CAHYA MATA SARAWAK

INTEGRATED
ANNUAL
REPORT 2019

Creating Future Value

CMS' agenda of sustainability comes into its own in 2019

page 8

Group Chairman's perspectives on performance, good governance and other essentials

pages 12-17 & 90-97

Leveraging an evolved three-pronged strategy to create future value

pages 20-22 & 94-101

How CMS intends to support its strategic mandate and bolster its competitive edge

pages 22-25

SECTION 1:
WHO WE ARE

Some insights into where CMS has come from, where we are today and what is material to us.

PAGE 4
WHO WE ARE TODAY

SECTION 2:
AT A GLANCE

Snippets of our 2019 performance and the achievements we are proud of.

PAGE 10
OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

SECTION 3:
STRATEGIC BUSINESS CONTEXT

Leadership perspectives on the year that was 2019, our financial and operational performance, plus the Group's strategy moving forward.

PAGE 12
GROUP CHAIRMAN'S MESSAGE

PAGE 18
STRATEGIC REVIEW BY THE GROUP MANAGING DIRECTOR

PAGE 26
FINANCIAL OVERVIEW BY THE GROUP CHIEF FINANCIAL OFFICER

The Cover Rationale "Creating Future Value"

The year 2019 was a highly challenging one characterised by sluggish economic growth made worse by external and domestic headwinds. Despite the year's tough operating conditions, Team CMS delivered a resilient performance. Adapting quickly to marketplace changes, our people maintained a steadfast focus on their targets and the Group's strategic direction to ensure CMS remained relevant to its market segments. We also streamlined our top management to give it more clarity and focus. At the same time, we raised the engagement levels across all our audiences, speaking at length about the positive developments within the Company and the strategic measures we are bringing into play to secure the future of the Group. By fine-tuning our strategies and strengthening our fundamentals, CMS has been laying solid foundations that will result in the creation of future value for the Group.

The cover design of our 2019 Integrated Annual Report seeks to conceptually convey the idea of expansion, growth and progress emanating from a single source. With CMS representing that source, the Group is seen to be creating waves of value as we expand outwards from the centre.

PAGE 90
CREATING FUTURE VALUE

SECTION 4:
THE WAY WE CREATE VALUE

The market outlook and prospects for the Group, detailed insights into our strategy to create future value, plus the top risks we face and how we intend to overcome them.

PAGE 102
GROUP CHAIRMAN'S PERSPECTIVE

SECTION 5:
GOVERNANCE & RISK MANAGEMENT

Insights into how CMS continues to uphold transparent and ethical business practices, an overview of the Group's leadership bench, as well as the details of our good governance and robust risk management practices.

PAGE 146
LIST OF PROPERTIES

SECTION 6:
ADDITIONAL INFORMATION

A summary of the Group's stable of properties and other relevant company information.

Today, CMS is well primed to create future value as we leverage on a three-pronged strategy. The first prong of this strategy calls for us to reposition and fortify all traditional core businesses; the second prong mandates that we fully implement and grow our strategic businesses; while the third prong dictates that we work to reposition and strengthen the CMS brand.

Moving forward, CMS remains one of the best proxy-investment for Sarawak's accelerating economic growth. We are well-positioned to benefit from the key economic growth drivers within the State. These include the energy-intensive industries under SCORE; impactful infrastructure development projects; upcoming water and electricity grid projects; as well as the rollout of Sarawak's Digital Economy initiative. By leveraging on our three-pronged strategy, continuously reinvesting into our core competencies, and capitalising on the State's key economic growth drivers, we are confident that we will continue to create good value for our stakeholders, as well as establish a long-term, sustainable growth pathway for both CMS and Sarawak.

ABOUT THIS REPORT

OUR REPORTING PHILOSOPHY

Welcome to Cahya Mata Sarawak's Integrated Annual Report for Financial Year 2019 (FY 2019). In this second Integrated Annual Report, we seek to present a concise yet comprehensive account of our business and strategies, as well as demonstrate how we are continuing to create real value for our stakeholders over the short, medium and long-term.

This year, we have sought to strengthen our Report by bringing several new strategic elements into play. This includes a new Creating Future Value section that sums up the Group's three-pronged strategy, the key strengths and drivers of our diverse businesses, as well as several other tangible elements that will support us in our journey towards sustainable value creation. By portraying our value creation story in a more formal and transparent manner, we intend to bolster the confidence of our discerning stakeholders and reinforce CMS' status as a preferred company on Bursa Malaysia Securities Berhad (Bursa Malaysia). Our hope is that our stakeholders will see the good headway we are making as we advance forward on our formal Integrated Reporting journey.

We are pleased to join the ranks of thousands of companies globally who have published their Integrated Reports. In developing this year's Report, we continue to apply global best practices and adopt the International Integrated Reporting Council or IIRC's International <IR> Framework which advocates the move towards more concise and focused business reporting that delivers a complete strategic vision of the Company. With investors, customers, business partners, NGOs and employees converging to demand greater readability, clarity, coherence, materiality and connectivity of information, Integrated Reporting is fast becoming the *de facto* reporting standard around the world.

Our 2019 Report is a major milestone for us as it underscores the Group's commitment to sustainable and long-term value creation, as well as demonstrates the relationship between our resources, actions and the value we create. It also serves to illustrate the links between our financial and non-financial risks and opportunities.

REPORTING BOUNDARY AND SCOPE

CMS' 2019 Integrated Annual Report goes beyond financial reporting to encompass our non-financial performance, as well as the opportunities, risks and outcomes attributable to or associated with our key stakeholders, all of which have a significant influence on our ability to create value.

Our 2019 Integrated Annual Report covers the period 1 January to 31 December 2019 and builds upon our previous publications. It encompasses the primary activities of the CMS Group, namely the activities of our five main business divisions and our strategic investments.

CMS' main business divisions comprise the Cement, Construction Materials & Trading, Construction & Road Maintenance, Property Development and Samalaju Development Divisions. We also provide an overview of the performance of our Unlisted and Listed Associates under our Strategic Investments portfolio.

REPORTING FRAMEWORKS

Our 2019 Integrated Annual Report complies with prevailing listing regulations and is in accordance with the IIRC's International <IR> Framework. We apply and take into account the amendments to the Listing Requirements relating to Corporate Governance (CG) requirements announced on 29 November 2017 pursuant to the implementation of the Companies Act 2016 (CA 2016) and the new Malaysian Code on Corporate Governance (MCCG) released by the Securities Commission on 26 April 2017.

The financial position of the Group and of the Company as of 31 December 2019 is prepared in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the requirements of the CA 2016. Meanwhile, our non-financial information is reported against the new Global Reporting Initiative Sustainability Reporting Standards (GRI Standards).

MATERIALITY AND FORWARD-LOOKING STATEMENT

Materiality

Back in November 2018, we conducted a materiality analysis of our business to gain a better understanding of topics that were of importance to both CMS and its stakeholders. We then went on to fine-tune our sustainability efforts to align with the findings of 2018's analysis. As we revisited our material matters, we also explored the best way to link them to our six capitals, namely:

- **Financial Capital**
- **Human Capital**
- **Intellectual Capital**
- **Social and Relationship Capital**
- **Manufactured Capital**
- **Natural Capital**

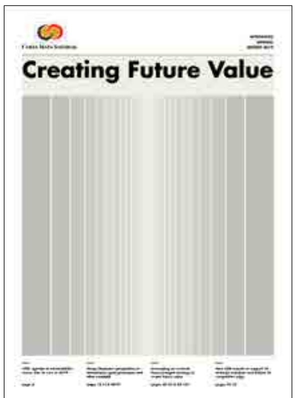
This underlines the relationship between our ability to create impact and the areas which we impact.

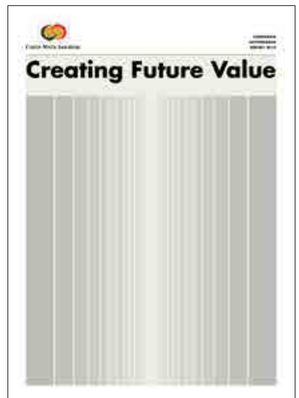
FORWARD-LOOKING STATEMENT

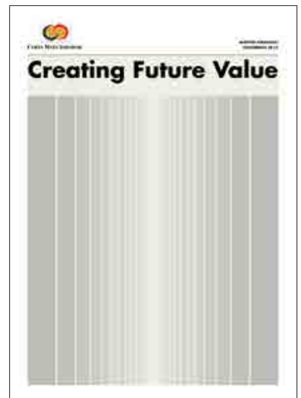
This Report contains forward-looking statements characterised by the use of words and phrases such as "might", "forecast", "anticipate", "project", "may", "believe", "predict", "expect", "continue", "will", "estimate", "target", and other similar expressions. As our business operates in a changing environment, it is subject to uncertainties that could cause actual results to differ from those reflected in any forward-looking statement.

REPORTING SUITE FOR 2019 NAVIGATION AND ICONS

For the 2019 reporting cycle, the Group's value creation process is articulated within a coherent framework (in terms of content and graphics) as per the following reporting suite:







Reporting Suite	Integrated Annual Report 2019	Sustainability Report 2019	Corporate Governance Report 2019	Audited Financial Statements 2019
Reporting Framework	• MCCG 2017 • Main Market Listing Requirements of Bursa Malaysia Securities Berhad • IIRC Framework • CA 2016	• Main Market Listing Requirements of Bursa Malaysia Securities Berhad • GRI Standards • FTSE4Good Bursa Malaysia Index • MSCI ESG Indexes/DJSI	• MCCG 2017 • Main Market Listing Requirements of Bursa Malaysia Securities Berhad • CA 2016	• IFRS/MFRS • Main Market Listing Requirements of Bursa Malaysia Securities Berhad • CA 2016

Navigation Icons

The following icons are used in this Report to indicate where additional information can be found.

This icon tells you where you can find related information in this Report.

This icon tells you where you can scan or go through more information online.

For our other reports, please scan the QR code or log on to http://www.cmsb.my/investor-relations/reports/

APPROVAL BY THE BOARD

The Board has applied its collective mind in preparing and presenting CMS' 2019 Integrated Annual Report in line with the IIRC's International <IR> Framework. Acknowledging its responsibility for ensuring the integrity of this Report through good governance practices and internal reporting procedures, the Board has approved the publication of CMS' 2019 Integrated Annual Report.

Do send us your feedback:

To ensure that we report on issues that matter to our stakeholders, please provide your feedback or email any questions you may have to: investor.relations@cmsb.my or visit www.cmsb.my. Thank you.

WHO WE ARE TODAY

VISION
To be the PRIDE of Sarawak & Beyond

STAKEHOLDERS
Our Shareholders, Staff, Customers & Community

MISSION

- **P** Producing Quality, On Spec & On Time
- **R** Respect & Integrity
- **I** Improving, Innovating & Investing in People
- **D** Delivering Sustainable Growth
- **E** Environmentally Conscious, Safe & Conducive Workplace

Total Revenue (RM)

2018	1,712,244
2019	**1,740,528**

Employee Training (Person)

2018	2,007
2019	**2,461**

CMS Doing Good (Man-hours)

2018	50,241
2019	**43,894**

WHO WE ARE

Cahya Mata Sarawak Berhad (CMS or the Group) is Sarawak's leading infrastructure facilitator and a prime mover in the State's growth story. Our roots go back to 1974 when we began supporting the State's rapid growth as its first cement manufacturer. Having steadily grown from strength to strength, we are today a listed entity on the Main Market of Bursa Malaysia with an enlarged and diversified portfolio. Our portfolio encompasses our Core Businesses, namely our Cement, Construction Materials & Trading, Construction & Road Maintenance and Property Development businesses; as well as our Strategic Investments which centre on export-oriented industries within the Sarawak Corridor of Renewable Energy (SCORE) and also the telecommunications industry.

As the State moves into a new era of growth with SCORE, CMS' expansion path too is moving into a new trajectory to take advantage of the business investment opportunities in energy-intensive industries and their infrastructure and related needs. Given the vast business potential within SCORE and throughout the State, we continue to leverage on our healthy balance sheet, local knowledge, an experienced management team, proven strategies, and a synergised portfolio of Sarawak-based businesses, to maximise our participation in the Sarawak growth story.

BUSINESS OVERVIEW

CMS' solid progress over the last 45 years mirrors Sarawak's own dynamic progress. Today, our operations encompass more than 34 companies across 6 business segments, and a workforce of over 2,186 people in 40 offices throughout the State.

CORE BUSINESSES

- Cement
- Construction Materials & Trading
- Construction & Road Maintenance
- Property Development
- Samalaju Development Division

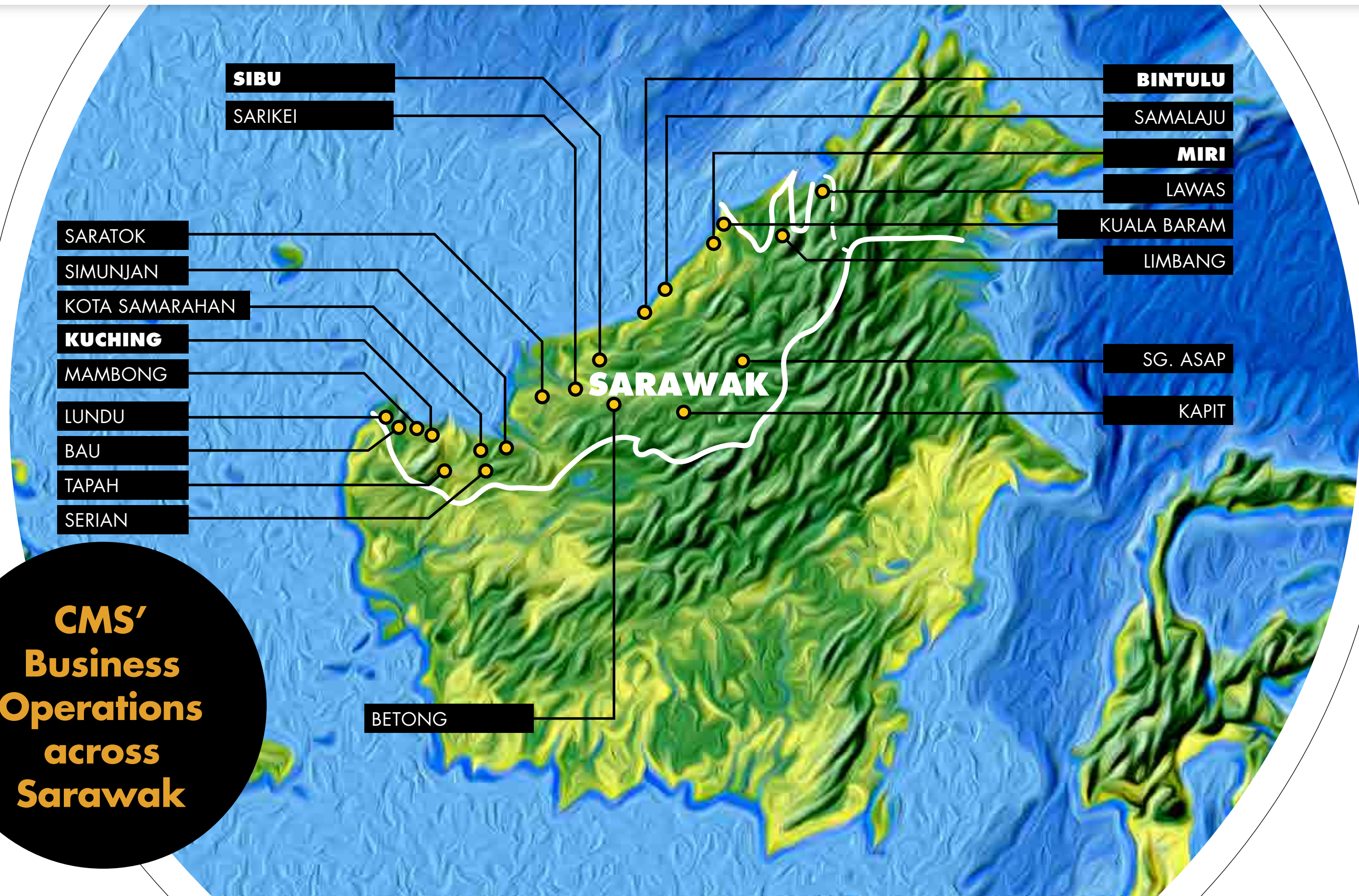
STRATEGIC INVESTMENTS

Our Strategic Investments

- Ferrosilicon and manganese alloys smelter operations under OM Materials (Sarawak) Sdn Bhd
- Integrated phosphate complex under Malaysian Phosphate Additives (Sarawak) Sdn Bhd
- Information and Communication Technology business under SACOFA Sdn Bhd
- Kenanga Investment Bank Berhad
- KKB Engineering Berhad

Other Investments

- COPE Private Equity Sdn Bhd
- COPE-KPF Opportunities 1 Sdn Bhd
- COPE Opportunities 2 Sdn Bhd
- HELP IBRACO CMS Sdn Bhd



