

12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



(Firm No: AF: 0039)

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14 February 2002

The Board of Directors
PBA Holdings Bhd
Paras 32, KOMTAR
10000 Pulau Pinang

Dear Sirs,

1 INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 22 February 2002 in connection with the Public Issue of 51,000,000 ordinary shares of RM0.50 each in PBA Holdings Bhd (hereinafter referred to as "PBAHB" or "the Company") at an issue price of RM1.30 per ordinary share and the Offer for Sale by the State Secretary, Penang (SSI) of 97,950,000 ordinary shares of RM0.50 each in PBAHB at an offer price of RM1.30 per ordinary share and the listing of and quotation for the entire enlarged issued and fully paid up share capital of 331,000,001 ordinary shares of PBAHB on the Main Board of the Kuala Lumpur Stock Exchange (KLSE). The Public Issue and Offer for Sale is to Malaysian institutional investors, the Group's eligible employees and retirees, PBAPP registered domestic water consumers and the Malaysian public.

2 GENERAL INFORMATION

2.1 History

PBAHB was incorporated in Malaysia on 25 May 2000 as a public limited company under the Companies Act, 1965. PBAHB is an investment holding company with a single subsidiary, namely PBAPP, involved in the business activities of a water supplier in the State of Penang.

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2.2 Listing exercise

In connection with the listing of and quotation for the ordinary shares of PBAHB on the Main Board of the KLSE, PBAHB had proposed a listing scheme which was approved by the Foreign Investment Committee, Economic Planning Unit and Securities Commission on 23 November 2000, 26 January 2001 and 21 February 2001 respectively. The details of the listing scheme are as follows :-

(a) Acquisition of PBAPP

The Company acquired 100% equity interest in the ordinary shares of PBAPP for a total consideration of RM265,825,236 which was satisfied by way of an issue of 139,999,998 ordinary shares of RM1.00 each in PBAHB at an issue price of approximately RM1.90 per ordinary share to SSI. The acquisition of PBAPP was completed on 7 March 2001.

(b) Public Issue

The Company will make a Public Issue of 51,000,000 ordinary shares of RM0.50 each in PBAHB at an issue price of RM1.30 per ordinary share to PBAPP registered domestic water consumers, the Malaysian public and Malaysian institutional investors.

(c) Offer for Sale

SSI will make an Offer for Sale of 97,950,000 ordinary shares of RM0.50 each in PBAHB at an offer price of RM1.30 per ordinary share to Malaysian institutional investors and the Group's eligible employees and retirees.

(d) Listing and Quotation

The listing of and quotation for PBAHB's entire enlarged issued and fully paid-up share capital comprising 331,000,001 ordinary shares of RM0.50 each on the Main Board of the KLSE.

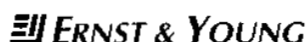
On 13 June 2001, the Securities Commission approved the Company's application to subdivide the par value of its shares from RM1.00 to RM0.50 each as well as the issue price from RM2.60 per ordinary share of RM1.00 each to RM1.30 per ordinary share of RM0.50 each. Consequently, the number of ordinary shares for the Public Issue and Offer for Sale by SSI for 2.2(b) and (c) above have been revised to 51,000,000 and 97,950,000 ordinary shares of RM0.50 each respectively.

2.3 Share capital

The present authorised share capital of PBAHB is RM500,000,001.00 comprising 1,000,000,001 ordinary shares of RM0.50 each and 1 special rights redeemable preference share (Special Share) of RM0.50 each.

The present issued and paid-up share capital of PBAHB is RM140,000,001.00 comprising 280,000,001 ordinary shares of RM0.50 each and 1 Special Share of RM0.50 each.

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The changes in the issued and paid-up share capital of PBAHB since incorporation are as follows :-

Date of allotment / redemption	Number of shares allotted / (redeemed)	Par value RM	Consideration	Issued and paid-up share capital (cumulative) RM
Special Share				
22 August 2001	2	0.50	Cash	1.00
29 August 2001	(1)	0.50	Redeemed out of the proceeds of a fresh issue of 1 ordinary share of RM0.50 each	<u>0.50</u>
Ordinary shares				
25 May 2000	2	1.00	Subscribers' shares	2.00
7 March 2001	139,999,998	1.00	Issued pursuant to the acquisition of PBAPP at a premium of approximately RM0.90 per ordinary share	140,000,000.00
15 August 2001	140,000,000	0.50	Subdivision of every ordinary share of RM1.00 each into 2 ordinary shares of RM0.50 each	140,000,000.00
29 August 2001	1	0.50	Issue 1 ordinary share of RM0.50 each to redeem 1 Special Share of RM0.50 each	<u>140,000,000.50</u>

The Special Share would enable the Penang State Government through the SSI to ensure that certain major decisions affecting the operations of the Company are consistent with the Penang State Government's policies. The Special Share can only be held by the SSI or its successor or the Chief Minister or any person acting on behalf of the State Government of Penang.

The Special Shareholder is not entitled to any dividend or to participate in the capital distribution upon the dissolution of the Company but shall rank for repayment of the capital paid up on the Special Share in priority to all other shares. Other rights and restrictions attached to the Special Share are set out in Article 21 of the Company's Articles of Association.

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2.4 PBAHB Group

The companies comprising the PBAHB Group and their principal activities are as follows :-

Name	Date of incorporation	Equity held %	Principal activities
PBAHB	25 May 2000	-	Investment holding
PBAPP	26 January 1999	100	Water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers

2.5 Subsidiary Company

PBAPP was incorporated in Malaysia as a private limited company on 26 January 1999 upon the corporatisation of Pihak Berkuasa Air Pulau Pinang (PBA) vide the Penang Water Authority (Successor Company) Enactment 1998.

At the date of incorporation, the principal activity of the subsidiary company is to undertake the business activities of a water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers.

PBAPP's authorised share capital is RM300,000,001.00 divided into 300,000,000 ordinary shares of RM1.00 each and 1 special rights redeemable preference share (Special Share) of RM1.00 each and its issued and paid-up share capital is RM165,114,083 comprising of 165,114,082 ordinary shares of RM1.00 each and 1 Special Share of RM1.00 each.

