

## 1. CORPORATE INFORMATION

### BOARD OF DIRECTORS

<b>Name</b>	<b>Address</b>	<b>Occupation</b>	<b>Nationality</b>
Y.A.B. Tan Sri Dr Koh Tsu Koon (Chairman)	16, Jalan Marie Pitchay 11200 Tanjung Bunga Penang	Chief Minister of Penang	Malaysian
Y.B. Dato' Dr Hilmi bin Haji Yahaya (Deputy Chairman)	167-B, Jalan Sg Nipah 11000 Balik Pulau Penang	Deputy Chief Minister of Penang	Malaysian
Y.B. Dato' Koay Kar Huah	15, Lebuhrambai 5 Paya Terubong 11060 Penang	State EXCO Member of Penang	Malaysian
Y.B. Dato' Khalid bin Ramli	122, Jalan York 10450 Penang	State Secretary of Penang	Malaysian
Y.B. Dato' Alizatul Khair bte Osman Khairuddin	17, Jalan Brown 10350 Georgetown Penang	State Legal Adviser of Penang	Malaysian
Y.B. Abdul Hanan bin Alang Endut	24, Jalan Tunku Abdul Rahman 10350 Penang	State Financial Officer of Penang	Malaysian
Y. Bhg. Dato' (Dr) M SHANmughalingam	12, Lorong Kemaris Enam Bukit Bandaraya 59100 Kuala Lumpur	Independent Director	Malaysian
Chew Kong Seng	12-1, Seri Duta Two Condominium 11, Jalan Langgak Duta 50480 Kuala Lumpur	Independent Director	Malaysian
Tuan Haji Adlan bin Haji Mohamed Daud	9, Jalan Tebu, Ukay Heights Ampang 68000 Selangor	Independent Director	Malaysian

**1. CORPORATE INFORMATION (Cont'd)**

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**AUDIT COMMITTEE**

<b>Name</b>	<b>Designation</b>	<b>Directorship</b>
Chew Kong Seng	Chairman	Independent Director
Y.B. Abdul Hanan bin Alang Endut	Member	Director
Tuan Haji Adlan bin Haji Mohamed Daud	Member	Independent Director

**COMPANY SECRETARY** : Thum Sook Fun  
(MAICSA 7025619)  
6-5-3 Taman Air Itam  
Jalan Padang Tembak  
11400 Ayer Itam  
Penang

**REGISTERED OFFICE** : 32<sup>nd</sup> Floor, KOMTAR  
10000 Penang  
Tel: 04 – 261 0169  
Fax: 04 – 261 3581

**PRINCIPAL  
BANKER** : Malayan Banking Berhad  
Penang Road Branch  
No. 1 Arked Ria Satu, KOMTAR  
10000 Penang

**REGISTRAR** : PFA Registration Services Sdn Bhd  
Level 13, Uptown 1  
No. 1, Jalan SS21/58  
Damansara Uptown  
47400 Petaling Jaya  
Selangor

**ISSUING HOUSE** : MIDF Consultancy and Corporate Services Sendirian Berhad  
12<sup>th</sup> Floor, Bangunan MIDF  
195A, Jalan Tun Razak  
50400 Kuala Lumpur

**1. CORPORATE INFORMATION (Cont'd)**

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<b>AUDITORS AND REPORTING ACCOUNTANTS</b>	:	Ernst & Young Chartered Accountants 37, Jalan Anson 10400 Penang
<b>ADVISER, MANAGING UNDERWRITER AND PLACEMENT AGENT</b>	:	Malaysian International Merchant Bankers Berhad 12 <sup>th</sup> Floor, Wisma Cyclecarri 288, Jalan Raja Laut 50350 Kuala Lumpur
<b>UNDERWRITERS</b>	:	Malaysian International Merchant Bankers Berhad 12 <sup>th</sup> Floor, Wisma Cyclecarri 288, Jalan Raja Laut 50350 Kuala Lumpur  Hwang-DBS Securities Berhad Level 8, Wisma Sri Pinang 60, Green Hall, 10200 Penang  Kuala Lumpur City Securities Sdn Bhd No. 8, Jalan Binjai, Off Jalan Ampang 50450 Kuala Lumpur  Mercury Securities Sdn Bhd Ground, 1 <sup>st</sup> , 2 <sup>nd</sup> & 3 <sup>rd</sup> Floor, Wisma UMNO Lorong Bagan Luar Dua 12000 Butterworth, Seberang Perai  MIDF Sisma Securities Sdn Bhd 17 <sup>th</sup> & 18 <sup>th</sup> Floor, Empire Tower 182 Jalan Tun Razak 50400 Kuala Lumpur  OSK Securities Berhad 20 <sup>th</sup> Floor, Plaza OSK, Jalan Ampang 50450 Kuala Lumpur