CMS' Business Operations across Sarawak

Our Performance	Weathering external and internal headwinds, CMS turned in a resilient performance in FY 2019. We registered revenue of RM1.74 billion and a profit before tax (PBT) of RM247.90 million, a marginal 2% increase in revenue and a dramatic 33% drop in PBT in comparison to revenue of RM1.71 billion and PBT of RM372.32 million previously. This softer performance was due to the significant decrease in the aggregate contribution from our associate companies, as well as lower operating profits from our traditional core business divisions. Our profit after tax and non-controlling interests too dropped by 39%. This led to a lower return on shareholders' equity and earnings per share.	▲ *For more information please refer to Group Chairman's Message, Strategic Review by the Group Managing Director and Financial Overview sections.*
Our Targets	We aspire to achieve the following targets within a five-year timeframe: • To double the annual profit after tax and non-controlling interests or PATNCI to RM500 million; and • To be the most admired Sarawak public-listed company.	▲ *For more information please refer to Strategic Review by the Group Managing Director.*
Our Strategy	We have evolved our strategy from a two-pronged one into a three-pronged strategy in response to the increasingly challenging political and business landscape. This calls for us to: • Reposition and fortify our traditional core businesses; • Fully implement and grow our strategic businesses; and • Reposition and strengthen the CMS brand.	▲ *For more information please refer to Strategic Review by the Group Managing Director and Creating Future Value section.*
Our Commitment to Growing Our Diverse Businesses	We remain very clear about our plans for our core and strategic businesses. We intend to continue extracting value from our traditional core businesses by bolstering their overall operations and optimising efficiencies. We are also looking into re-focusing and growing our strategic businesses by expanding the market base of our strategic businesses beyond Sarawak, among other things.	▲ *For more information please refer to Strategic Review by the Group Managing Director, Operational Review and Creating Future Value sections.*
Our Commitment to Responsible Operations	Our four-stakeholder group model guides us in the running of our business. We measure performance by using financial and non-financial performance indicators related to our strategic objectives. We leverage on good governance practices and stringent risk control measures to ensure our operations at the Group, divisional and subsidiary levels are run in a responsible and transparent manner.	▲ *For more information please refer to Strategic Review by the Group Managing Director, Top Business Risks and Mitigation Strategies, as well as Governance & Risk Management sections.*
Our Commitment to Sustainability	We continue to embed a strong sustainability culture in all our businesses. Our aim is to create a vibrant performance-driven workplace, be a leader in good environmental practices, and serve as a model for giving back to the community. Moving forward, we have begun to take our sustainability efforts up to the next level by engaging PwC to review our practices and incorporate sustainability in a more effective manner within our day-to-day operations.	▲ *For more information please refer to the Determining What is Material to CMS, Nurturing People, Sustaining Communities, as well as Tapping Innovation to Preserve Our Environment sections.*

CORPORATE INFORMATION

DIRECTORS

Y Bhg Tan Sri Abdul Rashid Bin Abdul Manaf

Y Bhg Dato Sri Mahmud Abu Bekir Taib

Y Bhg Dato Isaac Lugun

Y Bhg Datuk Seri Yam Kong Choy

Y Bhg Datuk Ir. Kamarudin Bin Zakaria

Mr Chin Mui Khiong

Mdm Umang Nangku Jabu

COMPANY NAME
Cahya Mata Sarawak Berhad

SHARE REGISTRAR
Boardroom Share Registrars Sdn Bhd
11th Floor, Menara Symphony
No 5, Jalan Professor Khoo Kay Kim, Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
T +60 3 7890 4700
F +60 3 7890 4670

REGISTRATION NUMBER
197401003655 (21076-T)

AUDITORS
Ernst & Young PLT

GROUP COMPANY SECRETARY
Denise Koo Swee Pheng

PRINCIPAL BANKERS
Bank Muamalat Malaysia Berhad
CIMB Islamic Bank Berhad
Hong Leong Bank Berhad
Kenanga Investment Bank Berhad
Maybank Islamic Berhad
RHB Bank Berhad

REGISTERED OFFICE
Level 6, Wisma Mahmud
Jalan Sungai Sarawak
93100 Kuching
Sarawak
T +60 82 238 888
F +60 82 333 828
W www.cmsb.my

STOCK EXCHANGE LISTING
Main Market
Bursa Malaysia Securities Berhad
Sector: Industrial Products & Services Sector
Sub-sector: Building Materials
Stock Code: CMSB
Stock Number: 2852

CORPORATE STRUCTURE

As at 31 March 2020

CORE BUSINESS DIVISIONS

- **CEMENT DIVISION**
  - **CMS Cement Sdn Bhd** 100%
    - CMS Cement Industries Sdn Bhd 100%
    - CMS Concrete Products Sdn Bhd 100%
- **PROPERTY DEVELOPMENT DIVISION**
  - **Projek Bandar Samariang Sdn Bhd** 100%
  - **CMS Property Development Sdn Bhd** 100%
    - CMS Property Management Sdn Bhd 51%
    - CMS Land Sdn Bhd 51%
    - CMS Hotels Sdn Bhd 100%
  - Samalaju Properties Sdn Bhd 51%
    - Samalaju Hotel Management Sdn Bhd 100%
- **SAMALAJU DEVELOPMENT DIVISION**
  - **Samalaju Industries Sdn Bhd** 100%
- **INFORMATION & COMMUNICATION TECHNOLOGY DIVISION**
- **CONSTRUCTION MATERIALS & TRADING DIVISION**
  - **CMS Infra Trading Sdn Bhd** 51%
  - **CMS Wires Sdn Bhd** 69%
  - **CMS Resources Sdn Bhd** 51%
    - PPES Concrete Product Sdn Bhd 100%
    - CMS Quarries Sdn Bhd 100%
    - CMS Premix (Miri) Sdn Bhd 60% | 20%
    - CMS Premix Sdn Bhd 60% | 40%
      - 40%
    - CMS Penkuari Sdn Bhd 60%
    - Betong Premix Sdn Bhd 80%
    - Borneo Granite Sdn Bhd 56%
- **CONSTRUCTION & ROAD MAINTENANCE DIVISION**
  - **CMS Works Sdn Bhd** 100%
    - CMS Roads Sdn Bhd 100%
    - CMS Pavement Tech Sdn Bhd 100%
    - PPES Works (Sarawak) Sdn Bhd 51%
      - PPESW BPSB JV Sdn Bhd 70%
      - PPES Works CCCC JV Sdn Bhd 70%

STRATEGIC INVESTMENTS

- **CMS Capital Sdn Bhd** 95%
  - Kenanga Investment Bank Berhad* 21.95% | 4.30%
  - COPE Private Equity Sdn Bhd 51%
- **KKB Engineering Bhd*** 20%
- **CMS Education Sdn Bhd** 100%
  - HELP IBRACO CMS Sdn Bhd 30%
- **SACOFA Sdn Bhd** 50%
- **OM Materials (Sarawak) Sdn Bhd** 25%
- **OM Materials (Samalaju) Sdn Bhd** 25%
- **Malaysian Phosphate Additives (Sarawak) Sdn Bhd** 60%

STRATEGIC COMPANIES

- **Cahya Mata Sarawak Management Services Sdn Bhd** 100%
- **CMS I-Systems Sdn Bhd** 100%

* Listed on Main Market of Bursa Malaysia

DETERMINING WHAT IS MATERIAL TO CMS

TOWARDS LONG-TERM VALUE CREATION

An integrated report's primary purpose is to explain how an organisation creates value over time. To this end, it should make every effort to incorporate important or material information, both financial and non-financial, that is of significance to stakeholders and which impacts long-term value creation. Nonetheless, for companies like CMS who are just at the onset of the integrated reporting journey, striking an effective balance between these concerns and establishing a comfortable reporting routine may take several iterations across multiple reporting cycles. This being our second integrated report, we acknowledge that we still have some ways to go. Nevertheless, we continue to set in place the building blocks that are helping to bolster our value creation efforts.

CREATING VALUE VIA CHAMPIONING SUSTAINABILITY

One of the tangible manners in which we continue to create value for our stakeholders is via upholding the agenda of sustainability within CMS. By keeping a steadfast focus on responsible business practices and sustainable growth, we continue to create tangible stakeholder value and ensure the Group's long-term success.

The Group's commitment to sustainability is evident in the good progress that we continue to make on the Economic, Environmental and Social or EES fronts. In recognition of our EES achievements, CMS continues to be included as a constituent of the FTSE4Good Bursa Malaysia Index for the fourth consecutive year, with our latest ranking topping the previous one.

▲ *Further insights into the effective EES practices that we are implementing can be found in our 2019 Sustainability Report, our fifth standalone report to date.*

Today, we are working on strengthening our sustainability leadership position by embedding a stronger sustainability culture within our businesses. In line with this, we are in the midst of developing a new Sustainability Blueprint that will provide us with the impetus to move forward and build upon the many impactful sustainability initiatives already in place. These measures will enable us to continue creating value while meeting growing investee company compliance criteria.

STRENGTHENING THE AGENDA OF SUSTAINABILITY

Several developments have taken place that reflect CMS is on track with its agenda of sustainability. One of these is greater involvement by the Group's leadership in sustainability matters. With stronger Board and Management oversight in the area of sustainability today, the agenda of sustainability at CMS has gained a stronger momentum and is being cascaded down across the organisation in a reinvigorated manner.

In late February 2019, a Sustainability Awareness Session for all the Group's Directors and Senior Management including our associate companies was held to review and update the Group's Sustainability Blueprint. The session was conducted by a team from PricewaterhouseCoopers' (PwC) South East Asian Consulting Services Sustainability and Climate Change Leader, who are also helping to develop Bursa Malaysia's Sustainability framework.

" — "

The renewed measure in which CMS is viewing the Group's overall sustainability efforts is evident in the cover of our standalone Sustainability Report 2019 which accompanies this Integrated Annual Report. All these years, the covers of our Sustainability Report mirrored that of our Annual Reports. This year's Sustainability Report features its very own cover underscoring the fact that the agenda of sustainability has become an increasingly important area of focus at CMS. Sustainability at CMS has definitely come into its own.

This was followed by the formation of a Sustainability Working Committee in November 2019 who were accorded a budget of RM270,000 to move things forward. The committee was tasked with both aligning and integrating our business and sustainability priorities based on the United Nation's Sustainable Development Goals (SDGs), as well as with fostering cooperation, collaboration and information sharing pertaining to sustainability across all divisions.

Today, the Sustainability Working Committee continues to work on fleshing out the Sustainability Blueprint. In developing the blueprint, the team is concentrating their efforts on processing data and analyses revolving around three key components, namely comparative analysis and sustainability awareness; materiality assessment and stakeholder engagement; as well as sustainability initiatives.

As the team works out these matters, we are engaging with PwC to help guide us in our efforts. On 10 February 2020, PwC conducted a Sustainability Awareness Session involving CMS' Project Steering Committee helmed by the Group Managing Director and involving the Heads of Divisions and Heads of Departments. Interview sessions are currently underway with all departments and divisions within CMS to understand their existing sustainability metrics. A gap analysis will then be conducted and recommendations made by the target date of April 2020 with a view to strengthening the Group's overall sustainability framework including our sustainability strategy, practices and reporting processes, among others.

DETERMINING WHAT IS MATERIAL TO CMS

To guide us in our sustainability endeavours for financial year 2019 (FY 2019), we reviewed the material matters determined in FY 2018 and found that these were still valid. These material matters stemmed from a materiality assessment exercise that we undertook in November 2018 via an independent consultant. The exercise entailed engagement with both internal and external stakeholders to garner feedback and insights into the sustainability topics that were important or material to both CMS and our stakeholders.

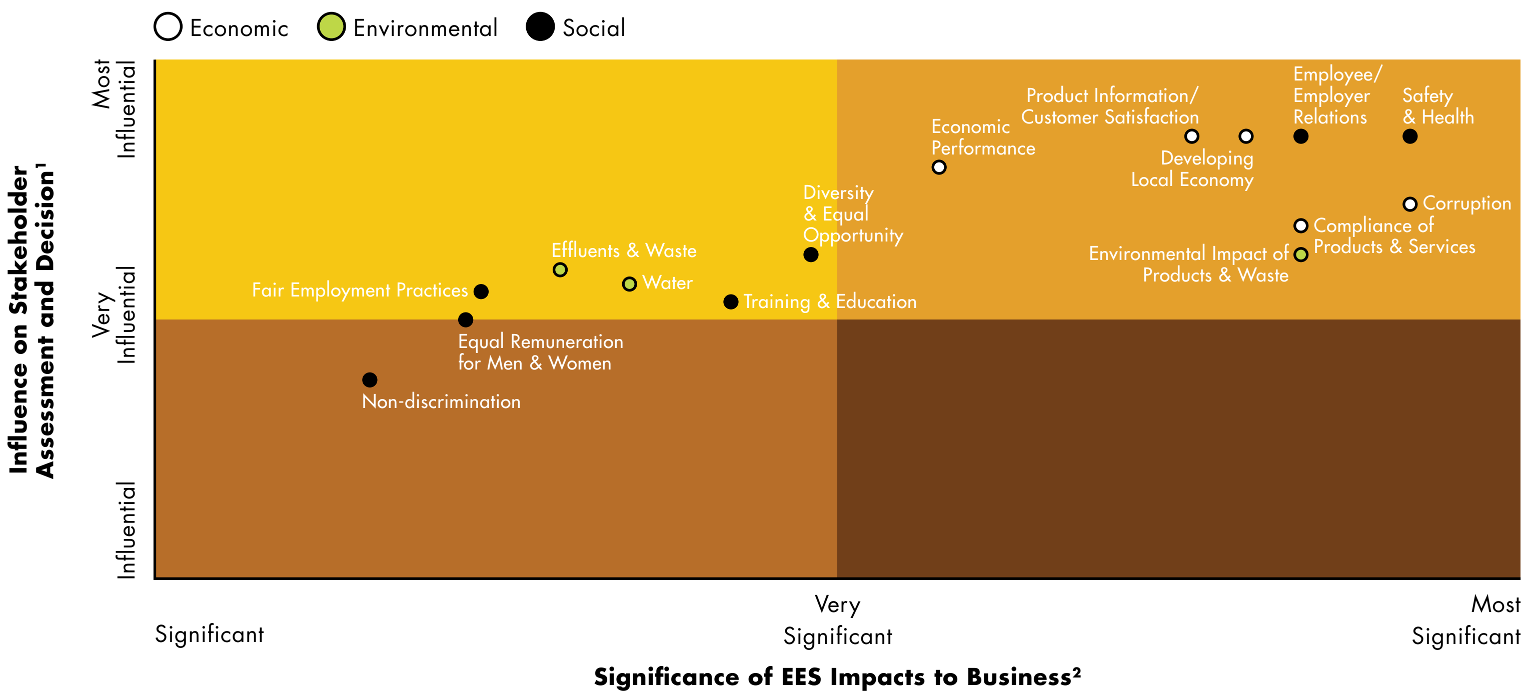
Material topics were defined as those which had a direct or indirect impact on our ability to create, preserve or erode EES value for CMS, our stakeholders and the community. The exercise also involved a review of our materiality matrix to identify the elements which influenced our delivery of value. It provided independent insights to help us validate the issues identified, whilst uncovering new matters of significance to our stakeholders and our business.

METHODOLOGY AND FINDINGS

An online materiality survey was developed and made available to groups of internal and external stakeholders that included employees, local communities, suppliers and vendors, as well as customers, investors and analysts. Our Board of Directors and members of our Senior Management team also participated in the survey with their responses representing the views of CMS. Respondents were requested to indicate how important each criterion was to them on a scale of 1 (least important) to 5 (most important). A 5-point Likert Symmetric Scale was chosen so respondents could specify their level of agreement with 3 being neutral.

Our stakeholder scores ranged from 4.41 to 4.58. As all issues were important to some degree, scales from 'Influential' to 'Most Influential' and 'Significant' to 'Most Significant' were adopted and a materiality matrix developed.

The issues that could impact our ability to create value are presented in the following diagram. As per the diagram, the topics that are most relevant to our stakeholders are plotted towards the top of the matrix; with those towards the right being the most important to CMS. The issues in the top right quadrant are material to both stakeholders and CMS and will be prioritised moving forward. These issues have also been mapped to the EES pillars in line with the holistic approach we have adopted in formulating our business strategies.



As per the matrix, the top five material matters for the 2018/2019 period were as follows:

- Product Information/Customer Satisfaction
- Developing Local Economy
- Safety & Health
- Employee/Employer Relations
- Economic Performance

Axes Definitions

[1] *"Influence on Stakeholder Assessment and Decision" is defined as the importance of a sustainability matter to a stakeholder*
[2] *"Significance of EES Impacts to Business" is defined as the importance of a sustainability matter to CMS*

MOVING FORWARD INTO 2020

As we embrace a new year, the Group will be fine-tuning its sustainability efforts based on the findings of our 2018 materiality assessment and any ongoing materiality analyses by the Sustainability Working Committee as they fine-tune the Sustainability Blueprint. With the new findings in hand and the blueprint to guide us, we will be in a better position to ensure that future integrated reports provide a more balanced, accurate and comprehensive assessment of our strategy, performance and prospects in response to material matters.