Details of changes in the issued and paid-up share capital of PBAPP since its incorporation are as follows :-

Date of allotment	Number of shares allotted	Par value RM	Consideration	Issued and paid-up share capital (cumulative) RM
Special Share				
29 December 1999	1	1.00	Cash	<u>1.00</u>

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Date of allotment	Number of shares allotted	Par value RM	Consideration	Issued and paid-up share capital (cumulative) RM
Ordinary shares				
26 January 1999	2	1.00	Subscribers' shares	2.00
30 December 1999	83,780,747	1.00	Issued pursuant to the purchase of the net assets of PBA at a premium of RM0.20 per ordinary share	83,780,749.00
1 January 2000	81,333,333	1.00	Issued pursuant to the capitalisation of a portion of term loans due to the State Government at a premium of RM0.50 per ordinary share	<u>165,114,082.00</u>

3 ACCOUNTING POLICIES AND STANDARDS

This report is based on audited accounts which have been prepared in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with accounting policies normally adopted by PBAHB Group.

There were no changes in accounting policies and estimates by the Group during the periods under review.

4 ACCOUNTS AND AUDITORS

We were appointed by the Auditor-General (AG) under Section 7(3) of the Audit Act, 1957 (Revised - 1972) to carry out the audit of PBA for the three financial years ended 31 December 1998. Our responsibility is to carry out the audit work as required by the Statutory Bodies (Accounts and Annual Reports) Acts 1980 and report directly to the AG, who will ultimately express his opinion on the financial statements of PBA.

The financial statements for the two months ended 28 February 1999 were audited by the AG.

We were appointed to act as auditors of PBAHB and PBAPP since the incorporation of these companies.

The auditors' report on the accounts of PBA, PBAPP and PBAHB for all the financial years/periods under review were not subject to any reservation or qualification.

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5 SUMMARISED INCOME STATEMENTS

We set out below the summarised proforma consolidated results of PBAHB Group as if the Group structure had been effective throughout the periods under review. The proforma consolidated results are based on the audited accounts of PBAHB, PBAPP and PBA and have been prepared on a time apportioned basis, where appropriate.

5.1 PBAHB Group - Summarised Results

	Proforma Group					
	Year ended 31 December					9 months ended 30 September 2001
Note	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	RM'000
Revenue	97,580	101,495	102,334	102,243	105,215	100,993
Miscellaneous income	3 21,961	29,184	24,634	26,368	21,151	13,357
Profit before depreciation, interest and taxation	67,636	75,830	66,336	68,111	59,980	55,395
Depreciation	4 (5,353)	(4,738)	(6,412)	(6,948)	(8,470)	(10,412)
Interest expense	(7,182)	(6,730)	(6,305)	(6,823)	(5,963)	(4,099)
Profit before taxation	55,101	64,362	53,619	54,340	45,547	40,884
Taxation	6 -	-	-	(3,040)	(6,200)	540
Profit after taxation	55,101	64,362	53,619	51,300	39,347	41,424
No. of ordinary shares of RM0.50 each assumed in issue ('000)	8 280,000	280,000	280,000	280,000	280,000	280,000
Gross earnings per share (sen)	9 19.68	22.99	19.15	19.41	16.27	19.47
Net earnings per share (sen)	9 19.68	22.99	19.15	18.32	14.05	19.73
Gross dividend rate (%)	-	-	-	-	-	-

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Notes :-

- (1) The proforma consolidated results for the five financial years ended 31 December 2000 and for the financial period ended 30 September 2001 are prepared on the basis that the Group structure had been effective throughout the periods under review and are based on the audited accounts of PBAHB, PBAPP and PBA as follows :-
- (i) PBAHB for the financial period ended 31 December 2000 and the financial period ended 30 September 2001;
- (ii) PBAPP for the two financial period/year ended 31 December 2000 and the financial period ended 30 September 2001; and
- (iii) PBA for the three financial years ended 31 December 1998 and the two months period ended 28 February 1999.

All prior years' adjustments made in PBA audited accounts have been adjusted to the relevant years/period concerned.

- (2) The audited consolidated results for the financial period ended 30 September 2001 are as follows :-

	Note	9 months ended 30 September 2001 RM'000
Revenue		80,257
Miscellaneous income		<u>10,159</u>
Profit before depreciation, interest and taxation		43,579
Depreciation		(8,225)
Interest expense		<u>(3,181)</u>
Profit before taxation		32,173
Taxation	6	<u>(5,105)</u>
Profit after taxation		<u><u>27,068</u></u>
Weighted average no. of ordinary shares of RM0.50 each in issue ('000)		212,308
Gross earnings per share (sen)	9	20.21
Net earnings per share (sen)	9	17.00
Gross dividend rate (%)		-

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- (3) This has been adjusted to recognise as miscellaneous income the cash contributions received for trunk mains which was previously credited directly to reserves in the PBA audited accounts.
- (4) This has been adjusted in respect of depreciation on immovable properties which remained with PBA as they were not taken over by PBAPP on 1 March 1999.
- (5) The increase in revenue by approximately 4% for 1997 was due to increase in number of consumers and water consumption in the domestic and industrial sectors as a result of the development of new housing projects and construction of new shopping malls, in line with the country's impressive economic growth. However miscellaneous income had increased by approximately 33% due to more cash contributions for trunk mains received from consumers and developers as a result of more housing projects and shopping malls developed/constructed by developers. As a result, profit before taxation increased by approximately 17% as compared to 1996.

There was no significant fluctuation in revenue for 1998. However profit before taxation for 1998 had decreased by approximately 17% mainly due to higher cost of sales arising from an increase in depreciation charge as a result of the completion of certain major capital projects and increase in salary cost. In addition reduction in cash contributions for trunk mains received from consumers and developers as a result of the slowdown in the constructions and housing industries had also affected the Group's profit during the year.

The revenue for 1999 remained flat at the 1998 level as the effect of the economic and financial crisis continued to affect the industrial sector. As a result, profit before taxation had not fluctuated significantly as compared to 1998.