**1. CORPORATE INFORMATION (Cont'd)**

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<b>UNDERWRITERS (Cont'd)</b>	:	Thong & Kay Hian Securities Sdn Bhd Level 5 & 6, Wisma Sri Pinang 60, Green Hall 10200 Penang
		UT Securities Sdn Bhd 6 <sup>th</sup> , 10 <sup>th</sup> & 12 <sup>th</sup> Floor Bangunan Mayban Trust 3 Penang Street 10200 Penang
<b>SOLICITORS FOR THE IPO</b>	:	Nik Saghir & Ismail Advocates & Solicitors 28 <sup>th</sup> Floor, Menara Maybank 100, Jalan Tun Perak 50050 Kuala Lumpur
<b>LISTING SOUGHT</b>	:	Main Board of the KLSE

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## 2. INFORMATION SUMMARY

The Information Summary is only a summary of the salient information about the Company and investors should read and understand the whole Prospectus prior to deciding whether or not to invest in the Shares of the Company.

### 2.1 History and Business

PBAHB was incorporated in Malaysia on 25 May 2000 as a public limited company under the Companies Act, 1965. PBAHB is principally an investment holding company with a single subsidiary, namely PBAPP.

The corporate detail and business activities of PBAPP are set out as follows:-

Subsidiary	Date of Incorporation	Issued and Paid-up Share Capital (RM)	% Held by PBAHB	Principal Activity
PBAPP	26 January 1999	165,114,083 <sup>^</sup>	100	An entity licensed to undertake business activities of a water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers

Note:- <sup>^</sup> Inclusive of 1 Special Share

PBAHB's sole subsidiary, PBAPP, was incorporated to undertake the role of the Successor Company in the corporatisation exercise of the water authority of Penang. On 1 March 1999, PBA was corporatised as PBAPP and was granted the licence by the State Government pursuant to Part IV, Section 16 of the Water Supply Enactment 1998 to operate as the Water Supplier in the State. Accordingly, PBAPP assumed the business activities of PBA. The holistic approach of PBA, towards handling water supply is continued by PBAPP whereby it handles sourcing of raw water, treatment of water, distribution and billing for the State.

With effect from 1 March 1999, all movable property and selected immovable property of PBA were transferred to PBAPP by way of vesting orders made under the Penang Water Authority (Successor Company) Enactment 1998 for continuity of the business activities.

## 2. INFORMATION SUMMARY (Cont'd)

### 2.2 Ownership and Management

Pursuant to the listing of PBAHB on the Main Board of the KLSE, PBAHB will undertake the Public Issue of 51,000,000 new PBAHB Shares at an issue price of RM1.30 per Share and OFS of 97,950,000 PBAHB Shares at an offer price of RM1.30 per Share.

To meet the public spread and the State Government's requirement on the shareholding structure of PBAHB, the Company will undertake the Public Issue of 51,000,000 new PBAHB Shares to the registered domestic water consumers of Penang, Malaysian public and Malaysian institutional investors, whilst, SSI, the sole shareholder of PBAHB will OFS 97,950,000 of its Shares in PBAHB to PDC, YBPP, Malaysian institutional investors and eligible employees and retirees of PBAHB Group.

Summary descriptions of the substantial shareholders, Directors and key management of PBAHB Group and their direct and indirect shareholdings in PBAHB, after the IPO are as follows:-

#### (i) Substantial Shareholders

After the completion of the IPO, SSI, PDC and YBPP will collectively own 75% of the enlarged issued and paid-up share capital of PBAHB.