Our aim in all this is to present a holistic and clear-cut view of our strategic thinking and responses to the issues that are most significant to our stakeholders and which have the most influence on our long-term value creation efforts. As we make good progress in these areas, we are confident of cementing CMS' position as a progressive and ethical company that is continually creating tangible, sustainable value for its diverse stakeholders.

OUR 2019 PERFORMANCE HIGHLIGHTS AND ACHIEVEMENTS

As Sarawak's leading infrastructure facilitator and a prime mover in the Sarawak growth story, CMS continues to make advances on several fronts. The following are some of our performance indicators and achievements for 2019.

2019 FINANCIAL HIGHLIGHTS

Revenue

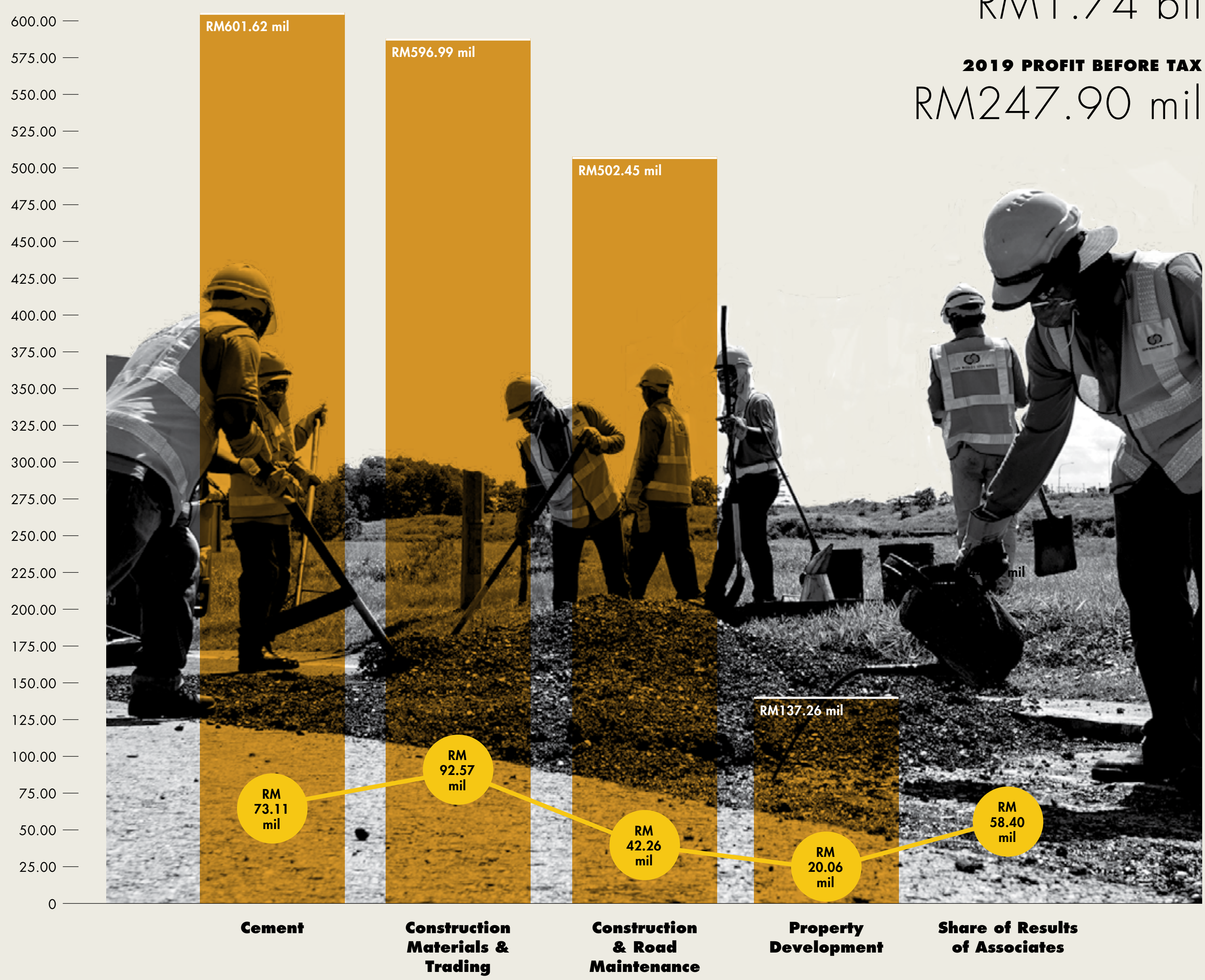
Profit Before Tax

2019 GROUP REVENUE

RM1.74 bil

2019 PROFIT BEFORE TAX

RM247.90 mil



2019 ACHIEVEMENTS

CMS continued to be honoured for its commitment to excellence in the year under review, even as the Group and its subsidiaries made good progress on several fronts.

1 MARCH 2019
COPE NAMED ONE OF TOP 3 'EXIT OF THE YEAR' WINNERS

COPE Private Equity Sdn Bhd's exit from Serba Dinamik was hailed as one of the Top 3 Exits of the Year by global publication, Private Equity International.

13 MARCH 2019
CEMENTING POSITION AS SARAWAK'S LEADING INFRASTRUCTURE FACILITATOR

In March 2019, the PPES Works-CCCC joint venture was awarded the RM466.68 million Package 5 contract pertaining to the proposed construction and completion of the Bintulu-Jepak Bridge Crossing which makes up a part of the Sarawak Coastal Road project. In November 2019, CMS' Construction & Road Maintenance Division was awarded a contract to maintain 3,343 km of State roads thus solidifying CMS' position as a dominant player in the State's road connectivity programme.

1 APRIL 2019
PUBLICATION OF FOURTH STANDALONE SUSTAINABILITY REPORT

CMS' commitment to embedding sustainability within the Group and undertaking good Economic, Environmental and Social measures was underscored through the publication of its 2018 Sustainability Report, its fourth standalone report.

1 AUGUST 2019
CMS REMAINS A CONSTITUENT OF FTSE4GOOD BURSA MALAYSIA (F4GBM) INDEX

As testament to its strong Environmental, Social and Governance (ESG) practices, CMS maintained its position as a constituent of the F4GBM Index for the fourth consecutive year. CMS' F4GBM rank shifted upwards by 32% from 2.2 points (as at July 2016) to 2.9 points (as at July 2019). It is the only Sarawak public-listed company on the F4GBM Index to date.

28 JUNE 2019
CMS RECOGNISED FOR BEST PRACTICE REPORTING AT 2019 ARA

CMS received silver and bronze awards for its sustainability reporting and annual reporting endeavours respectively at the 2019 Annual Australasian Reporting Awards event in Melbourne. The Group's reports were benchmarked against ARA's world best practice criteria.

9 APRIL 2019
CMS RANKED AMONG TOP 10 EMPLOYERS OF CHOICE

CMS bagged fourth place on Jobstreet's Top 10 Employers of Choice 2019 online survey thus attesting to its good HR practices.

4 APRIL 2019
CMS WINS GOLD AT 11TH GLOBAL CSR SUMMIT AND AWARDS 2019

CMS clinched Gold in the CSR Leadership Category at Asia's most prestigious CSR recognition awards programme. Over the tenure of the CMS 'Doing Good' programme, CMS employee volunteers have invested 363,926 man-hours across 393 different projects.

30 OCTOBER 2019
TUAN SYED HIZAM ALSAGOFF NAMED BEST CFO FOR INVESTOR RELATIONS (MID-CAP) IN MALAYSIA

CMS' Group Chief Financial Officer, Syed Hizam Alsagoff, was named the Best CFO for Investor Relations (Mid Cap) at the Malaysian Investor Relations Association's Investor Relations Awards 2019 event. This win reflects the Group's IR unit's aim to ensure transparent and timely communications among the investment community.

Dato Isaac Lugun and Mr Sahil Singh Dev were also nominated as Best CEO and Best IR Professional respectively.

31 OCTOBER 2019
CMS AWARDED THE BRANDLAUREATE – CONGLOMERATE AWARD 2019

CMS was awarded the BrandLaureate – Conglomerate Award 2019 at the BrandLaureate World Best Brands Awards 2019 event in Singapore. This prestigious accolade saw CMS fulfilling stringent criteria to qualify as a brand that impacts communities and represents the best-of-the-best in its respective segments.

21 NOVEMBER 2019
CMS WINS 2019 GLOBAL ROAD ACHIEVEMENT AWARD 2019

CMS Roads Sdn Bhd was one of 12 elite road industry companies globally that was recognised by the International Road Federation (IRF) for its commitment to excellence. The company received the IRF's prestigious Global Road Achievement Award for Quality Management for long-term management and maintenance of State roads in Sarawak.

FULL YEAR 2019
CMS QUALIFIES FOR BURSA MALAYSIA'S GREEN LANE POLICY

CMS remains the only Sarawakian company to qualify as a member of Bursa Malaysia's Green Lane Policy due to its good track record of public disclosure.

UPHOLDING A STRONG EMPLOYEE VOLUNTEERISM CULTURE

In 2019, CMS' employees raised a total of RM86,535.00 and clocked up 43,894 man-hours for CSR activities under the CMS' Doing Good' banner.

GROUP CHAIRMAN'S MESSAGE

We are determined to maintain our growth potential and resilience despite the headwinds besetting us.

Y Bhg Tan Sri Abdul Rashid Bin Abdul Manaf
Group Chairman,
Independent, Non-Executive Director

CMS' Group Chairman Y Bhg Tan Sri Abdul Rashid Bin Abdul Manaf shares his perspectives on the Group's resilient performance, the developments on the value creation, governance and sustainability fronts, as well as CMS' direction moving forward.

TAN SRI, CAN YOU DESCRIBE HOW CMS FARED IN THE FINANCIAL YEAR 2019 (FY 2019)?

While FY 2019 proved to be a highly challenging year, I am pleased to say that Team CMS successfully weathered internal and external headwinds to turn in a resilient performance. Amidst tough operating conditions, the people within our respective business segments worked hard to maintain a laser-focus on their targets and the Group's strategic direction. At the same time, they adapted to change amidst an increasingly challenging playing field to ensure CMS remained relevant to its markets. As a result of these efforts, we registered marginally higher revenue and delivered profits, albeit at a much lower level.

As we set our sights on achieving the Group's ambitions, we will continue to fine-tune our strategies and strengthen our fundamentals. In particular, we have reorganised and streamlined our top management to give us more clarity and focus. This measure, along with others, will help lay solid foundations that will create future value for the Group. As we move forward, we take the lessons learnt from FY 2019 with us, to emerge a stronger, more robust CMS.

HOW DID THE GROUP PERFORM IN FY 2019 AMIDST THE YEAR'S CHALLENGING CONDITIONS? WHAT IS THE PLAN TO GET CMS BACK ON TRACK?

FY 2019 was a tough year for us given the highly challenging market and operational conditions. The year saw global growth decelerate to 2.4% versus 3.0% growth in 2018 – its lowest performance since the global financial crisis. Meanwhile, Malaysia's gross domestic product (GDP) growth slowed to 4.3% in 2019 against GDP growth of 4.7% previously. As for Sarawak's GDP, it grew between 4.5% to 5.0% in 2019 (2018: 2.0%) underpinned by stronger growth in the services and manufacturing sectors, as well as substantial spending on infrastructure.

Against this backdrop, the Group registered revenue of RM1.74 billion and a profit before tax (PBT) of RM247.90 million in FY 2019, a marginal 2% increase in revenue and a dramatic 33% drop in PBT in comparison to revenue of RM1.71 billion and PBT of RM372.32 million previously. The year's softer performance was mainly attributable to the significant decrease in the aggregate contribution from our associate companies, as well as lower operating profits from our traditional core business divisions, namely our Cement, Construction & Road Maintenance, as well as Property Development divisions. Only the Construction Materials & Trading Division posted higher results.

Where in FY 2018, our associate companies accorded the Group a bumper contribution of RM105.34 million, in FY 2019, however, our share of profits from associates dropped noticeably by 45% to RM58.40 million. Our associate, OM Materials (Sarawak) Sdn Bhd in particular, was impacted by weak commodity prices at the onset of 2019. Although the Company's prospects over the immediate-term remain challenging due to macro-economic factors, we remain cautiously optimistic of its longer-term prospects due to its position in the first quartile of the global production cost curve and its strong global presence.

We are also hopeful of the Group's other associate companies including SACOFA Sdn Bhd, KKB Engineering Berhad and Kenanga Investment Bank Berhad. Our 50%-owned associate ICT company, SACOFA Sdn Bhd, recorded a higher contribution of RM42.43 million in FY 2019, a 7% increase over FY 2018's contribution of RM39.67 million. Together with our other associate companies, we expect our strategic investments to continue to deliver decent results. These companies remain integral components of our growth strategy for our strategic investments and are set to drive the next wave of growth for CMS.

To achieve CMS' ambitions, we will continue to fine-tune our strategies, strengthen our fundamentals, as well as reorganise and streamline our top management to give us more clarity and focus. These measures will help lay solid foundations that will create future value for the Group.

As we move forward, we take the lessons learned from FY 2019 with us, to emerge a stronger, more robust CMS.

GROUP CHAIRMAN'S MESSAGE

Under the Group's growth strategy, our traditional core businesses and strategic investments will counter-balance each other over the long-term to equally contribute towards doubling the Group's earnings capacity in the next five years. Having said that, in view of the economic impact of the Covid-19 pandemic on the global and domestic economies, CMS is unable to fully estimate how these very recent developments will affect the Group's businesses moving forward. Rest assured, however, that we are implementing the necessary measures and will continue to adapt and fine-tune our strategies to safeguard the sustainability of our business for the long-term. The finer details of the Group's performance and three-pronged strategy are spelt out in the Strategic Review by the Group Managing Director, the Financial Overview by the Group Chief Financial Officer and the Operational Review sections of this Integrated Annual Report.

WHAT PROGRESS IS CMS MAKING IN ITS INTEGRATED REPORTING JOURNEY THUS FAR?

In this, the second year of our integrated reporting journey, we remain committed to formally demonstrating how we are creating real value for our stakeholders over the short, medium and long-terms. To this end, you will see several new strategic components being brought into play.

By continuing to tell our value creation story in a more formal and transparent manner, we aim to strengthen the confidence of our discerning stakeholders and bolster our position as a preferred company on Bursa Malaysia. We trust that our stakeholders will see some concrete enhancements in our reporting and value creation efforts as we make further inroads in our formal IR journey.

WHAT VALUE DOES CMS CONTINUE TO CREATE FOR ITS STAKEHOLDERS?

CMS is a passionate, people-led organisation which makes every effort to exceed stakeholders' expectations and safeguard the responsibilities it is entrusted with. We continue to implement this by taking a lead on the big issues while upholding our legacy of financial resilience and sustainable growth.

Given the year's weaker performance, CMS registered lower basic earnings per share (EPS) of 14.87 sen and a Return on Equity (ROE) of 6.15% as at end FY 2019 in comparison to basic EPS of 24.45 sen and a ROE of 10.70% as at end FY 2018.

Our dividend policy is adjusted for a net payout ratio of 30% of our annual consolidated PATNCI to shareholders, subject to a minimum of 2.00 sen per share. This is of course subject to the level of available cash and cash equivalents, ROE and retained earnings, projected levels of capital expenditure and other investment plans.

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Under the Group's growth strategy, our traditional core businesses and strategic investments will counter-balance each other over the long-term to equally contribute towards doubling the Group's earnings capacity in the next five years.

Despite the year's softer results, the Board has decided to reward our valued shareholders for their unwavering support and confidence in CMS. To this end, the Board is proposing a first and final tax exempt (single-tier) dividend of 3.00 sen per share in respect of FY 2019 (FY 2018: 7.40 sen per share) subject to shareholders' approval at the forthcoming 45th Annual General Meeting. This represents a payout ratio of 20% and amounts to a total dividend payable of RM32.18 million (FY 2018: total dividend payable of RM79.37 million).

Moving forward, in view of the highly challenging and unprecedented times we are facing, the Board will continue to weigh up the best manner in which to balance out our desire to reward shareholders with the need to preserve an adequate level of cash to maintain our growth trajectory and achieve our next phase of growth.

IN WHAT MANNER IS CMS UPHOLDING RESPONSIBLE CORPORATE PRACTICES?

CMS is today Sarawak's leading infrastructure facilitator and a prime mover in the State's growth story. To make the most of our participation in the State, we continue to leverage on our healthy balance sheet, local knowledge, an experienced management team, proven strategies and a synergised portfolio of Sarawak-based businesses.