Revenue for 2000 had increased by approximately 3% due to increase in water consumption, in line with the increase in number of domestic and trade consumers. However miscellaneous income had dropped by approximately 18% mainly due to lower interest income as a result of lower interest rate earned on fixed deposits and lower income from sale of store stocks. In spite of the increase in revenue, profit before taxation had decreased by approximately 16% as compared to 1999. This was due to increase in emoluments and staff related costs and additional expenses incurred to enhance the subsidiary company's operations to improve its services to the public.

With the increase in water rates with effect from 1 January 2001, the Group was able to register a profit before taxation of RM40,884,238 on the water revenue of RM100,992,938 for the nine months ended 30 September 2001.

- (6) There was no tax for the three financial years ended 31 December 1998 as PBA was exempted from income tax in respect of its business income (other than dividend income) under Section 172(3)(6), Income Tax Act 1967.

The disproportionate tax charge for the financial year ended 31 December 1999 was because PBA/PBAPP was not subject to any tax as tax on chargeable income (other than dividend income) was either exempted from income tax under Section 172(3)(6), Income Tax Act 1967 or waived under Section 8, Income Tax (Amendment) Act 1999. The tax charge was mainly in respect of PBAPP's deferred tax.

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The disproportionate tax charge for the financial year/period ended 31 December 2000 and 30 September 2001 was mainly due to the treatment of certain fixed assets as revenue expenses for tax purposes and reinvestment allowance claimed by PBAPP respectively. The credit balance for the financial period ended 30 September 2001 was due to the reversal of the deferred tax charge of RM3,400,000 as a result of the reinvestment allowance claimed by PBAPP.

- (7) There was no extraordinary item during the years/period under review.
- (8) The number of ordinary shares assumed in issue throughout the financial years/period under review is the number of ordinary shares in issue after the acquisition of PBAPP and after the subdivision of the par value of the shares from RM1.00 to RM0.50.
- (9) The gross and net earnings per share have been calculated based on the number of ordinary shares of RM0.50 each assumed in issue during the years/period.

The gross and net earnings per share for the financial period ended 30 September 2001 have been calculated based on the annualised profit for the period.

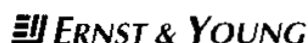
5.2 PBAHB

The summarised income statement of PBAHB based on the audited accounts for the financial period ended 31 December 2000 and the financial period ended 30 September 2001, are set out below :-

	Note	7 months ended 31 December 2000 RM'000	9 months ended 30 September 2001 RM'000
Revenue		-	-
Miscellaneous income		-	-
Loss before depreciation, interest and taxation		(78)	(31)
Depreciation		-	(4)
Interest expense		-	-
Loss before taxation		(78)	(35)
Taxation		-	-
Loss after taxation		(78)	(35)
Weighted average number of ordinary shares of RM0.50 each in issue ('000)		*	212,308
Gross loss per share (RM+/sen)	3	(33,429)+	(0.02)
Net loss per share (RM+/sen)	3	(33,429)+	(0.02)

* 4 ordinary shares

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Notes :-

- (1) The Company was incorporated on 25 May 2000 and prepared its first set of audited accounts for the period from 25 May 2000 to 31 December 2000.
- (2) There was no extraordinary item during the periods under review.
- (3) The gross and net loss per share for the period ended 30 September 2001 have been calculated based on the weighted average number of ordinary shares of RM0.50 each in issue during the period.

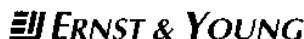
The gross and net loss per share for the periods ended 31 December 2000 and 30 September 2001 have been calculated based on the annualised loss for the respective periods.

5.3 PBAPP

The summarised income statement of PBAPP, based on the audited accounts for the financial period ended 31 December 1999, financial year ended 31 December 2000 and for the financial period ended 30 September 2001, are set out below :-

	Note	11 months ended 31 December 1999 RM'000	Year ended 31 December 2000 RM'000	9 months ended 30 September 2001 RM'000
Revenue		85,821	105,215	100,993
Miscellaneous income		22,183	21,151	13,357
Profit before depreciation, interest and taxation		56,684	60,057	55,427
Depreciation		(5,810)	(8,470)	(10,408)
Interest expense		(4,546)	(5,963)	(4,099)
Profit before taxation		46,328	45,624	40,920
Taxation	3	(3,040)	(6,200)	540
Profit after taxation		43,288	39,424	41,460
Weighted average number of ordinary shares of RM1.00 each in issue ('000)		493	165,114	165,114
Gross earnings per share (sen)	5	11,276.59	27.63	33.04
Net earnings per share (sen)	5	10,536.63	23.88	33.48

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Notes :-

- (1) PBAPP was incorporated on 26 January 1999 and prepared its first set of audited accounts for the period from 26 January 1999 to 31 December 1999.
- (2) Revenue for 2000 had increased by approximately 23% due to 10 months results for 1999 and increase in water consumption, in line with the increase in number of domestic and trade consumers. However miscellaneous income had dropped by approximately 5% mainly due to lower interest income as a result of lower interest rate earned on fixed deposits and lower income from sale of store stocks. In spite of the increase in revenue, profit before taxation had decreased by approximately 2% as compared to 1999. This was due to 10 months results for 1999, increase in emoluments and staff related costs and additional expenses incurred to enhance PBAPP's operations to improve its services to the public.

With the increase in water rates with effect from 1 January 2001, PBAPP was able to register a profit before taxation of RM40,919,650 on the water revenue of RM100,992,938 for the nine months ended 30 September 2001.

- (3) The disproportionate tax charge for the financial period ended 31 December 1999 was because PBAPP was not subject to any tax as tax on chargeable income (other than dividend income) was waived under Section 8, Income Tax (Amendment) Act 1999. The tax charge was mainly in respect of deferred tax.

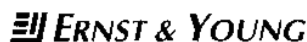
The disproportionate tax charge for the financial year/period ended 31 December 2000 and 30 September 2001 was mainly due to the treatment of certain fixed assets as revenue expenses for tax purposes and reinvestment allowance claimed by PBAPP respectively. The credit balance for the financial period ended 30 September 2001 was due to the reversal of the deferred tax charge of RM3,400,000 as a result of the reinvestment allowance claimed by PBAPP.