Substantial shareholders	Before the IPO				After the IPO			
	No. of PBAHB Shares held		No. of PBAHB Shares held		No. of PBAHB Shares held		No. of PBAHB Shares held	
	←Direct→		←Indirect→		←Direct→		←Indirect→	
No. ('000)	%	No. ('000)	%	No. ('000)	%	No. ('000)	%	
SSI	280,000	100.00	-	-	182,050	55.00	-	-
PDC	-	-	-	-	33,100	10.00	-	-
YBPP	-	-	-	-	33,100	10.00	-	-

## 2. INFORMATION SUMMARY (Cont'd)

### (ii) Directors

The PBAHB Board of Directors comprised of 9 members, including 3 Independent Directors.

Name	Designation	No. of PBAHB Shares held after the IPO			
		← Direct →		← Indirect →	
		No. ( '000)	%	No. ( '000)	%
Y.A.B. Tan Sri Dr Koh Tsu Koon	Chairman	-	-	-	-
Y.B. Dato' Dr Hilmi bin Haji Yahaya	Deputy Chairman	-	-	-	-
Y.B. Dato' Koay Kar Huah	Director	-	-	-	-
Y.B. Dato' Khalid bin Ramli	Director	-	-	-	-
Y.B. Dato' Alizatul Khair bte Osman Khairuddin	Director	-	-	-	-
Y.B. Abdul Hanan bin Alang Endut	Director	-	-	-	-
Y. Bhg. Dato' (Dr) M. SHANmughalingam	Independent Director	-	-	-	-
Chew Kong Seng	Independent Director	-	-	-	-
Tuan Haji Adlan bin Haji Mohamed Daud	Independent Director	-	-	-	-

## 2. INFORMATION SUMMARY (Cont'd)

### (iii) Key Management

The key management of PBAHB Group is headed by the CEO who is assisted by a management team comprised of professionals and experienced personnel from multi-disciplined background such as accountants, engineers, a lawyer and an information technologist and skilled technical staff.

The key management of PBAHB Group and their shareholding in PBAHB upon completion of the IPO are as follows:-

Name	Designation	No. of PBAHB Shares held after the IPO			
		<-----Direct----->		<-----Indirect----->	
		No. ( '000)	%	No. ( '000)	%
Ir Liew Chook San	CEO	45*	0.013	-	-
Ang Weng Joo	Chief Financial Officer	40*	0.012	-	-
Mohd Nizamuddin bin Mokhtar	Chief Legal Officer	23*	0.007	-	-

**Note:-** \* Based on their respective allocation under the employee shares allocation

Further information on the substantial shareholders, Directors and key management of PBAHB Group is set out in Section 9 of this Prospectus.



## 2. INFORMATION SUMMARY (Cont'd)

### 2.3 Financial Statistics

The following table sets out a summary of the Proforma Consolidated Results of PBAHB Group for the past 5 financial years ended 31 December 2000 and the 9 months ended 30 September 2001. This summary has been prepared based on the assumption that the Group structure has been in existence throughout the period under review. The Proforma Consolidated Results have been prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section 12 of this Prospectus.

	← Proforma Group →					9 months ended 30 September 2001
	← Year ended 31 December →					
	1996	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	97,580	101,495	102,334	102,243	105,215	100,993
Miscellaneous income	21,961	29,184	24,634	26,368	21,151	13,357
Consolidated profit before depreciation, interest and taxation	67,636	75,830	66,336	68,111	59,980	55,395
Depreciation	(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)
Consolidated PBT	55,101	64,362	53,619	54,340	45,547	40,884
Taxation <sup>(2)</sup>	-	-	-	(3,040)	(6,200)	540
Consolidated PAT	55,101	64,362	53,619	51,300	39,347	41,424
No. of ordinary shares of RM0.50 each assumed in issue ( '000) <sup>(3)</sup>	280,000	280,000	280,000	280,000	280,000	280,000
Gross EPS (sen) <sup>(4)</sup>	19.68	22.99	19.15	19.41	16.27	19.47
Net EPS (sen) <sup>(4)</sup>	19.68	22.99	19.15	18.32	14.05	19.73
Gross dividend rate (%)	-	-	-	-	-	-

## 2. INFORMATION SUMMARY (Cont'd)

### Notes:-

- (1) *The proforma consolidated results for the 5 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 disproportionate tax charge for the financial period ended 30 September 2001 was mainly due to reinvestment allowance claimed by PBAPP. 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.*
- (3) *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.*
- (4) *The gross and net EPS 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 EPS for the financial period ended 30 September 2001 have been calculated based on the annualised profit for the period.*

- (5) *There were no extraordinary items or minority interests in the profits of the proforma PBAHB Group during the financial years/period under review.*

Detailed information on the financial performance of the PBAHB Group is set out in Section 11.1 of this Prospectus.