Simultaneously, through our involvement in export-oriented industries via our strategic investments in Samalaju, we are opening up opportunities for ourselves and Sarawakians to prosper. As a leading advocate of the Sarawak growth story, the Group continues to explore strategies that will help build and strengthen linkages between markets, businesses and communities, as well as create real value for our diverse stakeholders.

To bolster ties with Sarawak's diverse communities, we launched our 'Building Sustainable Communities' initiative under the 'Doing Good' banner in March 2019. We will tap this platform to work with communities where we can truly make a long-term difference in the area of uplifting lives, enhancing lifestyles and creating growth opportunities.

The year saw CMS employees clocking a total of 43,894 man-hours as they rolled out diverse Corporate Social Responsibility (CSR) activities and raised a total of RM86,535 in funds that was distributed among communities. These efforts continue to enhance the livelihood of the many communities that we operate in and reinforce our position as a friend of Sarawak's communities.

WHAT PROGRESS DID YOU MAKE BY WAY OF GOOD GOVERNANCE AND RISK PRACTICES?

Recognising that good governance translates into good business, the Board is committed to upholding and implementing strong standards of corporate governance, as well as robust risk management and internal control measures. These integral components of our business are helping ensure the sustainable, long-term growth of our businesses, bolstering investor confidence, protecting our corporate reputation, and ensuring continued shareholder value creation.

FY 2019 saw us continuing to undertake a strategic restructuring at the Board level which allowed Datuk Syed Ahmad Alwee Alsree to relinquish all his roles at CMS and retire after having served the Group for more than 15 years. Prior to this, in preparation for the strategic restructuring, we had implemented a planned, measured and robust succession plan.

The year saw CMS employees clocking a total of **43,894 man-hours** as they rolled out diverse Corporate Social Responsibility activities and raised a total of **RM86,535** in funds that was distributed among communities.

For more information, please refer to pages 73-81.

GROUP CHAIRMAN'S MESSAGE

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Having successfully left behind several legacy issues, we can confidently say that the CMS of today is an independent, professionally-run and profitable business on several levels which is answerable to the larger investing community.

Today, we can confidently reiterate the point that CMS is an independent, professionally-run and profitable business on several levels. With over 52% of the Group's equity being held by institutional and foreign shareholder investors and the remainder by scores of individual shareholders, CMS today is answerable to the larger investing community. Having successfully left behind several legacy issues, CMS continues to undergo a strategic transformation that is helping to lay strong foundations for the Group in pursuit of future value creation.

The year also saw us reiterating our commitment to upholding high standards of ethical, moral and legal business conduct. In December 2019, as one of Sarawak's largest corporations, we took definitive and decisive steps against corruption and bribery by hosting an engagement session with hundreds of the Group's vendors, suppliers and partners. At this session, we declared an absolute zero tolerance approach to bribery and corruption and urged all in attendance to do their part in stamping out these practices. We expect our directors, employees, vendors and third-party representatives, as well as stakeholders to do the same.

Over the course of the year, we worked closely with PwC Malaysia in preparation for the introduction of the MACC Act Section 17A's Corporate Liability Provision. Under this initiative, every area of potential risk within CMS is being analysed and overhauled with new procedures and protocols to be implemented before 1 June 2020.

We have even implemented an anonymous reporting process where any employee, representative, supplier or contractor can be reported if they are in breach of CMS' Code of Conduct or Ethics Policies in any way. We take pride in the fact that we are the first Sarawakian company to carry out this exercise with our vendors and other third parties.

In line with the enhanced Malaysian Code of Corporate Governance 2017 (MCCG), as at 31 December 2019, more than 50% of our Board members comprised independent directors reflecting our commitment towards balanced decision-making and equitable outcomes. We also continue to work towards implementing the MCCG criteria concerning gender diversity and the tenure of independent directors.

IN WHAT MANNER IS THE GROUP DEMONSTRATING ITS COMMITMENT TOWARDS UPHOLDING LONG-TERM, SUSTAINABLE BUSINESS GROWTH?

CMS firmly believes that business sustainability plays an integral role in creating sustainable stakeholder value and ensuring the Group's long-term success. We remain genuinely committed to balancing out our economic performance with responsible environmental and social considerations to ensure we deliver a sustainable performance.

This commitment is underscored through the publication of our fifth standalone Sustainability Report and inclusion on the FTSE4Good Bursa Malaysia Index for the fourth consecutive year. I am pleased to say that as a result of new information that we disclosed in our 2018 Sustainability Report, our FTSE4 Good rank shifted upwards by 0.7 points or 32% from 2.2 points (as at July 2016) to 2.9 points (as at July 2019). We also maintained our position as one of the Qualifying Companies under Bursa Malaysia's Green Lane Policy. These achievements highlight the fact that we continue to make solid progress as we rollout effective Economic, Environmental and Social (EES) practices, as well as entrench ourselves as a progressive and ethical company.

On top of this, CMS was amongst just 12 elite road industry companies from around the world to be recognised by the International Road Federation (IRF) at their prestigious annual Gala Awards Dinner in Las Vegas (Nevada, the USA) in December 2019. The Group received the IRF 2019 Global Road Achievement Award for 'Quality Management – Long-term Management and Maintenance of State Roads in Sarawak'.

CMS also bagged several awards for its commitment to excellence on diverse fronts. These included a Silver award for our achievement in sustainability reporting and a Bronze for annual reporting at the 2019 Annual Australasian Reporting Awards (ARA); the BrandLaureate – Conglomerate Award 2019 at the BrandLaureate World Best Brands Awards 2019; as well as the CSR Leadership Gold Award at the Global CSR Awards 2019. CMS was also ranked among the Top Four companies in JobStreet's 'Top 10 Employers of Choice' survey thus attesting to our progressive practices.

WHAT IS THE OUTLOOK FOR THE GROUP MOVING FORWARD?

CMS is determined to maintain its potential and resilience despite the headwinds besetting us. We are taking the necessary measures to ride the Covid-19 storm out and are positioning ourselves to capitalise on opportunities in the post-MCO period. With our healthy balance sheet and diverse portfolio of businesses, CMS is well-positioned to benefit from all key economic drivers in Sarawak.

We expect growth opportunities to come through OM Materials (Sarawak) Sdn Bhd and Malaysian Phosphate Additives (Sarawak) Sdn Bhd in the Sarawak Corridor for Renewable Energy (SCORE); via SACOFA Sdn Bhd in the State's push to fully embrace the Digital Economy; and through the Cement Division, PPES Works (Sarawak) Sdn Bhd and our other construction materials supply companies even as the Pan Borneo Highway project and other major infrastructure projects announced by the State Government begin to ramp up. We are also confident that as our relationship with the State and Sarawak Economic Development Corporation (SEDC) strengthens, we will be in a strong position to partner with them on several major jobs for our traditional businesses.

We believe that by continually posting resilient and profitable results, as well as by upholding stellar business ethics, transparency and absolute dedication to compliance, CMS is well on its way to becoming 'Sarawak's Most Admired Company'. Your Board is confident that as CMS sets its sights on rolling out specific strategies, maintaining its independence, as well as upholding the rule of law and strong governance practices, we will deliver a satisfactory performance for the new financial year unless unforeseen circumstances arise.

IN CLOSING, WHO ARE THE PARTIES THAT YOU WOULD YOU LIKE TO ACKNOWLEDGE?

Many parties have played a part in our continuing success and we owe them a debt of gratitude. On behalf of the Board of CMS, I would like to express my deep gratitude to our valued shareholders for their resolute trust and confidence in CMS. My most sincere appreciation to all our direct employees, as well as the Management teams and the Boards of all our Group's companies, for their hard work, dedication and commitment to excellence.

As CMS sets its sights on rolling out specific strategies, maintaining its independence, as well as upholding the rule of law and strong governance practices, we will deliver a satisfactory performance for the new financial year unless unforeseen circumstances arise.

Please join me in bidding farewell to Datuk Syed Ahmad Alwee Alsree, our Group Executive Director, who has been a loyal and faithful servant of CMS since 2004. His contributions to the development and growth of CMS are immeasurable and we thank him for his worthy contributions as he retires from all positions. We also want to applaud the worthy contributions of Datu Hubert Thian Chong Hui, our Independent, Non-Executive Director, who faithfully served the Board from 2012 until his retirement in February 2020. We wish both these gentlemen every success in their future endeavours.

We are also delighted to see Dato Isaac Lugun, a native of Sarawak, with an impeccable track record in his 24 years with the Group, taking on the position of Group Managing Director.

At this juncture, please also join me in extending a warm welcome to Datuk Ir. Kamarudin Zakaria as our Non-Independent, Non-Executive Director. We are delighted that he has come onboard and believe that CMS has much to gain from his expertise and experience of over 35 years in the petrochemical industry.

A note of thanks must go to the many external partners that work together with us and whose cooperation and professionalism have been crucial to our success. My deep gratitude also goes to our valued customers and clients, bankers, government departments and agencies, vendors, suppliers and all others who have lent us their unwavering support.

Last but not least, our sincere gratitude to the Sarawak State Government and its agencies for continuing to develop the State. Not forgetting our joint venture partners, the SEDC and our co-shareholders in our strategic investments – we sincerely thank you for all your worthy support.

As CMS steps forward amidst a highly competitive playing field, we call upon all our stakeholders to lend us their staunch support as we work together to take CMS forward amidst unprecedented times. Thank you.

STRATEGIC REVIEW BY THE GROUP MANAGING DIRECTOR

Group Managing Director, Y Bhg Dato Isaac Lugun discusses the year's challenges, CMS' three-pronged strategy and the host of innovative measures that CMS is undertaking to pick up the pace and fast-forward its ambitions.

DATO, HOW WOULD YOU DESCRIBE THE YEAR THAT WAS 2019 FOR CMS?

To put it simply, financial year 2019 (FY 2019) was a very trying year for us. Where we had initially laid out a solid strategy and hoped to maintain the strong momentum gained in FY 2018 to reach our main target of achieving an annual PATNCI of RM500 million within five years, things did not turn out as we had hoped for. The year saw our core businesses hit hard by external headwinds and ongoing operational and political challenges.

In the wake of the prolonged US-China trade tensions which adversely impacted the global economy, as well as currencies and commodity prices, our associate company, OM Materials (Sarawak) Sdn Bhd or OMS – which was also FY 2018's star performer – posted significantly weaker results. In fact, CMS' share of profits from all our associates dropped noticeably by 45% to RM58.40 million from RM105.34 million previously, mainly because of OMS' weaker performance. Due to increases in the costs of imported raw materials and coal, as well as higher scheduled Repair and Maintenance (R&M) costs for its three plants, our Cement Division – the Group's core PBT driver – posted a 19% drop in PBT despite posting higher revenue. Our Construction & Road Maintenance Division's profitability too was affected by cost revisions for the Pan Borneo Highway project and retrenchment compensation due to the closure of nine of its 18 Road Maintenance Units (RMUs). Our RMU employees had to be laid off in light of the shorter road length to be maintained under a revised State contract. In fact, with the exception of our Construction Materials & Trading arm, all our traditional core businesses reported weaker performances.

The changing political landscape too continued to impact our businesses. As predicted, we saw the emergence of new players in almost every sphere of our operations. Where SACOFA Sdn Bhd (Sacofa) had exclusive rights before, for the first time, we saw other companies moving into our playing field. On the road maintenance front, three other players entered the market. As a result, we are now only tasked with maintaining about half of the road length of what we used to maintain before. We expect competition to intensify and impinge upon our businesses in pretty much all business segments.

While all these events weighed down on our overall results, on the bright side though, some of our associate companies continued to show much promise. In FY 2019, our 50%-owned associate, Sacofa recorded a 7% increase over FY 2018's contribution, while the Group's other associate companies, namely KKB Engineering Berhad (KKB) and Kenanga Investment Bank Berhad (Kenanga) too posted heartening results.

STRATEGIC REVIEW BY THE GROUP MANAGING DIRECTOR

GIVEN THIS SETBACK, IS YOUR FIVE-YEAR VISION STILL ATTAINABLE?

Barring unforeseen circumstances, our ambition of achieving an annual PATNCI of RM500 million within five years and realising our softer target of becoming the most admired Sarawak public-listed company are still very realistic targets to us. While we had some setbacks in FY 2019, we are hopeful of getting back on track in due course to regain whatever momentum we have lost.

How will we get there you might ask? Well, our initial two-pronged strategy has now evolved into a three-pronged one in response to the increasingly challenging political and business landscape. The three-pronged strategy isn't anything new; it just allows equal focus to be accorded to all three prongs and the relevant resources brought into play to move things forward.

UNDER THE THREE-PRONGED STRATEGY, TEAM CMS WILL WORK TO:

1. **Reposition and Fortify our Traditional Core Businesses**
2. **Fully Implement and Grow our Strategic Businesses**
3. **Reposition and Strengthen the CMS brand**

CAN YOU ELABORATE ON THE FIRST PRONG OF YOUR STRATEGY?

The first prong will see us continuing to strengthen and defend our traditional core businesses – namely our Cement, Construction Materials & Trading, Construction & Road Maintenance, and Property Development businesses. By making them more efficient, we aim to realise more value from them. These businesses are expected to generate 50% of our PATNCI or RM250 million per year in five years' time.

To reposition and fortify the Group and our traditional core businesses, these are the measures that are being undertaken:

GROUP-WIDE

Across the CMS Group

Status/Ongoing Measures

- CMS remains the largest listed company in Sarawak due to its strong balance sheet and cash position. Going forward, it will focus on collaboration with the Government and various stakeholders to maximise business potential and ensure mutually beneficial relationships.
- CMS has also embarked on a Group-wide Digital Transformation exercise to operate on a single unified platform which will improve productivity, cost efficiency, accessibility and digital security in the long-term.

TRADITIONAL CORE BUSINESS SEGMENT

Cement Division

Status/Ongoing Measures

- Upon the Movement Control Order or MCO lifting, the Division will focus on improving its clinker plant production capacity to maximise production as:
  - The price of imported clinker continues to crimp the margin; and
  - There is a need to mitigate the high maintenance costs especially in relation to the aging clinker plant.
- Barring unforeseen events, we are hopeful that the unprecedented spike in major infrastructure projects in Sarawak in the run-up to the 2021 State elections will increase demand and revenue for the Division.

Construction Materials & Trading Division

Status/Ongoing Measures

- Post-MCO, the Division will leverage on a second 1.3 MTpa line at the Sibanyis quarry and a 1-MTpa production line from the recently acquired Borneo Granite operations to significantly increase production.
- A plan is underway for the Division to develop its own quarry sand supply source.
- Barring unforeseen circumstances, we are hopeful that the unprecedented spike in infrastructure projects in Sarawak in the run-up to the 2021 State elections will result in increased demand and revenue.

Construction & Road Maintenance Division

Status/Ongoing Measures

- Although the Division has lost half of its road maintenance contract, it will still continue to play a dominant role on the State road maintenance front. Today, it is well-positioned to bid for future road maintenance contracts due to its vast experience and inventory of cutting-edge equipment and technology.
- The Division continues to undertake works on the RM466.68 million Coastal Road package (Bintulu-Jepak Bridge) project which was awarded to the PPES Works-CCCC joint venture in March 2019.
- If all goes as planned, the unprecedented spike in infrastructure projects in Sarawak in the run-up to the 2021 State elections will present more work opportunities.

WHAT WILL THE SECOND PRONG OF YOUR STRATEGY ENTAIL?

The second prong mandates that we ramp up our efforts on the strategic investment front even as some of these businesses begin to bear fruit. If all goes as planned, our expectation is that these businesses contribute the other 50% of PATNCI or RM250 million per year in five years' time. We are hopeful that our ferrosilicon and manganese alloys smelter operations under OMS will generate RM100 million upon realising its second phase by 2022; the integrated phosphate complex under MPAS will generate RM100 million when both Phase 1 and 2 are completed by 2023; and Sacofa will turn in RM50 million in PATNCI to CMS by then. On top of this, both Kenanga and KKB are expected to provide us additional upside potential.

To fully implement and grow our Strategic Investments, these are the measures that are being undertaken:

STRATEGIC BUSINESS SEGMENT

OM Materials (Sarawak) Sdn Bhd (OMS)

Status/Ongoing Measures

- The prospects for this Company are challenging and in the immediate term will be impacted by:
  - The trade war between China and the US;
  - The recent weak commodity prices; and
  - The uncertainties brought on by the Covid-19 outbreak have taken a heavy toll on the global economy and also caused supply chain disruption to OMS.
- However, the Group remains confident of OMS' longer-term prospects owing to its strong underlying fundamentals due to its position in the first quartile of the global production cost curve and its strong global presence.
- With its initial expansion plans having taken off, OMS is working on the design and preparation for Phase 2 of the project which is targeted for completion by 2022.