- (4) There was no extraordinary item during the periods/year under review.
- (5) The gross and net earnings per share have been calculated based on the weighted average number of ordinary shares of RM1.00 each in issue during the periods/year.

The gross and net earnings per share for the periods ended 31 December 1999 and 30 September 2001 have been calculated based on the annualised profit for the respective periods.

The weighted average number of ordinary shares of RM1.00 each for 1999 would have had been 75,402,674 ordinary shares had the ordinary shares been deemed allotted on 1 March 1999 when PBAPP acquired certain assets, liabilities, etc of PBA. The gross and net earnings per share would have had been 61.4 sen and 57.4 sen respectively.

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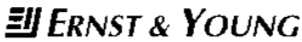
5.4 PBA

The summarised income statement of PBA, based on the audited accounts for the three financial years ended 31 December 1998 and for the financial period ended 28 February 1999 are set out below :-

	Note	← Year ended 31 December →			2 months
		1996	1997	1998	ended
		RM'000	RM'000	RM'000	28 February
					1999
					RM'000
Revenue		97,580	101,495	102,334	16,422
Miscellaneous income		14,961	15,284	15,007	3,300
Profit before depreciation, interest and taxation		60,636	61,930	56,709	10,125
Depreciation		(10,424)	(10,034)	(13,921)	(2,679)
Interest expense		(7,182)	(6,730)	(6,305)	(1,860)
Profit before taxation		43,030	45,166	36,483	5,586
Taxation	4	-	-	-	-
Profit after taxation		43,030	45,166	36,483	5,586
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	5	N/A	N/A	N/A	N/A
Gross earnings per share (sen)	5	N/A	N/A	N/A	N/A
Net earnings per share (sen)	5	N/A	N/A	N/A	N/A

N/A - Not applicable

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Notes :-

- (1) Upon corporatisation of PBAPP, PBA ceased operations on 1 March 1999 when it transferred all its movable property, choses-in-action, rights and liabilities pertaining to the movable property and selected immovable property to PBAPP pursuant to the Penang Water Authority (Successor Company) Enactment 1998.
- (2) The figures above have been extracted from the audited accounts of PBA and no adjustments have been made to take into account certain transactions which have been adjusted in arriving at the proforma consolidated summarised results as disclosed in notes (2) and (3) of Section 5.1 above.

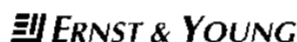
All prior years' adjustments have been adjusted to the relevant years/period concerned.

- (3) The increase in revenue by approximately 4% for 1997 was due to increase in number of consumers and water consumption in the domestic and industrial sectors as a result of the development of new housing projects and construction of new shopping malls, in line with the country's impressive economic growth. However miscellaneous income had increased by approximately 33% due to more cash contributions for trunk mains received from consumers and developers as a result of more housing projects and shopping malls developed/constructed by developers. As a result, profit before taxation increased by approximately 17% as compared to 1996.

There was no significant fluctuation in revenue for 1998. However, profit before taxation for 1998 had decreased by approximately 17% mainly due to higher cost of sales arising from an increase in depreciation charge as a result of the completion of certain major capital projects and increase in salary cost. In addition reduction in cash contributions for trunk mains received from consumers and developers as a result of the slowdown in the constructions and housing industries had also affected PBA's profit during the year.

- (4) There was no tax for the three financial years ended 31 December 1998 and the two months period ended 28 February 1999 as PBA was exempted from income tax in respect of its business income (other than dividend income) under Section 172(3)(6), Income Tax Act 1967.
- (5) PBA does not have a share capital by virtue of it being a Statutory Body. Consequently, no gross and net earnings per share have been computed.

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6 SUMMARISED BALANCE SHEETS

The summarised balance sheets of PBAHB, PBAPP and PBA based on the audited accounts for the relevant financial years/periods under review, are set out below :-

6.1 PBAHB

The summarised balance sheets of PBAHB, based on the audited accounts as at 31 December 2000 and 30 September 2001 are set out below :-

	Group As at 30 September 2001 RM'000	← Company As at 31 December 2000 RM'000	→ As at 30 September 2001 RM'000
Property, plant and equipment	330,872	-	46
Investment in subsidiary company	-	-	265,825
Investments	24,092	-	-
Current assets	268,316	555	1,188
Current liabilities	(91,764)	(633)	(1,347)
Net current assets/(liabilities)	176,552	(78)	(159)
	531,516	(78)	265,712
Share capital	140,000	*	140,000
Reserves	206,596	(78)	125,712
Shareholder's equity	346,596	(78)	265,712
Deferred liabilities	184,920	-	-
	531,516	(78)	265,712
Net tangible assets/(liabilities) per ordinary share of RM0.50 each (RM)	1.24	(19,500)	0.95

* Share capital of RM2.00

- (1) PBAHB prepared its first set of audited accounts for the period from 25 May 2000 to 31 December 2000.
- (2) PBAHB subdivided the par value of its shares from RM1.00 to RM0.50 on 15 August 2001. Consequently, the net tangible assets/(liabilities) per ordinary share has been computed on the basis that the par value is RM0.50 per share.
- (3) Consolidated accounts are only prepared as at 30 September 2001 as the Company only acquired 100% equity interest in the ordinary shares of PBAPP from SSI on 7 March 2001.

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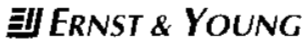
6.2 PBAPP

The summarised balance sheets of PBAPP, based on the audited accounts as at 31 December 1999 and 2000 and 30 September 2001, are set out below :-

	As at 31 December		As at
	1999	2000	30 September
	RM'000	RM'000	2001
			RM'000
Property, plant and equipment	244,645	305,948	330,826
Investments	19,246	23,028	24,092
Current assets	209,125	189,568	268,470
Current liabilities	(78,762)	(83,675)	(91,759)
Net current assets	130,363	105,893	176,711
	394,254	434,869	531,629
Share capital	83,781	165,114	165,114
Reserves	60,044	140,136	181,595
Shareholder's equity	143,825	305,250	346,709
Deferred liabilities	250,429	129,619	184,920
	394,254	434,869	531,629
Net tangible assets per ordinary share of RM1.00 each (RM)	1.72	1.85	2.10

PBAPP prepared its first set of audited accounts for the period from 26 January 1999 to 31 December 1999.