## 2. INFORMATION SUMMARY (Cont'd)

### 2.4 Proforma Consolidated Balance Sheets of PBAHB as at 30 September 2001

The Proforma Consolidated Balance Sheets set out below have been prepared on a cumulative basis and are provided for illustrative purposes only to show the effects on the audited consolidated balance sheet of PBAHB as at 30 September 2001 assuming the Public Issue of 51,000,000 ordinary shares of RM0.50 each in PBAHB was effected on that date and should be read in conjunction with the accompanying notes and assumptions included in the Proforma Consolidated Balance Sheets set out in Section 11.7 of this Prospectus.

	As at 30 September 2001 RM'000	After Public Issue RM'000	After Public Issue and Listing Expenses RM'000
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>	330,872	330,872	330,872
<b>INVESTMENTS</b>	24,092	24,092	24,092
<b>CURRENT ASSETS</b>			
Inventories	11,646	11,646	11,646
Trade receivables	16,224	16,224	16,224
Other receivables	35,485	35,485	35,485
Tax recoverable	531	531	531
Fixed deposits	194,000	260,300	256,300
Cash and bank balances	10,430	10,430	10,430
	268,316	334,616	330,616
<b>CURRENT LIABILITIES</b>			
Trade payables	9,474	9,474	9,474
Other payables	72,075	72,075	72,075
Term loans (unsecured)	10,215	10,215	10,215
	91,764	91,764	91,764
<b>NET CURRENT ASSETS</b>	176,552	242,852	238,852
	531,516	597,816	593,816

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**2. INFORMATION SUMMARY (Cont'd)**


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	As at 30 September 2001 RM'000	After Public Issue RM'000	After Public Issue and Listing Expenses RM'000
<b>FINANCED BY-</b>			
<b>SHARE CAPITAL</b>	140,000	165,500	165,500
<b>SHARE PREMIUM</b>	125,825	166,625	162,625
<b>RETAINED PROFIT</b>	26,991	26,991	26,991
<b>CAPITAL RESERVE ON CONSOLIDATION</b>	53,780	53,780	53,780
<b>SHAREHOLDERS' EQUITY</b>	346,596	412,896	408,896
<b>DEFERRED LIABILITIES</b>			
Term loans	179,599	179,599	179,599
Deferred taxation	3,600	3,600	3,600
Provision for retirement benefits	1,721	1,721	1,721
	184,920	184,920	184,920
	531,516	597,816	593,816
<b>Net tangible assets per share (RM)</b>	1.24	1.25	1.24

## **2. INFORMATION SUMMARY (Cont'd)**

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### **2.5 Risk Factors**

Applicants for the IPO Shares should carefully consider the following risk factors summarised from Section 6 of this Prospectus (which may not be exhaustive), in addition to other information contained elsewhere in this Prospectus before applying for the IPO Shares:-

- (i) No prior market for PBAHB Shares;
- (ii) Sole revenue contribution;
- (iii) Licence period;
- (iv) No competition;
- (v) Water tariff revision;
- (vi) Regulatory environment;
- (vii) Infrastructure development;
- (viii) Dependence on key personnel;
- (ix) System disruption;
- (x) Control and influence by substantial shareholders;
- (xi) Rights of the Special Shareholder;
- (xii) Business risks inherent in the water industry; and
- (xiii) Profit Estimate & Forecast.

Please refer to Section 6 for further elaboration on the above risk factors, which should be considered by prospective investors.