Malaysian Phosphate Additives (Sarawak) Sdn Bhd (MPAS)

Status/Ongoing Measures

- Work on Phase 1 commenced on 1 September 2018 and is scheduled for completion and commissioning in 4Q 2020. Full production is targeted to take place by 1Q 2021 barring unforeseen circumstances.
- The plant has secured 60% of long-term commitments for both raw material supply and product offtake.

SACOFA Sdn Bhd (Sacofa)

Status/Ongoing Measures

- While competitors have emerged in the tower construction business, the Company is confident of maintaining its dominance due to its first-mover advantage.
- Barring unforeseen events, the prospects for the Company remain positive as it capitalises on the State's push to fully embrace the Digital Economy with a State allocation of RM1 billion for the development of telecommunications infrastructure. Today, despite the MCO, Sacofa continues to operate as it is deemed to be providing essential services.

Meanwhile, associates Kenanga and KKB continue to do well. Aside from its water grid-oriented capabilities which puts KKB in a very competitive position with regard to the State Water Grid project, the Company continues to enjoy the higher revenues from both its Engineering and Manufacturing businesses especially from its steel pipes manufacturing operation. KKB turned in a record revenue and stellar 163.47% hike in PBT in FY 2019 and we are benefiting from our 20.05% equity stake in the Company.

STRATEGIC REVIEW BY THE GROUP MANAGING DIRECTOR

AND HOW DO YOU SEE THE THIRD PRONG OF THE STRATEGY PLAYING OUT?

Last but not least, in response to the changing political landscape, we will reposition the CMS brand by undertaking specific initiatives.

One of these measures involves the strengthening of the Group's Sustainability practices. At CMS Board Retreat in September 2018, a major issue discussed was the Group's strategic response to the changing political landscape. It was decided to reposition the CMS brand by strengthening the Group's Sustainability agenda. In line with this, the Group is in the process of reviewing and updating the CMS Sustainability Blueprint which was approved by the Board in 2015. To kick that off, a Sustainability Awareness Session was organised on 25 February 2019 which was conducted by PwC Malaysia. Following this, the Group has held multiple meetings with PwC to discuss a comprehensive review of its Sustainability Blueprint. In November 2019, the CMS Board gave its approval to proceed with this exercise under the guidance of PwC. This exercise will be carried out and implemented in stages between 2020 and 2022.

▲ *Refer to the sub-section titled 'Determining What is Material to CMS' in this Annual Report, as well as our standalone Sustainability Report 2019 for more insights in this area.*

To strengthen the CMS brand, we will also solidify employee volunteerism and the momentum of the 'CMS Doing Good & Building Sustainable Communities' programme. Engagement efforts are underway on a Group-wide basis to foster employee volunteerism in a manner in which our people take strong ownership of CMS Doing Good projects that are relevant to their communities. At the same time, as part of efforts to strengthen our brand, we will ensure corporate donations are redirected in a manner which truly impact beneficiaries for the better while enhancing CMS' reputation.

▲ *Refer to the sub-section titled 'Nurturing People, Sustaining Communities' in this Annual Report, as well as our standalone Sustainability Report 2019 for more insights in this area.*

We believe that by setting all these measures in motion and keeping a laser-focus on the outcomes, we can and will move on to the next phase of CMS' growth.

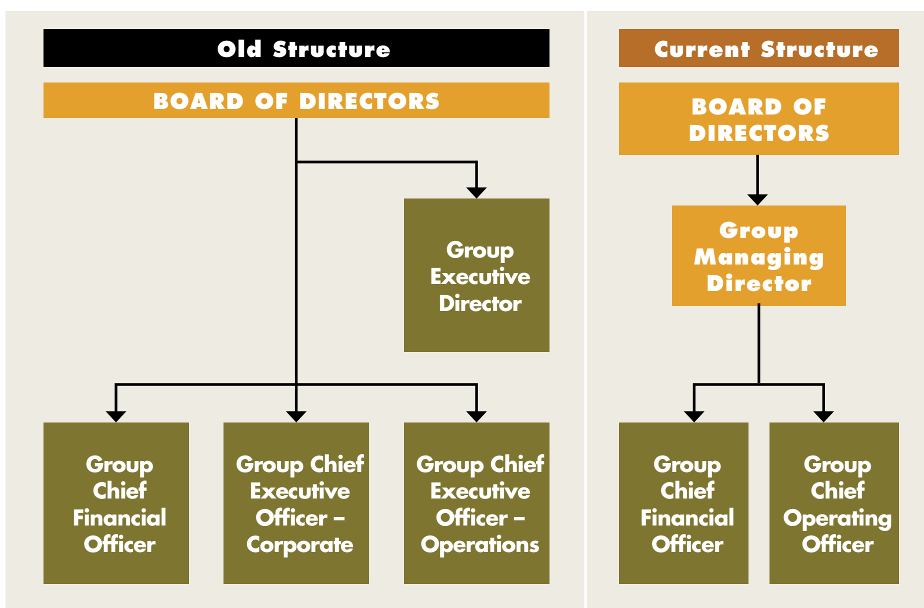
For more details on the three-pronged strategy, go to the section titled "Creating Future Value" on pages 94 to 101 of this Annual Integrated Report.

HOW WILL YOU SUPPORT YOUR STRATEGIC MANDATE?

To intensify business growth, we have brought and are bringing several supporting initiatives into play:

The history of CMS has shown that growth can only happen if there is a sustained, dynamic, cohesive and engaging leadership in place. To maintain the momentum that we want to achieve, it is very important to have a very stable team in place for the long-term. To this end, we continue to strengthen leadership across the Group. This exercise also serves to reflect the true shareholding of CMS and dispel the myth that it is a family-owned and family-controlled company. To date, all executive positions and the subsidiary Boards are filled by professionals who bring a wealth of expertise and experience to the table.

Our new, simpler structure aims to provide the top leadership structure with more clarity and focus.



We are also embracing digitalisation and innovation in a more robust manner. To this end, we have embarked on a Group-wide Digital Transformation exercise which will eventually see all our businesses operate on a single unified platform. This move to embrace 'all things digital' aligns with the State's own Digital Economy aspirations and we are confident that this will do much to strengthen productivity, cost efficiency, accessibility and digital security across the board for the long-term. CMS' Digital Transformation initiative, which will span the period 2019 to 2023, was rolled out in 2019. We have also expanded the capabilities of our R&D laboratories in the cement and premix areas and are making good inroads on the product innovation front. Innovation will undoubtedly be a game changer for CMS and we are committed to pursuing this wholeheartedly.

> CMS' Digital Transformation initiative, will do much to strengthen the Group's productivity, cost efficiency, accessibility and digital security for the long-term.

We continue to review our participation and stakes in certain businesses (including businesses with links to the Government) to ensure we derive the best return on investment. We are also bolstering our 'Achilles heels' or the weakest links within CMS by reducing our reliance on government contracts which we have been working on over the years. To strengthen our efforts in securing contracts through open tender, we are taking immediate steps to strengthen our tendering unit. We also continue to elevate our efforts to ensure we are in strict compliance with all laws and regulations.

HOW WILL YOU OVERCOME THE COMPETITION THAT SEEMS TO BE EMERGING IN MARKETS THAT WERE ONCE YOUR STRONGHOLDS?

CMS welcomes competition and we accept that we cannot remain the only player in any business that we operate in. This is especially true following the changes in the political landscape and the emergence of various competitors within the market segments that we play in. We believe that competition is healthy for business as it drives companies to remain competitive and remain innovative.

While we expect to see new players emerge in every area of our traditional core businesses, we take confidence in the fact that we hold pole position and a first-mover advantage in almost every one of these businesses given our established foothold and strong track record for some time now.

Our objective is to grow our dominance in these areas where new players are emerging. By way of our cement business, we remain the only cement producer in Sarawak for now. While that role has been questioned and our pricing policy has been investigated, we have had nothing to hide. In fact, we welcome competition. We have built a cement plant to meet the anticipated spike in demand and with our additional capacity, strategically-located terminals to manage the supply, and the transportation to move it, we continue to reinforce our position of strength in this segment.

STRATEGIC REVIEW BY THE GROUP MANAGING DIRECTOR

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Today, CMS is the only Sarawakian company with a footprint in the Sarawak Corridor for Renewable Energy (SCORE) and that bodes well for us.

We also continue to bolster our position on the road maintenance front. While our RMUs were reduced by half, we still have good people, cutting-edge technology and equipment, as well as solid financial backing in place in comparison to any competition. Our proven track record and recognition at the international level too further entrenches CMS Roads Sdn Bhd as a key player in this segment. All in all, the Group is still well-positioned to continue playing a dominant role on the State road maintenance front.

Even as we anticipate a host of new players coming, we are working to ensure that we remain the most efficient that we can be in each of these areas. We are confident of securing opportunities not because of any perceived linkages but because we intend to be the best creator of value in all that we set our hands to.

In terms of our strategic investments, our rationale for investing in Samalaju was because of its energy pricing which is one of the most competitive in the world. We looked at a whole lot of energy businesses to secure our future and we saw that renewable energy was key. It is the one asset that Sarawak as a State has ample resources of. It was this attraction in particular that saw us making strategic investments in OMS and MPAS. Where many of our global competitors have had to close down their plants, we have been able to keep our operations ongoing simply because our energy overheads are so much lower than theirs.

Today, CMS is the only Sarawakian company with a footprint in SCORE and that bodes well for us. Where our businesses have been too concentrated in Sarawak and the construction sector, we have sought to move away from these areas through diversification. Our strategic play in Samalaju is one such example of our diversification. Our move in manufacturing commodities via SCORE will help counterbalance this. With everything in Samalaju set to be exported overseas, we can leverage on this to grow other areas of opportunity. Our priority is to consolidate our strategic businesses and expand our footprint in SCORE. Once we implement both phases of OMS and MPAS, we anticipate to experience accelerated growth.

WHAT ARE SOME OF THE ELEMENTS THAT WILL HELP YOU MAINTAIN YOUR GROWTH MOMENTUM?

We have Key Foundation Stones that underly our strategy. These encompass:

- A visionary, unified and engaging leadership;
- The introduction of transformational efficiencies into all businesses focusing on innovation, quality, cost and delivery through the employment of digital technology; and
- The strengthening of the agenda of Sustainability as a culture within CMS with an emphasis on care for our customers, the environment, our employees and communities.

There are also specific values that will help engender our growth momentum. These are:

- Integrity, passion, grit, teamwork and accountability which combined will be the guiding light for the strategy.

As we roll these out, we will leverage on our very effective employee engagement programmes which include annual townhall visits. We want everyone within CMS to be on board and be aware of the fact that we have a very clear plan moving forward. This is especially vital when leadership changes are taking place.

On a bigger scale, CMS is in a position to bring its resources to bear, to help the State Government in many ways as our track record has shown. Our goal is to work together, not just for mutual benefit but for the benefit of the State and its people. All in all, CMS will aim towards strong collaboration with various stakeholders including the Government to ensure a mutually-beneficial business environment.

WHAT IS THE OUTLOOK FOR THE GROUP AND HOW WILL YOU ACHIEVE YOUR TARGETS MOVING FORWARD?

CMS is well-positioned to benefit from the key economic growth drivers in the State. These include the energy-intensive industries under SCORE; impactful infrastructure development projects such as the Pan Borneo Highway, Coastal Road, Second Trunk Road and Baleh Dam, as well as upcoming water and electricity grid projects; plus, the rollout of the State's Digital Economy initiative.

Moving forward, our traditional core Cement, as well as Construction Materials & Trading and Construction & Road Maintenance businesses are expected to deliver steady performances despite the operational challenges they face. They are expected to benefit from the Pan Borneo Highway project which has received full backing from the Federal Government and is expected to drive the State's construction sector over the next two to three years. The State Government has increased its spending on infrastructure whereby a record budget of RM9.07 billion has been set aside for development projects. This will include part of the funding for the implementation of several major infrastructure projects including the Coastal Road, Second Trunk Road and the State's water and electricity grid projects. With these projects underway, Sarawak is set to experience pockets of increased construction activity, whereas most research houses have lowered their outlook for the construction sector in Peninsular Malaysia.

On the strategic businesses front and through our equity stakes in OMS and MPAS (in which we have increased our stake to 60%), we will leverage on the competitively priced hydro energy at SCORE to strengthen our competitive advantage, while Sacofa is expected to benefit from the State's push to fully embrace the Digital Economy. Meanwhile PPES Works (Sarawak) Sdn Bhd, a joint venture with the Sarawak Economic Development Corporation (SEDC), and our other construction materials supply companies, will register growth from the rollout of activities related to the Pan Borneo Highway project and other major infrastructure projects.

Baring unforeseen circumstances, we believe that our vision of attaining an annual PATNCI of RM500 million within five years and of realising the softer target of becoming the most admired Sarawak public-listed company are achievable targets. To this end, we will leverage heavily on our three-pronged strategy to get to where we want to get to. We will continue to work with our strategic partners to derive the best value and achieve our target. With MPAS having become a 60% subsidiary, we have management control of the company. Together with a core management team in place (and which we continue to build upon), we will work hard to ensure that CMS maintains its growth potential and resilience in spite of the expected continuing headwinds. We are clear about what we want to achieve and are ready to go all out to achieve it.

▲ *For detailed information on CMS' efforts to mitigate the effects of the Covid-19 pandemic on its businesses, refer to the Top Business Risks and Mitigation Strategies section.*

WHAT KEY LESSONS DID YOU GARNER FROM THE YEAR IN REVIEW?

As we embrace a highly competitive and ambiguous landscape, characterised by disruption on so many levels, business unusual will be the norm. The key is to continue evolving to remain relevant in the face of the daunting challenges.

Competition is good for everyone. While we will be one among many players, if we choose to be the best player, that will enable us to stand out from the clutter. At the same time, we have to be open to collaboration and cooperation. It will take some time for perceptions to change and new ideas to sink in. It is all very much work in progress as seen by the some of the big steps we took in FY 2019 to reinvent ourselves. The one big takeaway from all this is that we MUST continue to evolve if we are to remain relevant.

FINANCIAL OVERVIEW BY THE GROUP CHIEF FINANCIAL OFFICER

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CMS' Group Chief Financial Officer, Tuan Syed Hizam Alsagoff, provides an overview of the Group's financial performance in financial year 2019 and the prospects for its businesses amidst a highly challenging playing field.

HOW WOULD YOU SAY CMS PERFORMED IN FY 2019?

CMS had to contend with a highly volatile and difficult operating environment in FY 2019 brought on by headwinds on the external and domestic fronts. Against a highly challenging backdrop, the Group reported revenue of RM1.74 billion for FY 2019, a marginal 2% improvement over revenue of RM1.71 billion garnered in FY 2018. However, the Group's profit before tax profit (PBT) contracted by 33% to touch RM247.90 million in comparison to PBT of RM372.32 million in the preceding year.

CAN YOU ELABORATE ON HOW THE GROUP ACHIEVED ITS RECORD REVENUE OF RM1.74 BILLION IN FY 2019?

At RM601.62 million, the Cement Division was the highest revenue contributor turning in 33% of Group revenue, followed by the Construction Materials & Trading Division (RM596.99 million), Construction & Road Maintenance Division (RM502.45 million) and Property Development Division (RM137.26 million). The latter three divisions contributed 29%, 28% and 8% of the Group's revenue respectively.

All Divisions, except for Construction & Road Maintenance Division, reported higher revenue in FY 2019:

- The Cement Division's revenue improved by 8% to RM601.62 million (FY 2018: RM557.85 million) on the back of higher sales volume for its cement and concrete products;
- The Construction Materials & Trading Division's revenue grew 7% to RM596.99 million (FY 2018: RM559.27 million);
- The Construction & Road Maintenance Division saw its revenue decreased by 9% to RM502.45 million (FY 2018: RM554.21 million);
- The Property Development Division registered a 4% improvement in revenue to RM137.26 million (FY 2018: RM132.22 million).

Meanwhile on the strategic investments front, the Group garnered revenue amounting to RM9.97 million compared to revenue of RM9.63 million previously.