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6.3 PBA

The summarised balance sheets of PBA, based on the audited accounts as at 31 December 1996 to 1998 and as at 28 February 1999, are set out below :-

	←	As at 31 December		→	As at
	1996	1997	1998		28 February
	RM'000	RM'000	RM'000		1999
					RM'000
Property, plant and equipment	375,398	442,452	540,912		568,785
Investments	-	15,000	16,349		16,752
Current assets	163,476	170,273	203,072		182,389
Current liabilities	(70,577)	(81,502)	(73,604)		(76,552)
Net current assets	92,899	88,771	129,468		105,837
	468,297	546,223	686,729		691,374
Share capital	-	-	-		-
Reserves and capital receipts	355,303	416,602	465,608		472,166
Shareholder's equity	355,303	416,602	465,608		472,166
Deferred liabilities	112,994	129,621	221,121		219,208
	468,297	546,223	686,729		691,374

There is no share capital as PBA is a Statutory Body.

Upon corporatisation of PBAPP, PBA ceased operations on 1 March 1999 when it transferred all its movable property, choses-in-action, rights and liabilities pertaining to the movable property and selected immovable property to PBAPP pursuant to the Penang Water Authority (Successor Company) Enactment 1998.

7 DIVIDENDS

No dividends were declared by the PBAHB Group for the years/period under review.

12. ACCOUNTANTS' REPORT (Cont'd)



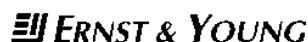
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8 DETAILED STATEMENT OF ASSETS AND LIABILITIES

The detailed statement of assets and liabilities of PBAHB and of the Group set out below are based on the audited balance sheets of PBAHB and its subsidiary company as at 30 September 2001. The statements are to be read in conjunction with the notes thereto :-

	Note	Group RM'000	Company RM'000
PROPERTY, PLANT AND EQUIPMENT	B	330,872	46
INVESTMENT IN SUBSIDIARY COMPANY	C	-	265,825
INVESTMENTS	D	24,092	-
CURRENT ASSETS			
Inventories		11,646	-
Trade receivables	E	16,224	-
Other receivables	F	35,485	1,188
Tax recoverable		531	-
Fixed deposits	G	194,000	-
Cash and bank balances		10,430	-
		268,316	1,188
CURRENT LIABILITIES			
Trade payables		9,474	-
Other payables	H	72,075	4
Amount owing to the subsidiary company		-	1,343
Term loans (unsecured)	I	10,215	-
		91,764	1,347
NET CURRENT ASSETS/(LIABILITIES)		176,552	(159)
		531,516	265,712
FINANCED BY-			
SHARE CAPITAL	J	140,000	140,000
RESERVES	K	206,596	125,712
SHAREHOLDER'S EQUITY		346,596	265,712
DEFERRED LIABILITIES	L	184,920	-
		531,516	265,712
Net tangible assets per ordinary share of RM0.50 each (RM)		1.24	0.95

12. ACCOUNTANTS' REPORT (Cont'd)



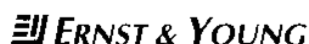
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9 CASH FLOW STATEMENTS

The cash flow statements of PBAHB and of the Group set out below are based on the audited accounts of PBAHB and its subsidiary company for the period ended 30 September 2001 :-

	Group RM'000	Company RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before taxation	32,173	(35)
Adjustments for -		
Depreciation	8,225	4
Interest expense	3,181	-
Gain on disposal of investments	(550)	-
Interest income	(4,149)	-
Provision for retirement benefits	457	-
Dividend income	(304)	-
Gain on disposal of property, plant and equipment	(387)	-
Operating profit/(loss) before working capital changes	38,646	(31)
Increase in inventories	1,204	-
Increase in trade and other receivables	(20,418)	(633)
Increase/(Decrease) in trade and other payables	5,460	(629)
Increase in amount due to a subsidiary company	-	1,343
Cash generated from operations	24,892	50
Tax paid	(4,233)	-
Interest paid	(3,181)	-
Retirement benefits paid	(46)	-
Net cash from operating activities carried forward	17,432	50

12. ACCOUNTANTS' REPORT (Cont'd)



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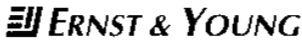
	Group RM'000	Company RM'000
Balance brought forward	17,432	50
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of a subsidiary company, net of cash acquired (Note A)	184,305	-
Proceeds from disposal of property, plant and equipment	387	-
Purchase of property, plant and equipment	(21,647)	(50)
Dividends received (net)	234	-
Interest received	4,149	-
Proceeds from disposal of investments	4,848	-
Purchase of investments	(5,202)	-
Net cash from/(used in) investing activities	167,074	(50)
CASH FLOW FROM FINANCING ACTIVITIES		
Drawdown of term loans	63,807	-
Repayment of term loans	(43,883)	-
Proceeds from issuance of shares	*	*
Net cash from financing activities	19,924	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	204,430	*
CASH AND CASH EQUIVALENTS ON 1 JANUARY 2001	**	**
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2001	204,430	***
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2001		
Cash and bank balances	10,430	***
Fixed deposits	194,000	-
	204,430	***

* RM1.00

** RM2.00

*** RM3.00

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

Note A

Analysis of acquisition of a subsidiary company -

	Group RM'000
Property, plant and equipment	317,449
Investments	23,188
Current assets	227,890
Current liabilities	(86,608)
Deferred liabilities	<u>(162,314)</u>
	319,605
Reserve on acquisition	<u>(53,780)</u>
	265,825
Total purchase consideration	265,825
Less - Cash and cash equivalents acquired	<u>(184,305)</u>
	81,520
Discharged by -	
Issuance of shares	<u>(265,825)</u>
	81,520
Cash	<u><u>(184,305)</u></u>