## 2. INFORMATION SUMMARY *(Cont'd)*

### 2.6 Principal Statistics Relating to the IPO

#### (i) Share Capital

	<b>RM</b>
<b>Authorised:</b>	
1 Special Share of RM0.50 each	0.50
1,000,000,001 ordinary shares of RM0.50 each	500,000,000.50
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<b>Total</b>	<b>500,000,001.00</b>
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<b>Issued and fully paid-up:</b>	
1 Special Share of RM0.50 each	0.50
280,000,001 ordinary shares of RM0.50 each	140,000,000.50
<b>To be issued pursuant to the Public Issue:</b>	
51,000,000 new ordinary shares of RM0.50 each	25,500,000.00
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Enlarged issued and paid-up share capital	<b>165,500,001.00</b>
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<b>To OFS pursuant to this Prospectus:</b>	
97,950,000 ordinary shares of RM0.50 each	<b>48,975,000.00</b>
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Further information on the share capital of PBAHB is set out in Section 4 of this Prospectus.

#### (ii) Public Issue/OFS Price per Share 1.30

Further information on the Public Issue and OFS Price is set out in Section 5.4 of this Prospectus.

#### (iii) Classes of Shares

There are two classes of shares in PBAHB, namely ordinary shares of RM0.50 each and 1 Special Share of RM0.50 each. The OFS Shares and Public Issue Shares will rank pari passu in all respects with the existing issued and paid-up ordinary shares of RM0.50 each in the Company, including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of this Prospectus.

## 2. INFORMATION SUMMARY (Cont'd)

### (iv) Proforma Group NTA as at 30 September 2001

Proforma Group NTA (RM'000) 408,896  
*(after adjusting for the Public Issue and deducting estimated listing expenses of RM4,000,000)*

Proforma Group NTA per Share (RM) 1.24  
*(based on the enlarged issued and paid-up share capital of 331,000,001 ordinary shares of RM0.50 each)*

### (v) Consolidated Profit Estimate and Forecast

Financial year ended/ending 31 December	Estimate 2001 RM'000	Forecast 2002 RM'000
Consolidated PBT	60,427	59,629
Less: Taxation	5,151	9,429
Consolidated PAT	55,276	50,200
Less: Pre-acquisition profit	14,356	-
Consolidated PAT and after pre-acquisition profit	40,920	50,200
Gross EPS (sen)#	18.26	18.01
Net EPS (sen)#	12.36	15.17
Gross PE Multiple (times) based on issue price of RM1.30 per Share	7.12	7.22
Net PE Multiple (times) based on issue price of RM1.30 per Share	10.52	8.57

**Note:-**

# Based on the enlarged issued and paid-up share capital of 331,000,001 ordinary shares of RM0.50 each after the Public Issue

Further information on the consolidated profit estimate and forecast of PBAHB Group is set out in Section 11.3 of this Prospectus.

## 2. INFORMATION SUMMARY (Cont'd)

### (vi) Dividend Forecast

<b>Financial year ending 31 December</b>	<b>Forecast 2002</b>
Gross dividend per Share (sen)	2.50
Gross dividend yield (%) <i>(based on the issue price of RM1.30 per Share)</i>	1.92
Net dividend yield (%) <i>(based on the issue price of RM1.30 per Share)</i>	1.38
Net dividend cover (times)#	8.43

**Note:-**

# *Based on the enlarged issued and paid-up share capital of 331,000,001 ordinary shares of RM0.50 each after the Public Issue*

A tax exempt dividend of 0.5% based on the issued and paid-up share capital of 280,000,001 ordinary shares of RM0.50 each was declared and paid in the financial year ended 31 December 2001.

Further information on the dividend forecast is set out in Section 11.6 of this Prospectus.

### 2.7 Audit Qualifications

None of the audited financial statements of PBAHB and its sole subsidiary, PBAPP during the periods under review have been subjected to any audit qualifications.

### 2.8 Utilisation of Proceeds

The total gross proceeds of RM66.30 million arising from the Public Issue will be utilised in the following manner:-

	<b>Note</b>	<b>RM</b>
Capital Expenditure	(a)	62,300,000
Listing expenses	(b)	4,000,000
<b>Total</b>		<b>66,300,000</b>



## 2. INFORMATION SUMMARY (Cont'd)

### (a) Capital Expenditure

The net proceeds amounting to RM62.30 million from the listing will be advanced to PBAPP for its planned capital expenditure as follows, and will be fully utilised by August 2003.