FINANCIAL OVERVIEW BY THE GROUP CHIEF FINANCIAL OFFICER

The Group's segmental revenue contributions are as follows:

Segmental Revenue – FY 2019 vs FY 2018

	12 months ended	
	31.12.2019 RM'000	**31.12.2018 RM'000**
Segment Revenue		
Cement	**601,621**	557,852
Construction Materials & Trading	**596,986**	559,274
Construction & Road Maintenance	**502,446**	554,212
Property Development	**137,261**	132,217
Strategic Investments*	**9,967**	9,632
Others	**68,576**	71,089
Total revenue including inter-segment sales	**1,916,857**	1,884,276
Elimination of inter-segment sales	**(176,329)**	(172,032)
	1,740,528	1,712,244

* *Note: Included in Strategic Investments are CMS Capital and CMS Education.*

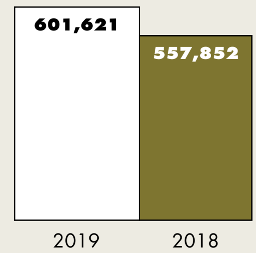
	2019 RM'000	**2018 RM'000**
Revenue	**1,740,528**	1,712,244
Cost of sales	**(1,457,310)**	(1,368,283)
Gross profit	**283,218**	343,961
Other item of income		
Interest income	**2,549**	3,018
Other income	**41,453**	37,906
Other item of expense		
Administrative expenses	**(60,303)**	(54,159)
Selling expenses	**(17,292)**	(17,042)
Finance costs	**(41,952)**	(37,285)
Other expenses	**(17,589)**	(8,869)
Share of results of associates	**58,396**	105,340
Share of results of joint ventures	**(584)**	(546)
Profit before tax	**247,896**	372,324
Income tax expense	**(59,779)**	(75,078)
Profit net of tax	**188,117**	297,246

Gross profit

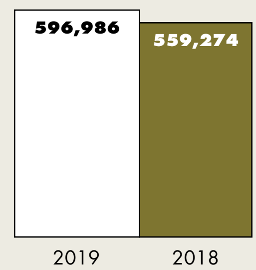
Despite the higher revenue, gross profit for FY 2019 decreased on the back of lower gross profit margins from the Cement and Construction Materials & Trading Divisions.

SEGMENT REVENUE

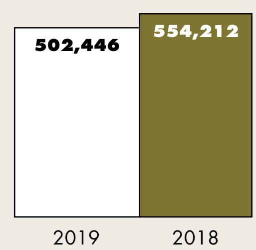
CEMENT RM'000



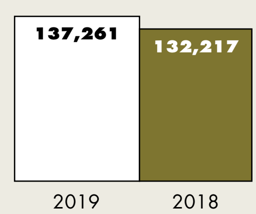
CONSTRUCTION MATERIALS & TRADING RM'000



CONSTRUCTION & ROAD MAINTENANCE RM'000



PROPERTY DEVELOPMENT RM'000



Other income

There was a significant increase in other income in FY 2019, mainly due to the reversal of provision of remedial works on soil erosion.

Finance costs

The increase in finance costs was mainly due to the interest on lease liabilities from adoption of MFRS 16, interest on additional borrowing for the construction of the phosphate plant, and interest expensed off upon land surrender.

Share of results of associates

The year's weaker performance was due to the significantly lower contribution by OM Materials (Sarawak) Sdn Bhd as a result of global trade war and weak commodity prices.

KINDLY ELABORATE ON THE GROUP'S PROFITABILITY.

The softer performance in FY 2019 was mainly attributable to the significant decrease in the aggregate contribution from our associate companies. Share of results of associates dropped to RM58.40 million in FY 2019 in comparison to the bumper contribution of RM105.34 million in FY 2018. Lower operating profits from CMS' traditional core business divisions, namely our Cement, Construction & Road Maintenance and Property Development Divisions also adversely impacted FY 2019's performance.

All the Divisions except for the Construction Materials & Trading Division reported lower results. PBT, excluding associates and joint-ventures amounted to RM190.08 million, which was RM77.45 million or 29% lower than FY 2018's PBT of RM267.53 million.

Profit after tax and non-controlling interests

The Group's profit after tax and non-controlling interest (PATNCI) too decreased by 39% to RM159.46 million in comparison to PATNCI of RM262.14 million the preceding year. As a result of the lower PATNCI, return on shareholders' equity (ROE) declined to 6.15% against a ROE of 10.70% in FY 2018, while basic earnings per share (EPS) declined to 14.87 sen in comparison to EPS of 24.45 sen reported previously.

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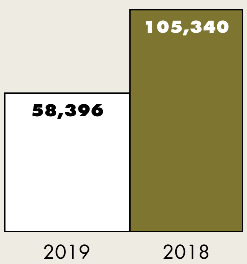
PBT excluding associates and joint-ventures amounted to RM190.08 million.

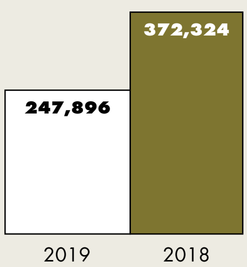
FINANCIAL OVERVIEW BY THE GROUP CHIEF FINANCIAL OFFICER

HIGHLIGHTS OF CONTRIBUTIONS BY KEY BUSINESS SEGMENTS

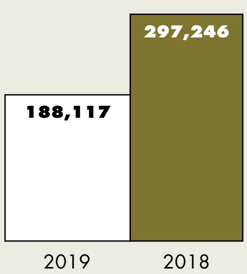
SHARE OF RESULTS OF ASSOCIATES RM'000



PROFIT BEFORE TAX RM'000



PROFIT FOR THE YEAR RM'000



Highlights of contributions by key business segments (in terms of PBT)

	2019 RM'000	2018 RM'000
Segment Results		
Operating profit/(loss):		
Cement	**73,113**	90,141
Construction Materials & Trading	**92,571**	71,293
Construction & Road Maintenance	**42,264**	90,382
Property Development	**20,061**	33,591
Phosphate	**(2,484)**	-
Strategic Investments	**(3,326)**	(2,059)
Others	**3,028**	11,724
	225,227	295,072
Unallocated corporate expenses	**(35,143)**	(27,542)
Share of results of associates	**58,396**	105,340
Share of results of joint ventures	**(584)**	(546)
Profit before tax	**247,896**	372,324
Income tax expenses	**(59,779)**	(75,078)
Profit for the year	**188,117**	297,246

The respective performances of the Group's Divisions in FY 2019 are analysed as follows:

Cement Division

Despite an 8% improvement in its FY 2019 revenue, the Division's PBT declined 19% to RM73.11 million as compared to RM90.14 million in FY 2018. This came on the back of increased production costs mainly due to scheduled maintenance and higher raw material prices including clinker and coal. Imported clinker prices have escalated due to higher demand from regional markets coupled with reduced supply from China. To address this issue, we are focusing our efforts on improving the clinker plant's operational efficiency to reduce reliance on imported clinker hence reducing the plant's maintenance cost.

Construction Materials & Trading Division

The year saw the Division's 30% PBT growth outpacing its 7% revenue growth. The Division posted PBT of RM92.57 million in FY 2019 against PBT of RM71.29 million in FY 2018. The higher PBT was attributable to the year's higher revenue and a reversal of provision of RM14.83 million. Even without the reversal of provision, the Division's PBT for FY 2019 of RM77.74 million would have been 9% stronger than that for FY 2018. Moving forward, we expect demand for crushed aggregates, as well as premix materials to continue to augur well

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We remain confident of OM Materials (Sarawak) Sdn Bhd's longer-term prospects due to its position in the first quartile of the global production cost curve. We are also upbeat about the prospects of our 50%-owned associate company, SACOFA Sdn Bhd, which recorded a 7% rise in its FY 2019 contribution to RM42.43 million.

in the foreseeable future due to the ongoing Pan Borneo Highway and other road projects in the State. To take advantage of this spike in demand for construction materials, the Division is taking measures to position itself (including pursuing strategic investments and expanding its inventory).

Construction & Road Maintenance Division

The Division's FY 2019 revenue decreased by 9%, while its PBT declined by 53% to RM42.26 million from RM90.38 million in FY 2018 (excluding share of results of joint ventures). The Division's profitability was impacted mainly by higher cost revisions for the Pan Borneo Highway project, higher costs spent on the State road's routine maintenance, and retrenchment compensation amounting to RM4.16 million due to laying off 386 staff at the Road Maintenance Units located in Limbang, Lawas, Miri, Niah, Bintulu, Mukah, Sri Aman, Betong and Saratok. We are actively identifying opportunities to secure new road maintenance contracts, as well as replenish our construction orderbook from the implementation of major infrastructure projects in the State.

Property Development Division

Despite a 4% increase in revenue, the Division's PBT dipped by 40% to RM20.06 million as compared to RM33.59 million in FY 2018. The Division's performance was affected by the soft property market and unrecovered interest costs amounting to RM10.37 million for the land surrendered to the Government. Nevertheless, the profit recognition of land sales and higher rental income from unsold properties offset the lower profit. Besides its ongoing property projects, the Division is looking into unlocking the value of the Group's vast landbank in the capital city of Kuching and Samalaju Industrial Park which are still kept at nominal sum within our books.

Strategic Investments

The Group recorded share of profits from its associates of RM58.40 million in FY 2019, lower by 45% compared to FY 2018's bumper contribution of RM105.34 million. OM Materials (Sarawak) Sdn Bhd was impacted due to weak commodity prices since the beginning of 2019. That said, we remain confident of its longer-term prospects due to its position in the first quartile of the global production cost curve. Our 50%-owned associate company, SACOFA Sdn Bhd recorded a higher contribution of RM42.43 million in FY 2019, an increase of 7% in comparison to FY 2018's contribution of RM39.67 million. Together with other associate companies, KKB and Kenanga, we expect our strategic investments to continue to deliver decent growth.

Our Strategic Investments Division (excluding associates) posted a loss of RM3.33 million in FY 2019 in comparison to a loss of RM2.06 million in FY 2018.

The Others segment reported a profit of RM3.03 million in FY 2019 against a profit of RM11.72 million in FY 2018. The higher performance in FY 2018 was mainly due to a RM10.86 million gain on sale of OM Materials (Sarawak) Irredeemable Convertible Preference Shares.

FINANCIAL OVERVIEW BY THE GROUP CHIEF FINANCIAL OFFICER

WHAT CAN YOU TELL US ABOUT THE GROUP'S BALANCE SHEET AS AT END FY 2019?

The Group's ended FY 2019 with a prudent and robust balance sheet portraying, amongst others, a gearing ratio of 0.31 times compared to 0.24 times in FY 2018. The Group's healthy balance sheet gives it a sufficient debt headroom to fund any future growth plans.

Consolidated Statement of Financial Position as at 31 December 2019

	2019 RM'000	2018 RM'000
Non-current assets	**2,745,780**	2,162,071
Other assets excluding cash & bank balances	**1,188,066**	1,111,753
Cash & bank balances	**621,093**	920,539
Total assets	**4,554,939**	4,194,363
Loans and borrowings	**754,861**	616,533
Lease Liabilities	**48,250**	-
Other liabilities	**599,882**	661,619
Total liabilities	**1,402,993**	1,278,152
Share capital	**867,902**	867,902
Reserves	**1,770,565**	1,681,004
Shareholders' equity	**2,638,467**	2,548,906
Non-controlling interests	**513,479**	367,305
Total equity	**3,151,946**	2,916,211
Total equity and liabilities	**4,554,939**	4,194,363

PLEASE ELABORATE ON ANY SIGNIFICANT CHANGES IN THE GROUP'S FINANCIAL POSITION AND LIQUIDITY.

The Group's cash balances as at end FY 2019 dropped to RM621 million from RM921 million as at end FY 2018. The drop was partially due to money market funds totalling RM132 million being classified in investment securities as at 31 December 2019. At the same time, the Group's borrowings increased to RM755 million in FY 2019 from RM617 million in FY 2018, mainly due to the drawdown of term loans by the Malaysian Phosphate Additives (Sarawak) Sdn Bhd. As at end FY 2019, shareholders' equity had increased to RM2.64 billion from RM2.55 billion as at end FY 2018.

WHAT CAN YOU TELL US ABOUT THE GROUP'S CAPITAL EXPENDITURE REQUIREMENTS, CAPITAL STRUCTURE AND CAPITAL RESOURCES?

The Group continues to proactively maintain its cash flow/resources by putting in place a 20-year tenure sukuk programme of up to RM2 billion. While the sukuk programme was initiated in May 2017, as at end FY 2019, only RM500 million of the RM2 billion sukuk had been issued.

We continue to evaluate our capital expenditure (CAPEX) requirements. For FY 2020, we have approved RM188 million in CAPEX (RM370 million in FY 2019).

WERE THERE ANY KEY CHANGES ON THE FINANCIAL REPORTING LANDSCAPE IN FY 2019 THAT HAVE AFFECTED YOUR REPORTING?

There were no significant changes in the year under review. The Group's financial statements have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) and International Financial Reporting Standards. Back in January 2019, the Group adopted the new and amended MFRS 16 standards which pertains to a new accounting standard for leases and is mandatory for financial periods beginning or after 1 January 2019.

WHAT IS THE GROUP'S DIVIDEND POLICY?

The Group continues to uphold the dividend policy that it had revised on 4 February 2019. The adjusted policy mandates the Group to provide for a minimum of 30% of its annual consolidated PATNCI to shareholders subject to a minimum of 2.00 sen per share. This is conditional on the level of available cash and cash equivalents, return on equity and retained earnings, projected levels of CAPEX and other investment plans.

In respect of FY 2019, despite the year's softer results, the Board has decided to reward our valued shareholders for their unstinting support and confidence in CMS. As such, the Board is proposing a first and final tax exempt (single-tier) dividend of 3.00 sen per share in respect of FY 2019 (FY 2018: 7.40 sen per share) subject to shareholders' approval at the upcoming Annual General Meeting. This represents a payout ratio of 20% and amounts to a total dividend payable of RM32.18 million in comparison to the FY 2018's total dividend payable of RM79.37 million.

Our initial intention, moving forward, was to continue upholding our dividend policy of providing a net payout ratio of 30% of our consolidated PATNCI to shareholders, subject to a minimum of 2.00 sen per share. However, in view of the highly challenging operating environment and the headwinds that continue to impinge on our businesses, we will need to consider the best manner in which to balance out our desire to reward shareholders with the need to conserve a sufficient level of cash to maintain our growth trajectory and achieve CMS' next phase of growth.

WHAT IS THE OUTLOOK FOR THE GROUP MOVING FORWARD?

In FY 2019 we faced some setbacks mostly due to factors beyond our control. Moving forward into FY 2020's even more challenging operating environment aggravated by the effects of the Covid-19 pandemic and the very necessary Movement Control Order (MCO), we are mindful that we will continue to face unprecedented headwinds. To maintain our resilience in the face of adversity, we will bring our three-pronged strategy into play in full force post-MCO:

- **Reposition and fortify all our traditional core businesses:** This will see us continuing to extract value from our traditional core businesses, namely our Cement, Construction Materials & Trading, Construction & Road Maintenance and Property Development businesses, by strengthening them and making them more efficient.
- **Fully implement and grow our strategic businesses:** We will ramp up our efforts to fully implement our strategic businesses, namely our ferrosilicon and manganese alloys smelter operations under OM Materials (Sarawak); the integrated phosphate complex under Malaysian Phosphate Additives (Sarawak) Sdn Bhd (MPAS); the provision and operation of telco infrastructure under Sacofa; as well as our investments in listed associates Kenanga and KKB.
- **Reposition and strengthen the CMS brand:** We aim to do this by leveraging on the Group's sustainability practices in particular employee volunteerism activities and our 'CMS Doing Good & Building Sustainable Communities' programme. At the same time, we will ensure corporate donations are redirected in a manner which truly impact beneficiaries for the better while strengthening CMS' reputation as a friend to Sarawak's communities and the State.

Given our healthy balance sheet and diverse portfolio of businesses and supported by our three-pronged growth strategy, the Group is well-positioned to benefit in all key growth areas in Sarawak. Barring unforeseen events, we expect this to come through OM Materials (Sarawak) in the Sarawak Corridor for Renewable Energy (SCORE) initiative, Sacofa in the State's push to fully embrace the digital economy, and our construction materials supply companies in the rollout of the Pan Borneo Highway project and other major infrastructure projects announced by the State Government.

On top of this, we see opportunities arising from the various initiatives and strategies that the Divisions will be implementing once the the MCO period is lifted. Moving forward and barring any unforeseen circumstances, we see the prospects for the Divisions panning out as follows:

In FY 2019, the Cement Division ended the year with a lower PBT mainly due to higher imported clinker costs, clinker plant maintenance costs and discharging costs. For the new year, if all goes as planned, we expect imported clinker prices to stabilise. To strengthen operational efficiencies and thus its profitability, the Division will place an emphasis on the maintenance of its clinker plant over the next two years so as to prolong its lifespan and gradually increase its clinker production capacity.

The Construction Materials & Trading Division expects to turn in a satisfactory performance once the MCO is lifted. Management expects that pent up demand for crushed aggregates amidst a huge shortage of the material will bode well for the Group's quarry business. Management also envisages that that the premix business will remain busy in the southern region of Sarawak while the northern region will continue to face intense competition.