The effect of the acquisitions on the financial results of the Group from the date of acquisition to 30 September 2001 is as follows -

	30/9/2001 RM'000
Revenue	80,257
Cost of sales	<u>(47,766)</u>
Gross profit	32,491
Other operating income	10,159
Administrative expenses	<u>(8,039)</u>
Profit from operations	34,611
Finance cost	<u>(2,402)</u>
Profit before taxation	32,209
Taxation	<u>5,105</u>
Profit after taxation	<u><u>27,104</u></u>

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

The effect of the acquisitions on the financial position of the Group at 30 September 2001 is as follows -

	30/9/2001 RM'000
Property, plant and equipment	330,826
Investments	24,092
Inventories	11,646
Trade receivables	16,224
Other receivables	34,297
Holding company	1,344
Fixed deposits	194,000
Tax recoverable	530
Cash and bank balances	10,430
Trade payables	(9,474)
Other payables	(72,071)
Term loans (unsecured)	(10,215)
Deferred liabilities	(184,920)
	346,709

10 NOTES TO THE DETAILED STATEMENT OF ASSETS AND LIABILITIES

A SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The detailed statement of assets and liabilities are prepared under the historical cost convention and comply with applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

(b) Basis of consolidation

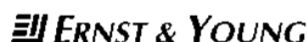
The detailed statement of assets and liabilities have been prepared based on the audited accounts of PBAHB and PBAPP as at 30 September 2001. Where the subsidiary company is acquired or disposed of during the period, its results and revenue are included in the Group accounts from the date of acquisition or excluded from the date of disposal.

Goodwill or reserve on consolidation represents the difference between the consideration paid for the shares in the subsidiary company and the fair value of attributable net assets acquired. Reserve on consolidation is separately disclosed in the detailed statement of assets and liabilities.

Minority interest has not been disclosed as the amount is immaterial.

All inter-company transactions and balances are eliminated on consolidation.

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

(c) Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation.

Depreciation on property, plant and equipment is computed on a straight line basis to write off the cost of the assets over their estimated useful lives. The principal annual rates used are as follows :-

Buildings	1 - 2%
Reservoirs	2%
Plant and machinery	6.7%
Mains	4%
Water meters	10%
Motor vehicles	20%
Office equipment and furnitures	10%
Computer equipment	10%

No depreciation is provided on freehold land. Leasehold land is amortised over the lease periods of between 60 - 99 years.

Property, plant and equipment which are acquired from PBA upon its corporatisation on 1 March 1999 are depreciated over their remaining useful lives.

(d) Investments

Investments in the subsidiary company and investments which are held on a long term basis are stated at cost. Allowance for impairment loss in value of investments is only made if the impairment in value of investment is of a permanent nature. Permanent impairment in value of investment is recognised as an expense in the period in which the impairment is identified.

(e) Inventories

Inventories which consist mainly of spare parts and consummables are valued at the lower of cost and net realisable value after adequate allowance has been made for damaged, obsolete and slow moving inventories. Cost is determined on the weighted average cost basis.

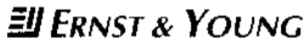
(f) Receivables

Known bad debts are written off and specific allowance is made for any debts which are considered doubtful.

(g) Retirement benefits

In addition to the contribution made to the statutory Employees Provident Funds, the Group also operates an unfunded defined benefit scheme for all its employees in accordance with the terms and conditions of employment between the Group and its employees.

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

(b) Deferred taxation

Deferred taxation is provided on the liability method in respect of timing differences which arise where the basis on which profits are arrived at for the purpose of computing taxation is different from the basis on which profits are included in the income statement except where such timing differences are not expected to reverse in the foreseeable future. Where such timing differences give rise to net deferred tax benefits, these benefits are not recognised.

(i) Foreign currencies

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates ruling at transaction dates or at contracted rates where applicable. Foreign currency assets and liabilities at year end are translated into Ringgit Malaysia at the rates then ruling. All exchange differences are dealt with through the income statements.

(j) Revenue recognition

Revenue from water supplied to consumers are recognised when invoiced and upon services being rendered.

Interest income on fixed deposits is recognised on an accrual basis.

Dividend income from investments is accounted for in the income statements when the Company's rights to receive payment is established.

(k) Cash and cash equivalents

Cash and cash equivalents include cash and cash balances (net of bank overdrafts), deposits which are not pledged and other short term, highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

B PROPERTY, PLANT AND EQUIPMENT

Group	← At Cost →				At 30 September 2001 RM'000
	At 1 January 2001 RM'000	On acquisition of a subsidiary company RM'000	Additions RM'000	Transfer in/(out) RM'000	
Land	-	21,990	1,913	-	23,903
Buildings	-	35,696	162	6,677	42,535
Reservoirs	-	24,546	-	-	24,546
Renovation	-	-	38	-	38
Plant and machinery	-	97,336	1,051	493	98,880
Mains	-	32,828	542	15,835	49,205
Water meters	-	20,189	789	564	21,542
Motor vehicles	-	2,176	300	10	2,486
Office equipment and furniture	-	1,139	149	-	1,288
Computer equipment	-	2,564	135	76	2,775
Capital-work-in-progress	-	95,396	16,568	(23,655)	88,309
Total	-	333,860	21,647	-	355,507

Group	← Accumulated depreciation →			At 30 September 2001 RM'000	Net book value At 30 September 2001 RM'000
	At 1 January 2001 RM'000	On acquisition of a subsidiary company RM'000	Charge for the period RM'000		
Land	-	207	85	292	23,611
Buildings	-	359	419	778	41,757
Reservoirs	-	1,421	435	1,856	22,690
Renovation	-	-	4	4	34
Plant and machinery	-	9,395	4,179	13,574	85,306
Mains	-	925	1,010	1,935	47,270
Water meters	-	2,489	1,552	4,041	17,501
Motor vehicles	-	779	250	1,029	1,457
Office equipment and furniture	-	273	92	365	923
Computer equipment	-	562	199	761	2,014
Capital-work-in-progress	-	-	-	-	88,309
Total	-	16,410	8,225	24,635	330,872

12. ACCOUNTANTS' REPORT (Cont'd)

ERNST & YOUNG

(Firm No: AF 0039)

The land comprise the following -

	Cost RM'000	Amortisation RM'000	Net book value 30 September 2001 RM'000
Freehold land	17,833	-	17,833
Longterm leasehold land	6,070	292	5,778
	<u>23,903</u>	<u>292</u>	<u>23,611</u>

The leasehold land have unexpired lease terms of between 58 to 97 years.