Capital Expenditure	2002/2003 (RM'million)
Water Resource Development	27.00
Part payment for Trunk Mains	22.30
Replacement of Mains	13.00
<b>Total</b>	<b>62.30</b>

### (b) Listing Expenses

The expenses for the Public Issue comprising underwriting commission, professional fees, brokerage, management and placement fee, registration fees and all other expenses incidental to the listing of and quotation for the portion of the enlarged issued and paid-up ordinary share capital of PBAHB on the Main Board of the KLSE, estimated at RM4,000,000, shall be borne by the Company.

Further information on the utilisation of proceeds of the Public Issue is set out in Section 5.6 of this Prospectus.

## 2.9 Material Litigation, Capital Commitments and Contingent Liabilities

### (i) Material Litigation

Neither the Company nor its subsidiary is engaged in any litigation, either as plaintiff or defendant, which has a material effect on financial position of the PBAHB Group, and the Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceeding which might materially and adversely affect the position or business of the PBAHB Group.

## 2. INFORMATION SUMMARY *(Cont'd)*

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### (ii) **Capital Commitments and Contingent Liabilities**

Save for the capital commitments contracted but not provided for amounting to approximately RM60,000,000 and capital commitments approved but not contracted for amounting to approximately RM282,000,000, the PBAHB Group does not have any contingent liabilities or capital commitments as at 9 February 2002.

Further information on the material litigation, capital commitments and contingent liabilities is set out in Section 11.2 of this Prospectus.

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### 3. INTRODUCTION

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This Prospectus is dated 22 February 2002.

A copy of this Prospectus has been registered by the SC and lodged with the ROC who take no responsibility for its contents.

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the KLSE has prescribed PBAHB as a Prescribed Security. In consequence thereof, the Shares offered through this Prospectus will be deposited directly with MCD and any dealings in these Shares will be carried out in accordance with aforesaid Acts and the Rules of MCD.**

An application will be made to the KLSE within 3 market days from the date of this Prospectus for admission to the Official List of the Main Board of the KLSE and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up ordinary share capital of PBAHB, including the OFS Shares and the Public Issue Shares which are the subject of this Prospectus on the Main Board of the KLSE. These Shares will be admitted to the Official List of the Main Board of KLSE and official quotation will commence after receipt of confirmation from MCD that all the CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of applications for the IPO Shares will be conditional upon permission being granted by the KLSE to deal in and for quotation of the entire enlarged issued and fully paid-up ordinary share capital of the PBAHB on the Main Board of the KLSE. Accordingly, monies paid in respect of any application accepted will be returned without interest if the said permission for listing is not granted within 6 weeks from the date of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of the KLSE within the aforesaid timeframe.

Pursuant to the SC Guidelines, PBAHB is required to have at least 25% of its issued and paid-up share capital at the time of listing in the hands of public shareholders and a minimum number of 1,250 public shareholders holding not less than 1,000 shares each of which at least 750 shareholders are members of the public who are not employees of the PBAHB Group. In the event that the above requirement is not met, the Company may not be allowed to proceed with its listing scheme.

### 3. INTRODUCTION (*Cont'd*)

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An applicant who presently has a CDS Account should state his/her CDS Account number in the space provided in the Application Form. Where an applicant does not presently have a CDS Account, he/she should state in the Application Form his/her preferred ADA code. In the case of an application by way of Electronic Share Application, only an applicant who is an individual with a CDS Account is eligible to use this facility. A corporation or institution cannot apply for the OFS Shares and the Public Issue Shares by way of Electronic Share Application.

No person is authorised to give any information or to make any representation not contained herein in connection with the IPO and if given or made, such information or representation must not be relied upon as having been authorised by PBAHB. Neither the delivery of this Prospectus nor any IPO made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of PBAHB or the Group since the date hereof.

The distribution of this Prospectus and the sale of the IPO Shares are subject to Malaysian laws and the Company and its Advisers take no responsibility for the distribution of this Prospectus and the sale of the IPO Shares outside Malaysia. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the IPO Shares in any jurisdiction in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such an invitation. Persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions.

The SC and KLSE assume no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Admission to the Official List of the Main Board of the KLSE is not to be taken as an indication of the merits of PBAHB or of its Shares.