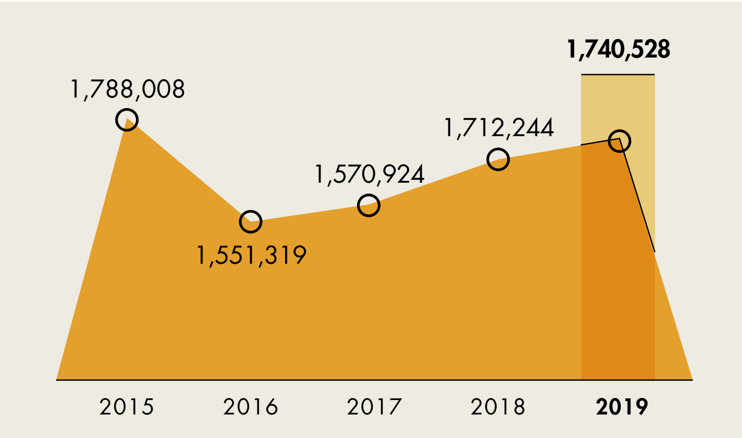
Post-MCO, the Construction & Road Maintenance Division will make every effort to bolster its competitive edge as it bids for new projects related to Sarawak's coastal road network, the second trunk road project and other major construction projects being rolled out across the State. The Division aims to implement several measures, including reinforcing its capabilities with the right people, to ensure it remains competitive as it explores new projects in the construction of roads, buildings, drainage, water, power transmission lines and telecommunication line projects in Sarawak. The Division will continue to derive stable recurring income from the revised road concession that currently involves the maintenance of approximately 3,343 km of State roads.

Upon the MCO being lifted, the Property Development Division's main focus in FY 2020 will be the Bandar Samariang township where it plans to launch approximately 500 units of single-storey terrace houses. With the recent reductions in the overnight pricing rate by Bank Negara Malaysia, Management expects prospective buyers to have better chances to get their residential loans approved although the market for commercial properties remains stagnant. Prospects for the Division's township development project at the Samalaju Industrial Park (SIP) remain challenging due to the lack of public infrastructure and amenities in the greenfield development area. We do not see lodge occupancy experiencing any significant increase as there is no major construction activity from existing or new industries at the SIP. Hotel occupancy too is expected to be hampered as the target market is confined to investors at the SIP.

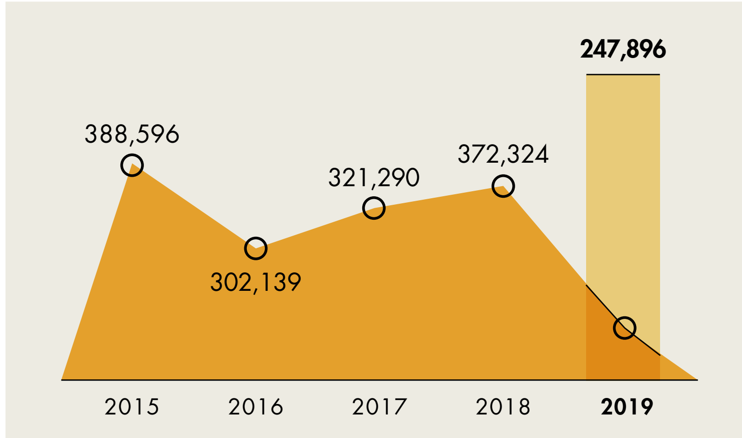
While we anticipate that FY 2020's operating environment will remain highly challenging given the unprecedented uncertainties on the global and domestic fronts, we are cautiously optimistic that we will turn in a satisfactory performance as we set our hands to the task before us and give of our best.

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

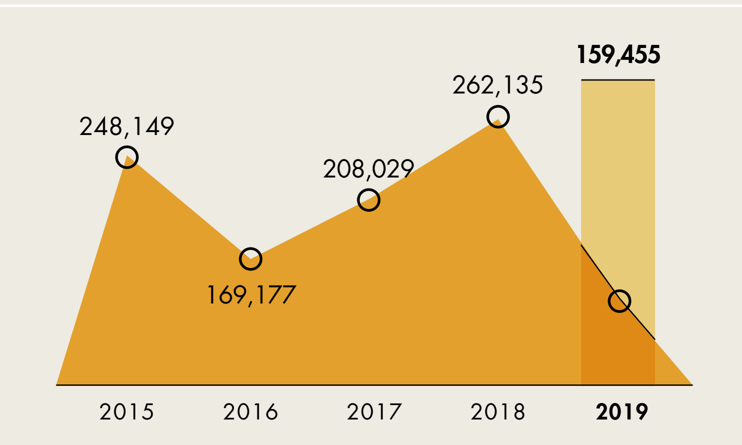
REVENUE (RM'000)



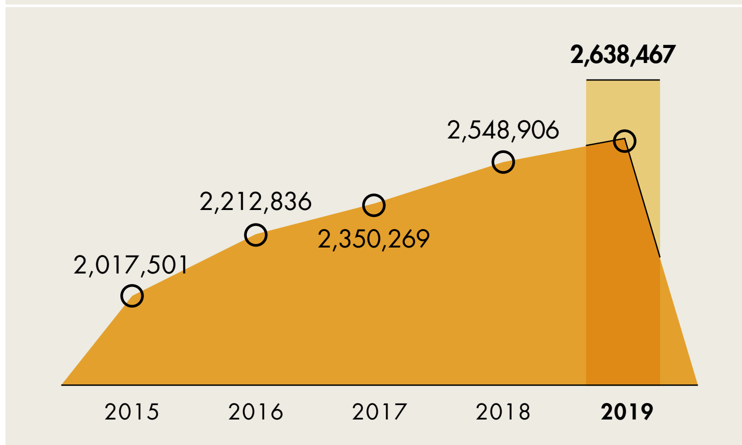
PROFIT BEFORE TAXATION (RM'000)



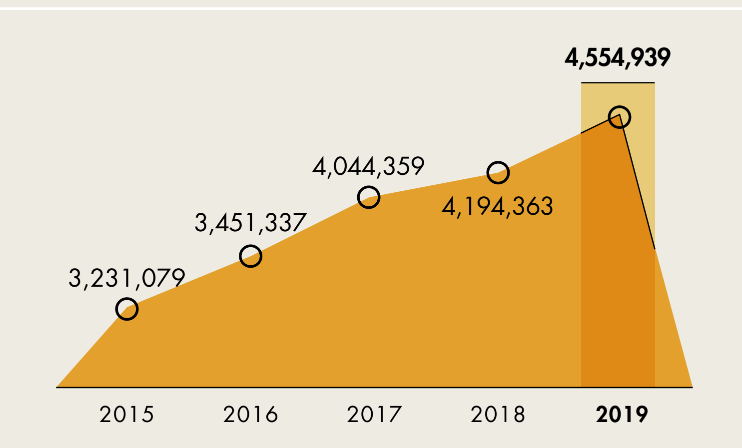
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (RM'000)



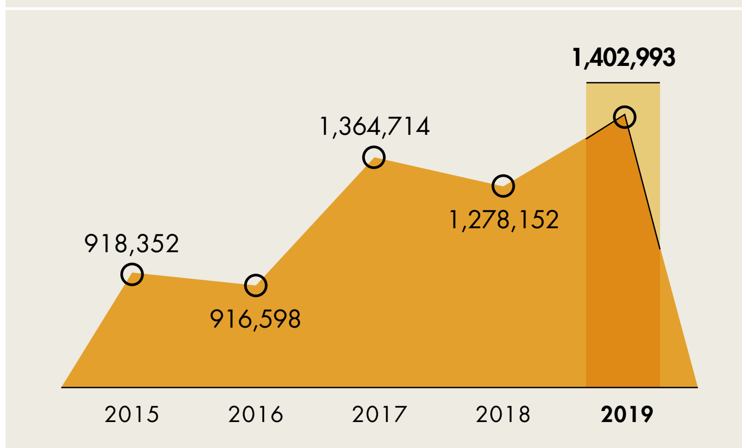
TOTAL SHAREHOLDERS' EQUITY (RM'000)



TOTAL ASSETS (RM'000)



TOTAL LIABILITIES (RM'000)



FIVE-YEAR GROUP FINANCIAL SUMMARY

	2015	2016	2017 (Restated)	2018	**2019**
Revenue (RM'000)	1,788,008	1,551,319	1,570,924	1,712,244	**1,740,528**
Profit before taxation (RM'000)	388,596	302,139	321,290	372,324	**247,896**
Profit after tax (RM'000)	304,600	217,311	239,681	297,246	**188,117**
EBITDA (RM'000)	405,533	375,905	386,068	443,550	**351,128**
Profit attributable to owners of the Company (RM'000)	248,149	169,177	208,029	262,135	**159,455**
Weighted average number of shares ('000)	1,064,741	1,074,376	1,074,376	1,071,987	**1,072,595**
Basic earnings per share (sen)	23.31	15.75	19.36	24.45	**14.87**
Gross dividends per share (sen)	4.5	6.3	8.0	7.4	**3.0**
Current assets (RM'000)	1,307,756	1,371,984	1,991,609	2,032,292	**1,809,159**
Current liabilities (RM'000)	611,112	687,867	649,527	617,718	**606,978**
Total assets (RM'000)	3,231,079	3,451,337	4,044,359	4,194,363	**4,554,939**
Total borrowings (RM'000)	163,678	247,956	636,364	616,533	**808,953**
Total liabilities (RM'000)	918,352	916,598	1,364,714	1,278,152	**1,402,993**
Total shareholders' equity (RM'000)	2,017,501	2,212,836	2,350,269	2,548,906	**2,638,467**
Return on average shareholders' equity (%)	12.96	8.00	9.12	10.70	**6.15**
Return on total assets (after tax) (%)	7.68	4.90	5.14	6.25	**3.50**
Current ratio (times)	2.14	1.99	3.07	3.29	**2.98**
Gearings (times)	0.08	0.11	0.27	0.24	**0.31**
Net tangible assets per share (RM)	1.82	2.00	2.13	2.32	**2.37**
Net assets per share (RM)	1.88	2.06	2.19	2.38	**2.46**

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Group		Company	
	2019 RM'000	2018 RM'000	**2019 RM'000**	2018 RM'000
Revenue	**1,740,528**	1,712,244	**133,833**	208,750
Cost of sales	**(1,457,310)**	(1,368,283)	**(32,015)**	(35,766)
Gross profit	**283,218**	343,961	**101,818**	172,984
Other items of income				
Interest income	**2,549**	3,018	**-**	-
Other income	**41,453**	37,906	**10,033**	15,281
Other items of expense				
Administrative expenses	**(60,303)**	(54,159)	**(29,697)**	(25,599)
Selling expenses	**(17,292)**	(17,042)	**-**	-
Finance costs	**(41,952)**	(37,285)	**(24,110)**	(24,025)
Other expenses	**(17,589)**	(8,869)	**(6,249)**	(1,722)
Share of results of associates	**58,396**	105,340	**-**	-
Share of results of joint ventures	**(584)**	(546)	**-**	-
Profit before tax	**247,896**	372,324	**51,795**	136,919
Income tax expense	**(59,779)**	(75,078)	**(1,969)**	166
Profit net of tax	**188,117**	297,246	**49,826**	137,085
Other comprehensive income				
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:				
Foreign currency translation	**-**	(4)	**-**	-
Share of other comprehensive income of associates	**1,579**	4,270	**-**	-
Share of other comprehensive income of a joint venture	**(139)**	(32)	**-**	-
Other comprehensive income for the year	**1,440**	4,234	**-**	-
Total comprehensive income for the year	**189,557**	301,480	**49,826**	137,085
Profit attributable to:				
Owners of the Company	**159,455**	262,135	**49,826**	137,085
Non-controlling interests	**28,662**	35,111	**-**	-
	188,117	297,246	**49,826**	137,085
Total comprehensive income attributable to:				
Owners of the Company	**160,767**	266,341	**49,826**	137,085
Non-controlling interests	**28,790**	35,139	**-**	-
	189,557	301,480	**49,826**	137,085

	2019	2018
Earnings per share attributable to owners of the Company (sen per share):		
Basic/Diluted	**14.87**	24.45

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Group		Company	
	2019 RM'000	2018 RM'000	**2019 RM'000**	2018 RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	**1,332,139**	746,217	**12,953**	2,221
Prepaid land lease payments	**-**	42,508	**-**	8,435
Land held for property development	**191,853**	227,629	**-**	-
Investment properties	**8,651**	5,156	**-**	-
Intangible assets	**15,934**	726	**161**	101
Goodwill	**83,678**	62,954	**-**	-
Investments in subsidiaries	**-**	-	**1,249,489**	1,125,351
Investments in associates	**975,964**	979,791	**243,853**	243,853
Investments in joint ventures	**20,855**	23,916	**-**	-
Deferred tax assets	**15,444**	19,034	**-**	-
Other receivables	**89,737**	50,182	**30,312**	38,644
Investment securities	**11,525**	3,958	**-**	-
	2,745,780	2,162,071	**1,536,768**	1,418,605
Current assets				
Property development costs	**154,647**	192,993	**-**	-
Inventories	**342,322**	334,248	**-**	-
Trade and other receivables	**294,007**	314,038	**351,315**	312,875
Other current assets	**61,212**	81,985	**-**	-
Investment securities	**239,309**	100,201	**239,309**	100,201
Derivative financial asset	**90,058**	81,271	**90,058**	81,271
Tax recoverable	**6,511**	7,017	**-**	1,091
Cash and bank balances	**621,093**	920,539	**441,430**	860,707
	1,809,159	2,032,292	**1,122,112**	1,356,145
TOTAL ASSETS	**4,554,939**	4,194,363	**2,658,880**	2,774,750

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Group		Company	
	2019	2018	**2019**	2018
	RM'000	RM'000	**RM'000**	RM'000
EQUITY AND LIABILITIES				
Current liabilities				
Income tax payable	**7,082**	18,109	**315**	-
Loans and borrowings	**45,529**	53,905	**-**	-
Lease liabilities	**11,997**	-	**342**	-
Trade and other payables	**471,103**	454,659	**1,066,489**	1,162,784
Other current liabilities	**71,267**	91,045	**-**	-
	606,978	617,718	**1,067,146**	1,162,784
Net current assets	**1,202,181**	1,414,574	**54,966**	193,361
Non-current liabilities				
Deferred tax liabilities	**49,427**	35,947	**37**	37
Loans and borrowings	**709,332**	562,628	**500,000**	500,000
Lease liabilities	**36,253**	-	**997**	-
Trade and other payables	**1,003**	61,859	**-**	-
	796,015	660,434	**501,034**	500,037
TOTAL LIABILITIES	**1,402,993**	1,278,152	**1,568,180**	1,662,821
Net assets	**3,151,946**	2,916,211	**1,090,700**	1,111,929
Equity attributable to owners of the Company				
Share capital	**867,902**	867,902	**867,902**	867,902
Treasury shares	**(5,625)**	(12,277)	**(5,625)**	(12,277)
Other reserves	**14,049**	13,589	**168,000**	168,000
Retained earnings	**1,762,141**	1,679,692	**60,423**	88,304
	2,638,467	2,548,906	**1,090,700**	1,111,929
Non-controlling interests	**513,479**	367,305	**-**	-
TOTAL EQUITY	**3,151,946**	2,916,211	**1,090,700**	1,111,929
TOTAL EQUITY AND LIABILITIES	**4,554,939**	4,194,363	**2,658,880**	2,774,750

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2019

	Group	
	2019 RM'000	2018 RM'000
Operating activities		
Profit before tax	**247,896**	372,324
Adjustments for:		
Amortisation of intangible assets	**1,540**	1,477
Amortisation of prepaid land lease payments	**-**	905
Depreciation of property, plant and equipment	**75,600**	60,512
Depreciation of investment properties	**155**	118
Fair value gain in a derivative financial asset	**(8,787)**	(14,130)
Gain on deemed disposal of investment in an associate	**(5,262)**	-
Gain on disposal of investment in irredeemable convertible preference shares in an associate	**-**	(10,860)
Gain on disposal of a subsidiary	**(7)**	-
Gross dividend income	**(10,222)**	(4,872)
Impairment loss on trade and other receivables	**2,030**	389
Intangible asset written off	**2**	-
Interest expense	**41,353**	36,771
Interest income	**(19,296)**	(28,352)
Inventories written off	**12**	602
Net fair value changes in investment securities	**1,303**	(405)
Net gain on disposal of property, plant and equipment	**(2,230)**	(97)
Property, plant and equipment written off	**1,091**	974
Reversal of impairment loss on amount due from an associate	**(365)**	(607)
Reversal of impairment loss on trade and other receivables	**(780)**	(835)
Share of results of associates	**(58,396)**	(105,340)
Share of results of joint ventures	**584**	546
Unrealised foreign exchange gain	**(772)**	(1,045)
Total adjustments	**17,553**	(64,249)
Operating cash flows before changes in working capital	**265,449**	308,075