Company

	← At Cost →		
	At 1 January 2001 RM'000	Additions RM'000	At 30 September 2001 RM'000
Equipment and furniture	-	12	12
Renovation	-	38	38
Total	<u>-</u>	<u>50</u>	<u>50</u>

	← Accumulated depreciation →		
	At 1 January 2001 RM'000	Charge for the period RM'000	At 30 September 2001 RM'000
Equipment and furniture	-	-	-
Renovation	-	4	4
Total	<u>-</u>	<u>4</u>	<u>4</u>

	Net book value 30 September 2001 RM'000
Equipment and furniture	12
Renovation	<u>34</u>
Total	<u>46</u>

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

C INVESTMENT IN SUBSIDIARY COMPANY

	Company RM'000
Unquoted shares, at cost	<u>265,825</u>

During the period, the Company acquired 100% equity interest in the ordinary shares of PBAPP from SSI for a total consideration of RM265,825,236 which was satisfied by an issue of 139,999,998 ordinary shares of RM1.00 each in the Company at a premium of approximately RM0.90 per share.

The subsidiary company is :-

Name	Percentage of equity holding		Country of incorporation	Principal activity
	2001	2000		
PBAPP	100%	-	Malaysia	Water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers

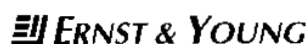
D INVESTMENTS

These investments are managed by external management companies in accordance with the terms of the Investment Management Agreements.

As at the period end, the funds were invested as follows :-

	Group RM'000
Shares quoted in Malaysia, at cost	17,714
Fixed interest securities, at cost	762
Fixed deposits with licensed banks	2,370
Fixed deposits with other corporations	1,151
Money market placement	<u>2,095</u>
	<u>24,092</u>
Market value of quoted shares - 30 September	<u>15,468</u>

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

E TRADE RECEIVABLES

	Group RM'000
Trade receivables	16,368
Allowance for doubtful debts	(144)
	<u>16,224</u>

F OTHER RECEIVABLES

	Group RM'000	Company RM'000
Prepayments	3,880	1,183
Other receivables	32,005	5
	<u>35,885</u>	<u>1,188</u>
Allowance for doubtful debts	(400)	-
	<u>35,485</u>	<u>1,188</u>

Included in other receivables are -

Group

- (a) listing expenses of RM1,182,843 incurred on the proposed listing of the Company and will be written off against the share premium account upon listing.
- (b) advances given to Jabatan Bekalan Air Pulau Pinang of RM20,409,158 in respect of expenses incurred for the Teluk Bahang Dam.

Company

- (a) listing expenses of RM1,182,843 incurred on the proposed listing of the Company and will be written off against the share premium account upon listing.

G FIXED DEPOSITS

	Group RM'000
With licensed banks	166,500
With finance companies	27,500
	<u>194,000</u>

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

H OTHER PAYABLES

	Group RM'000	Company RM'000
Other payables	23,656	4
Refundable deposits	48,419	-
	72,075	4

Refundable deposits comprise mainly water supply deposits, reticulation mains deposits, security deposits and pipe maintenance deposits from consumers.

I TERM LOANS (UNSECURED)

	Group RM'000
Balance at 30 September	189,814
Repayable after the next 12 months (Note L)	(179,599)
Repayable within the next 12 months	10,215

The unsecured term loans were obtained from the Federal Government through the State Government to finance major water projects.

The term loans bear interest rates of 0% to 8% per annum and are repayable over a period of 6 to 20 years by yearly instalments ranging between RM10,295 and RM6,990,043 per annum.

The amount repayable after the next 12 months is disclosed separately under deferred liabilities.

J SHARE CAPITAL

	Group RM'000	Company RM'000
Authorised -		
1 Special Share of RM0.50 each	*	*
1,000,000,001 ordinary shares of RM0.50 each	500,000	500,000
	500,000 +	500,000 +

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

	Group RM'000	Company RM'000
Issued and fully paid -		
Special Share of RM0.50 each		
At 1 January	-	-
Issued during the period	@	@
Redeemed during the period	(*)	(*)
At 30 September	*	*
Ordinary shares of RM0.50 each		
At 1 January	**	**
Issued on acquisition of a subsidiary company	140,000	140,000
Issued on redemption of Special Share	*	*
At 30 September	140,000	140,000
Total at 30 September	140,000 ++	140,000 ++

* RM0.50

@ RM1.00

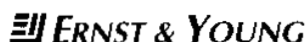
** RM2.00

+ RM500,000,001

++ RM140,000,001

- (a) On 7 March 2001, the Company issued 139,999,998 ordinary shares of RM1.00 each at a premium of RM0.90 per share as consideration for the acquisition of the subsidiary company as disclosed in Note C to the financial statements.
- (b) On 15 August 2001, the Company effected a change in the par value of its shares from RM1.00 each to RM0.50 each, by way of a sub-division of its ordinary shares and Special Shares.
- (c) On 22 August 2001, the Company issued 2 Special Shares of RM0.50 each to SSI. Subsequently on 29 August 2001, the Company redeemed 1 of the Special Shares from SSI out of the proceeds of a fresh issue of 1 ordinary share of RM0.50 each made for the purpose of the redemption, thus leaving SSI with only 1 Special Share in the Company.

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

- (d) The Special Share would enable the Penang State Government through the SSI to ensure that certain major decisions affecting the operations of the Company are consistent with the Penang State Government's policies. The Special Share can only be held by the SSI or its successor, or the Chief Minister or any person acting on behalf of the State Government of Penang.

