in 1Q19. Without the provision, 2Q19 PBT would have been 58% stronger than 1Q19.

The Construction & Road Maintenance Division's PBT for 2Q19 was higher than 1Q19 despite lower revenue due to higher GP margin.

The Property Development Division's PBT was much lower in 2Q19 as compared to 1Q19. The better performance in 1Q19 was due to recognition of profit from a land sale.

B3. Prospects for the year ending 31 December 2019

Whilst the operating environment faced by the Group will remain increasingly challenging, the Board is cautiously optimistic that the prospects for the year for our operations to remain satisfactory.

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's PBT for the first half year of 2019 was lower against previous year's corresponding period, mainly due to higher imported clinker cost. The Division expects to achieve higher sales volume than target for the 2nd half of the year. For the next 6 months or more, the clinker prices are not expected to have the big hike as in year 2018. However, the Division's PBT is expected to remain lower than year 2018 in view of higher costs compared to last year.

The Construction Materials & Trading Division's PBT for the first half year of 2019 remained higher against previous year's corresponding period, contributed mainly by its quarry operations which had benefitted from the price increase. Management expects the quarry sector to continue to perform well for the remaining period of the year. However, the premix sector which had suffered higher production cost and depressed margin, is expected to face more new players on top of those already set up by the Pan Borneo Highway project works contractors. The trading sector, besides maintaining its supply of water treatment chemicals and steel pipes to JKR is actively pursuing business opportunities in telecommunication related works, products and services.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

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

The Construction & Road Maintenance Division is continuously focussing on positioning itself to increase its order book through new infrastructure projects announced by the State Government. Its second major focus is on the long-term renewal of the State Road Maintenance Contract before its expiry date on 31 December 2019. Management is also lobbying for additional road length and securing instructed works.

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 Property Development Division's township development project at Samalaju Industrial Park (SIP) remains sluggish due to slow take up rates in this greenfield development area. The lack of public infrastructures and amenities such as schools, hospital, recreational centre etc remains the major challenges in promoting the properties.

Major plants in SIP are already at the production stage. New plants are only expected to commence construction by second quarter of 2020. Lodges continues to fetch reasonably good rental income from long term accommodation arrangement with the investors in SIP to house their operational staffs. The occupancy will further improve if there is new construction projects.

Hotel occupancy improved in 2019 compared to 2018 due to long term accommodation arrangement for one of the investors in SIP. Apart from that, it is still challenging to attract long term guests.

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		6 months ended	
	30.6.2019	30.6.2018	30.6.2019	30.6.2018
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
- Malaysian income tax	19,179	18,700	27,958	32,041
- Under provision in respect of previous years	12	1	29	1
Deferred tax	(2,368)	(142)	2,599	(79)
Total income tax expense	<u>16,823</u>	<u>18,559</u>	<u>30,586</u>	<u>31,963</u>

The effective tax rates for the current quarter ended 30 June 2019 was higher than the statutory tax rate principally due to the losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

The effective tax rates for the period ended 30 June 2018 was lower than the statutory tax rate principally due to share of associates' profit which was net of tax.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

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 30.06.2019 RM'000	As at 31.12.2018 RM'000
Short term – Secured		
Revolving credits	15,000	17,000
Hire purchase	483	577
Short term – Unsecured		
Bankers' acceptances	5,700	4,900
Lease liabilities	4,863	-
Term loan	21,428	21,428
Revolving credits	10,000	10,000
	57,474	53,905
Long term – Secured		
Hire purchase	474	684
Long term – Unsecured		
Lease liabilities	89,534	-
Term loan	51,229	61,944
Islamic medium term notes	500,000	500,000
	641,237	562,628
Total	698,711	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.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

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 30 June 2019 (30 June 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		6 months ended	
	30.6.2019	30.6.2018	30.6.2019	30.06.2018
Profit net of tax attributable to owners of the Company used in the computation of earnings per share (RM'000)	41,332	91,626	82,095	130,603
Weighted average number of ordinary shares in issue ('000)	1,072,625	1,073,190	1,072,565	1,073,783
Basic earnings per share (sen)	3.85	8.53	7.65	12.16

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.

NOTES TO THE QUARTERLY REPORT – 30 JUNE 2019

B15. Additional disclosure on profit for the period

	Quarter ended 30.06.2019 RM'000	Financial year ended 30.06.2019 RM'000
Profit for the period is arrived at after charging/(crediting):		
Amortisation of intangible assets	380	717
Amortisation of prepaid land lease payments	595	1,189
Amortisation of right-of use assets	1,628	3,379
Property, plant and equipment written off	-	-
Depreciation of property, plant and equipment	15,261	30,545
Depreciation of investment properties	29	59
Gain on foreign exchange - realised	-	(31)
Loss on foreign exchange - realised	2	-
Gain on foreign exchange – unrealised	(774)	(231)
Gain on disposal of property, plant and equipment	(146)	(174)
Interest expense	8,426	17,073
Interest income	(3,860)	(10,603)
Net fair value changes in investment securities	(1,216)	(2,526)