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2019

	Group	
	2019	2018
	RM'000	RM'000
Operating activities (cont'd.)		
Changes in working capital		
Decrease in property development costs	**38,346**	22,940
Decrease in land held for development	**51,592**	13,764
Increase in inventories	**(7,912)**	(46,637)
Decrease in other current assets	**20,773**	20,942
Decrease/(increase) in receivables	**54,913**	(40,145)
Decrease in payables	**(76,661)**	(105,741)
(Decrease)/increase in other current liabilities	**(19,778)**	39,170
Total changes in working capital	**61,273**	(95,707)
Cash flows from operations	**326,722**	212,368
Interest received	**18,254**	25,782
Interest paid	**(41,485)**	(33,023)
Income taxes paid, net of refund	**(57,097)**	(78,204)
Net cash flows from operating activities	**246,394**	126,923
Investing activities		
Acquisition of property, plant and equipment	**(371,053)**	(81,284)
Acquisition of land held for property development	**(15,816)**	-
Acquisition of investment properties	**(3,650)**	-
Acquisition of additional interests in an associate	**(62,564)**	(45,542)
Acquisition of prepaid land lease payments	**-**	(28,965)
Additional costs incurred on intangible assets	**(6,224)**	(2)
Additional investments in investment securities	**(147,978)**	(7,164)
Additional investments in joint ventures	**-**	(3,294)
Dividends received from associates	**4,085**	6,536
Dividends received from investments	**10,222**	4,872
Distribution of profit from joint ventures	**2,221**	5,418
Net cash outflows from acquisition of subsidiaries	**(5,670)**	-
Net cash inflow from disposal of a subsidiary	**26**	-
Placement of deposits with licensed banks	**(2,469)**	-
Proceeds from disposal of property, plant and equipment	**5,634**	1,638
Proceeds from disposal of investment in irredeemable convertible preference shares in an associate	**-**	77,170
Net cash flows used in investing activities	**(593,236)**	(70,617)

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2019

	Group	
	2019 RM'000	2018 RM'000
Financing activities		
Acquisition of treasury shares	**(8,338)**	(17,731)
Dividends paid to owners of the Company	**(79,374)**	(85,950)
Dividends paid to non-controlling interests	**(14,535)**	(15,574)
Drawdown of borrowings	**179,157**	37,600
Increase in deposits pledged to licensed banks	**181**	(45)
Repayment of borrowings	**(37,129)**	(57,431)
Repayment of lease liabilities	**(11,404)**	-
Net proceeds from disposal of treasury shares	**16,657**	6,272
Proceeds from lease receivables	**556**	-
Proceeds from issuance of ordinary shares to a non-controlling interest	**300**	-
Proceeds from issuance of redeemable preference shares to a non-controlling interest	**-**	19,110
Net cash flows from/(used in) financing activities	**46,071**	(113,749)
Net decrease in cash and cash equivalents	**(300,771)**	(57,443)
Cash and cash equivalents at 1 January	**918,440**	975,781
Effect of foreign exchange changes on cash and cash equivalents	**(963)**	102
Cash and cash equivalents at 31 December	**616,706**	918,440

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

OPERATIONAL REVIEW

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BUSINESS OVERVIEW

The Group’s **Cement Division** – comprising CMS Cement Sdn Bhd, CMS Cement Industries Sdn Bhd and CMS Concrete Products Sdn Bhd – today remains Sarawak’s sole cement and clinker manufacturer.

For more information about the Group’s Cement Division, scan the QR code or log on to http://www.cmsb.my/business-divisions/cement/

As one of the main PBT contributors to CMS, the Division is delivering resilient growth on the back of ongoing government infrastructure projects and private-sector funded construction activities within the State. In its role as Sarawak’s leading infrastructure facilitator, as well as a committed supporter of the State’s construction industry, the Division has always made every effort to ensure a sufficient and consistent supply of quality cement at reasonable and stable prices is in place. For the year in review, the Division continued to uphold this commitment by maintaining cement prices for the fourth consecutive year in spite of higher costs and a weaker Ringgit.

PERFORMANCE HIGHLIGHTS

In FY 2019, the Cement Division's revenue and cement sales volume continued to improve in comparison to the previous year. Demand growth for the year was mainly attributable to the steady progress of government infrastructure projects. While revenue for the Cement Division increased by 8% to RM601.62 million in FY 2019 (FY 2018: RM557.85 million), its PBT, however, declined by 19% to RM73.11 million against PBT of RM90.14 million previously.

The Division's lower PBT was primarily due to increases in the costs of imported raw materials and coal, as well as higher scheduled Repair and Maintenance (R&M) costs for its three plants, especially its clinker plant. In FY 2019, imported raw material costs, particularly clinker prices, increased due to higher demand from the regional market coupled with a reduced supply from China. To address this issue, the Division is focusing its efforts on improving the clinker plant's operational efficiency to reduce reliance on imported clinker thereby reducing the plant's maintenance costs.

The higher R&M costs were due to the fact that all the Division's plants are now in their rejuvenation cycle. The Mambong Clinker plant which was constructed in 1996, is now into its 24th year of operations, while the Bintulu Cement plant that was constructed in 1997, has passed its 20th year of operations. Meanwhile, the oldest plant, the Pending Cement Plant which has been operating since 1978, is now in its 41st year of operations. It is normal within the industry for plants to undergo rejuvenation cycles every 15 to 20 years. The rejuvenation process involves replacing, refurbishing and upgrading major equipment, most of which have life spans of similar duration. This exercise ensures that the plants are able to continue to operate reliably and consistently for the next 15 to 20-year cycle. The rejuvenation cycles normally last for one to three years as major works are spread out in order to avoid excessive downtime. The rejuvenation exercise for the clinker plant, for instance, is scheduled to run between 2019 and 2021.

The Division's PBT was also affected by the weaker Ringgit. As most equipment is imported and paid for in USD or EURO, and raw material imports are mainly paid for in USD, currency exchange fluctuations over the course of the year had an impact on the Cement Division's profitability.

OPERATIONAL HIGHLIGHTS

Cement Operations

CMS' cement operations are helmed by CMS Cement Industries Sdn Bhd (CMSCI) which produces the CEM 1 42.5N and 32.5N grades. Via these products, the Group accords its customers a range of cement product types that meet general and specific project requirements at different price points. A third product, the premium grade 52.5N grade (MS EN 197-1 standard) Portland Cement, is produced for export purposes and to meet the needs of projects that have a specific need for a higher-grade cement.

The Division operates production and distribution facilities in every major town within Sarawak. These encompass two plants in Kuching (the Mambong Integrated Plant and the Pending Grinding Plant), one plant in Bintulu (the Bintulu Grinding Plant), as well as bulk terminals in Sibu and Miri. Through these strategically located plants and terminals (all of which are outfitted with packing and bulk distribution capabilities), the Division ensures all of Sarawak's main centres of economic activity, namely Kuching, Sibu, Bintulu, Miri, as well as the emerging markets of Samalaju, Mukah, Lawas and their hinterlands, have a stable and sufficient supply of quality bag and bulk cement to meet their needs.

The Mambong Integrated Plant (Mambong plant), the Cement Division's largest facility, is its primary facility. It boasts a production capacity of 0.84 million metric tonnes per annum (MTpa) for the production of clinker and a production capacity of 1.0 million MTpa for the production of cement. One of the competitive advantages of the clinker operation is the raw material quarry located nearby the plant which ensures a consistent and sufficient supply of competitively priced raw materials. These raw material reserves are estimated to last for at least the next 50 years. The Mambong plant was awarded ISO 50001 Energy Management System certification back in 2016. This underscores the Division's continuous efforts to improve its efficiencies on the power consumption front, as well as to moderate its carbon footprint by reducing fossil fuel consumption.

The Pending and Bintulu Grinding plants possess a cement production capacity of 1.0 million MTpa and 0.75 million MTpa respectively. Both these plants are ISO-certified on the Quality, Health, Safety and Environmental fronts, plus they are strategically located with good access to ports and waterways. All of the Division's plants are supported by fully-equipped laboratories that are ISO/IEC 17025-accredited. This is the international standard by which all laboratories must be accredited in order to be deemed technically competent.

Given the Cement Division's combined total rated cement production capacity of 2.75 million MTpa – well above current local demand of around 1.6 million MTpa – the Group is more than able to meet cement demand for mega projects such as the Baleh Dam, the Pan Borneo Highway, the Sarawak Coastal Road and the Second Trunk Road. The Division is also strongly positioned to support the State's demand for cement over the long-term. The operation of multiple plants gives the Group manifold benefits on several levels. These include a sizeable reserve production capacity to materially reduce the risk of supply disruptions, additional gateways to nearby export markets, and the capability to produce multiple types of cement.

Concrete Product Operations

CMS Concrete Products Sdn Bhd (CMSCP) is responsible for managing the Division's concrete products operations throughout Sarawak. Since its inception in 1995, CMSCP has built a steadfast reputation in the market as a highly reliable producer of Ready-Mix Concrete (RMC) and pre-formed concrete products. Today, CMSCP's product offering encompasses various grades of RMC, reinforced concrete square piles (RCP) and bridge beams, pipe and box culverts, as well as Industrialised Building System (IBS) components. The Company was the pioneer of bridge beams that have been used in the construction of a great number of bridges throughout the State.

Leveraging on its 70,000-MTpa main facility in Kuching, CMSCP possesses the capacity to produce a full range of IBS components, including precast wall panels, beams and columns, as well as half slabs and pre-stressed slabs. The Company is also able to accord its clients complete solution packages that include design services for IBS projects, as well as supply throughout Sarawak over land or by sea. It also offers construction services such as pile driving and wall panel installation, as well as produces products that comply with all existing construction standards and safety requirements.

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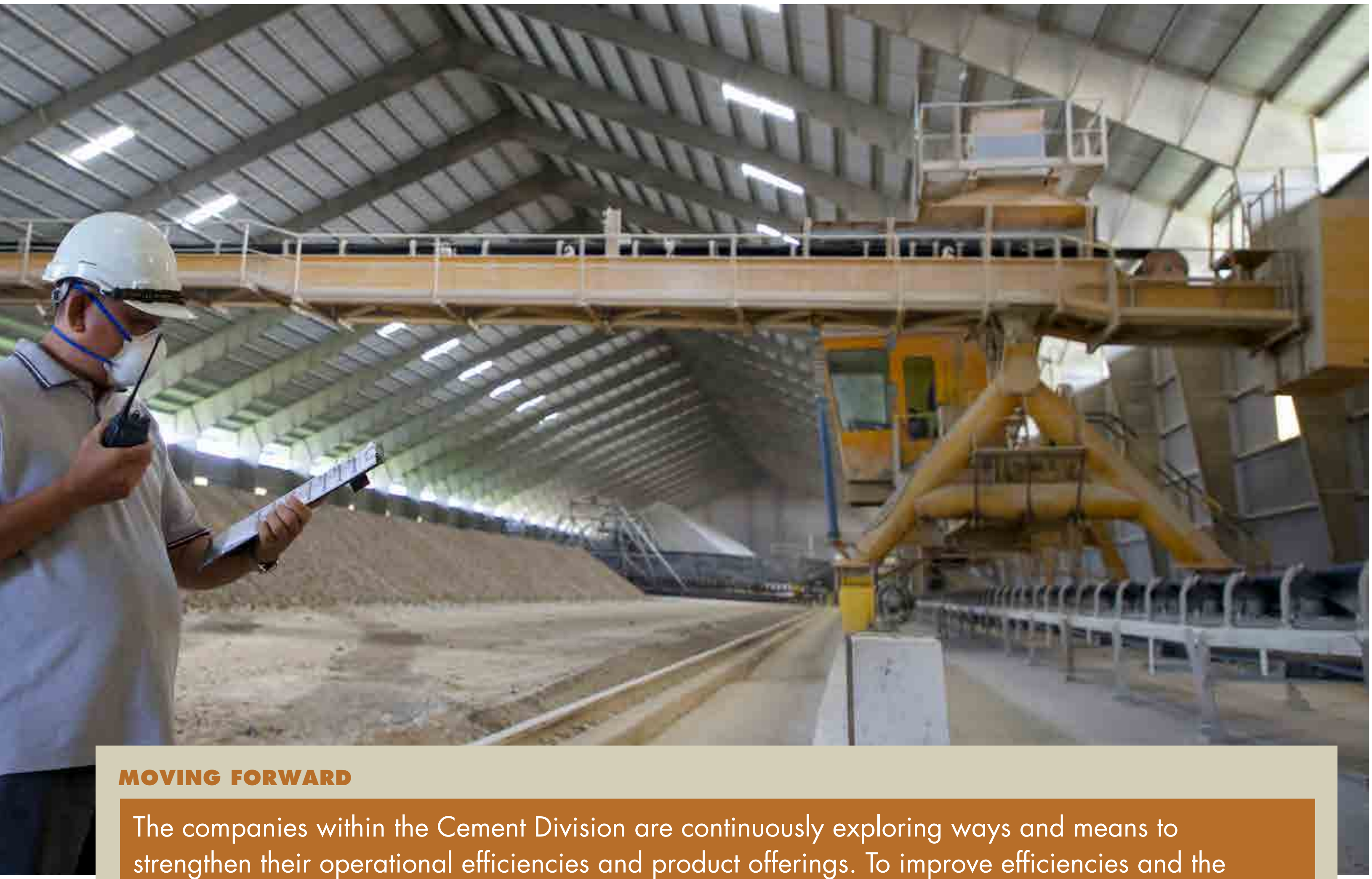
Leveraging on its 70,000-MTpa main facility in Kuching, CMSCP possesses the capacity to produce a full range of IBS components, including precast wall panels, beams and columns, as well as half slabs and pre-stressed slabs.



MOVING FORWARD

The companies within the Cement Division are continuously exploring ways and means to strengthen their operational efficiencies and product offerings. To improve efficiencies and the utilisation of common resources on the cement production front, CMS Cement Industries Sdn Bhd (CMSCI) undertook an internal reorganisation. Effective 1 January 2019, most of the operational employees and cement production assets under CMS Cement Sdn Bhd were transferred to CMSCI which today serves as the primary operating unit of the Cement Division.

In FY 2019, CMSCI kick-started several efficiency and reliability improvement programmes that will be in play until 2021. Among the programmes' key components are several Industry 4.0-inspired initiatives such as real-time on-line monitoring systems and process systems with analytical capabilities.

The concrete products operations under CMSCP too, continue to grow from strength to strength. In FY 2018, the Company established a manufacturing plant in Bintulu giving it another product line that is able to produce RMC and precast products such as concrete pipe culverts. Today, this facility is doing much to strengthen the Group's position in northern Sarawak while also lending support to an RMC plant within the Samalaju Industrial Park (SIP). This has reinforced the Company's position as a player that is able to support and bid for concrete products contracts in the region, particularly within the SIP.

CMSCP also continues to make the most of an RMC plant that it operates in Sarikei town in Central Sarawak to supply concrete products to nearby packages of the Pan Borneo Highway project. By leveraging on existing facilities at various strategic locations, CMSCP has greatly bolstered its strategic position and competitive edge within the State's concrete industry.

Moving forward beyond the current Movement Control Order or MCO period, by virtue of the Cement Division's strong market position as Sarawak's sole cement manufacturer, it is expected to benefit from the implementation of construction packages in Sarawak, namely the Pan Borneo Highway and Coastal Road Network mega infrastructure projects.

OPERATIONAL REVIEW

BUSINESS OVERVIEW

The Group's **Construction Materials & Trading Division** oversees CMS' quarrying and premix manufacturing operations, pavement laying services, the production of wire mesh and cold drawn wires, as well as trading activities related to construction, electrical and water-related products.

For more information about the Group's Construction Materials & Trading Division, scan the QR code or log on to http://www.cmsb.my/business-divisions/construction-materials-trading/

PERFORMANCE HIGHLIGHTS

CMS' Construction Materials & Trading arm turned in a 7% increase in revenue to RM596.99 million in FY 2019 in comparison to revenue of RM559.27 million in FY 2018. The increase in revenue came on the back of the good performance of its trading and wire operations amid stronger sales of water-treatment chemicals and pipes, on top of several new supply contracts clinched by the Division.

The Division registered a stellar 30% hike in PBT to RM92.57 million for FY 2019 against FY 2018's PBT of RM71.29 million. The year's result, however, included a one-off reversal of provision of RM14.83 million for remedial works, without which the Division would have still registered a growth of 9% for FY 2019. This was due to the huge demand in crushed aggregates for the Pan Borneo Highway and other State Government implemented projects.

OPERATIONAL HIGHLIGHTS

Quarry Operations

The Group's quarry operations are run by CMS Quarries Sdn Bhd and Borneo Granite Sdn Bhd, companies that produce crushed aggregates of granite, microtonalite and limestone. The Group's quarrying operations today comprise five quarries, namely the Stabar, Sibanyis, Akud, Sebuyau and Borneo Granite quarries. CMS' acquisition of a 56% equity stake in Borneo Granite Sdn Bhd in early 2019, effectively added a targeted annual production of 1.0 million MTpa to the Group's total production capacity. In March 2019, a second production line at the Sibanyis quarry commenced full operations with an annual production of 1.30 million MTpa.

These developments have enhanced the Group's ability to provide an increased supply of quality crushed aggregates at competitive prices to meet growing market demand throughout the State. It has also helped solve the acute shortage of stones that CMS had been experiencing. Altogether, given the enlarged production capacity at its five quarries collectively, the Division today has a combined rated capacity of 4.0 million MTpa.