The Special Shareholder is not entitled to any dividend or to participate in the capital distribution upon the dissolution of the Company but shall rank for repayment of the capital paid-up on the Special Share in priority to all other shares. Other rights and restrictions attached to the Special Share are set out in Article 21 of the Company's Articles of Association.

Arising from (b) and (c) above, the authorised share capital of the Company now consists of 1,000,000,001 ordinary shares of RM0.50 each and 1 Special Share of RM0.50 each.

K RESERVES

	Group RM'000	Company RM'000
Accumulated loss	-	(113)
Distributable -		
Retained profits	26,991	-
Non-distributable -		
Share premium	125,825	125,825
Reserve on consolidation	53,780	-
	<u>206,596</u>	<u>125,712</u>

The share premium for the period arose from the issuance of 139,999,998 ordinary shares of RM1.00 each at an issue price of approximately RM1.90 each (Note C).

	Group RM'000
Analysis of retained profits -	
Retained by/(Accumulated in)	
The Company	(113)
Subsidiary company	<u>27,104</u>
	<u>26,991</u>

12. ACCOUNTANTS' REPORT (Cont'd)



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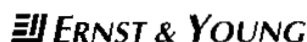
L DEFERRED LIABILITIES

	Group RM'000
Term loans - unsecured (See Note I)	179,599
Deferred taxation	3,600
Provision for retirement benefits	1,721
	<u>184,920</u>
(i) Deferred taxation	
At 1 January	-
On acquisition of a subsidiary company	1,000
Transfer to income statement	2,600
	<u>3,600</u>
At 30 September	<u>3,600</u>
(ii) Provision for retirement benefits	
At 1 January	-
On acquisition of a subsidiary company	1,310
Current period's provision	457
	<u>1,767</u>
Paid during the period	<u>(46)</u>
At 30 September	<u>1,721</u>

M SIGNIFICANT RELATED PARTY TRANSACTIONS

	Group	
	1/1/2001 to 30/9/2001 RM'000	Amount outstanding as at 30/9/2001 RM'000
Advances given to a related party	14,934	14,934
Dam lease charges paid to a related party	3,850	-
Licence fee paid to a related party	58	-
	<u>18,842</u>	<u>14,934</u>

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

The above transactions have been entered into based on terms and conditions which are mutually agreed upon between the Group and the related party. The advances given to a related party are unsecured, interest free and with no fixed terms of repayment.

The related party, Jabatan Bekalan Air Pulau Pinang which the Group has transacted with is deemed to be related by virtue of the Company's sole shareholder, SSI and Jabatan Bekalan Air Pulau Pinang being both controlled by the State Government of Penang.

N CAPITAL COMMITMENTS

	Group RM'000
Contracted but not provided for	<u>49,000</u>

O LICENCE

The subsidiary company has been granted a licence by Penang State Government via Jabatan Bekalan Air Pulau Pinang to operate and maintain the State water supply system until 31 December 2005.

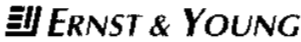
P SIGNIFICANT EVENTS

On 7 March 2001, the Company acquired 100% equity interest in the ordinary shares of PBAPP for a total consideration of RM265,825,236 which was satisfied by way of an issue of 139,999,998 ordinary shares of RM1.00 each in PBAHB at an issue price of approximately RM1.90 per ordinary share to SSI pursuant to a scheme to list its entire issued and paid-up ordinary shares on the KLSE as approved by the Securities Commission.

11 PROCEEDS FROM PUBLIC ISSUE

The cash proceeds of RM62,300,000 (after deducting estimated listing expenses of RM4,000,000) to be received from the Public Issue will be advanced to PBAPP to finance its planned capital expenditure and will be fully utilised by August 2003.

12. ACCOUNTANTS' REPORT (Cont'd)



(Firm No: AF 0039)

12 PROFORMA NET TANGIBLE ASSETS COVER

Based on the detailed statement of assets and liabilities of PBAHB Group as at 30 September 2001, the proforma net tangible assets and enlarged ordinary share capital are derived as follows :-

(i) Proforma Net Tangible Assets

	RM'000
Net tangible assets per audited balance sheet as at 30 September 2001	346,596
Add - Proceeds from public issue	66,300
	412,896
Less - Estimated listing expenses	4,000
Proforma net tangible assets	408,896

(ii) Share Capital

	No. of ordinary shares ('000)
Total number of ordinary shares of RM0.50 each in issue will be as follows :-	
At 30 September	280,000
Add - Public issue	51,000
	331,000
Proforma net tangible assets per ordinary share of RM0.50 each (RM)	1.24

13 AUDITED ACCOUNTS

No audited accounts of the Company and its subsidiary have been prepared in respect of any period subsequent to 30 September 2001.

Yours faithfully,

Ernst & Young
ERNST & YOUNG
 NO. AF: 0039
Chartered Accountants

Oo Boon Beng
OO BOON BENG 1939/12/02 (J)
Partner

13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



14 February 2002

Registered Office:
32nd Floor, KOMTAR
1000 Penang

The Shareholders of PBA Holdings Bhd

Dear Sirs/Madam,

On behalf of the Board of Directors of PBA Holdings Bhd ("PBAHB"), I report after due inquiry that during the period from 30 September 2001 (being the date to which the last audited accounts of PBAHB and its subsidiary ("PBAHB Group") have been made up) to 9 February 2002 (being a date not earlier than 14 days before the issue of this Prospectus), that:-

- (a) the business of the PBAHB Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the PBAHB Group which have adversely affected the operation or the value of the assets of the PBAHB Group;
- (c) the current assets of the PBAHB Group appear in the books at values, which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in this Prospectus, there are no contingent liabilities by reason of any guarantees or indemnities given by the PBAHB Group; and
- (e) save as disclosed in this Prospectus, there have been, since the last audited accounts of the PBAHB Group no changes in the published reserves or any unusual factors affecting the profits of the PBAHB Group.

Yours faithfully,
For and on behalf of the Board of Directors
of **PBA Holdings Bhd**

DATO' ALIZATUL KHAIR BINTI OSMAN KHAIRUDDIN
Director