**If you are in doubt about any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.**

#### 4. SHARE CAPITAL

	<b>RM</b>
<b>Authorised:</b>	
1 Special Share of RM0.50 each	0.50
1,000,000,001 ordinary shares of RM0.50 each	500,000,000.50
	<hr/>
Total	500,000,001.00
	<hr/> <hr/>
<b>Issued and fully paid-up:</b>	
1 Special Share of RM0.50 each	0.50
280,000,001 ordinary shares of RM0.50 each	140,000,000.50
<b>To be issued pursuant to the Public Issue:</b>	
51,000,000 new ordinary shares of RM0.50 each	25,500,000.00
	<hr/>
Enlarged issued and paid-up share capital	165,500,001.00
	<hr/> <hr/>
<b>To OFS pursuant to this Prospectus:</b>	
97,950,000 ordinary shares of RM0.50 each	48,975,000.00
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The Public Issue/OFS Price of RM1.30 per Share is payable in full on application.

There are two classes of shares in the PBAHB, namely ordinary shares of RM0.50 each and 1 Special Share of RM0.50 each.

#### 4. SHARE CAPITAL (*Cont'd*)

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The Special Share enables the State Government through the SSI to ensure that certain major decisions affecting the operations of the PBAHB Group are consistent with the State Government policies. The Special Share may be held only by or transferred only to the SSI or its successors or the Chief Minister, or any person acting on behalf of the State Government. The Special Shareholder is entitled to receive notices of meetings but not to vote at such meetings of PBAHB. However, the Special Shareholder is entitled to attend and speak at such meetings. The Special Shareholder has the right to require PBAHB to redeem the Special Share at par at any time by serving written notice upon PBAHB, and delivering the relevant share certificate. The Special Shareholder shall be entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other members. The Special Shareholder does not have any right to participate in the capital or profits of both the PBAHB and PBAPP.

Certain matters which vary the rights attaching to the Special Share can only be effective with the consent in writing of the Special Shareholder, in particular matters relating to creation and issue of additional shares which carry different voting rights, the dissolution of PBAHB, substantial disposal of assets, amalgamations, mergers and takeovers, proposed reduction in PBAHB's share capital and the amendments, or removal or alterations to the Articles of Association.

The IPO Shares rank *pari passu* in all respects with the existing issued and paid-up ordinary shares of RM0.50 each of PBAHB, including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of this Prospectus.

At any general meeting of the Company, every shareholder who is entitled to vote may vote in person or by proxy or by attorney or by other duly authorised representative. On a show of hands every person present who is a shareholder or authorised representative of a shareholder or proxy or attorney shall have one vote, and in the case of a poll every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held by him.

## 5. PARTICULARS OF THE IPO

### 5.1 Opening and Closing of Application Lists

The Application Lists for the IPO will open at 10.00 a.m. on 11 March 2002 and will remain open until 8.00 p.m. on the same day or for such further period or periods as the Directors of PBAHB in their absolute discretion may decide.

### 5.2 Date of Events

The indicative date of events leading up to the listing of and quotation for the entire enlarged issued and paid-up ordinary share capital of PBAHB on the Main Board of the KLSE are as follows:-

<b>Events</b>	<b>Date</b>
Issue of Prospectus/Opening date of the IPO	22 February 2002
Closing date of the IPO	11 March 2002
Tentative date for balloting of Applications	19 March 2002
Tentative date for allotment of the IPO Shares to successful applicants	12 April 2002
Tentative date for listing	18 April 2002

**Note:-** *The application for the IPO will close at the time and date as stated above or such further period as the Directors of PBAHB may decide.*

### 5.3 Details of the IPO

The IPO is subject to the terms and conditions of this Prospectus, and upon acceptance of applications, the IPO totalling 148,950,000 PBAHB Shares will be allocated in the following manner:-

#### (i) Institutional Investors

81,647,000 OFS Shares and 1,103,000 Public Issue Shares representing 25% of the enlarged issued and paid-up share capital of PBAHB have been reserved for the following institutional investors:-

<b>Shareholders</b>	<b>No. of Shares</b>
PDC	33,100,000
YBPP	33,100,000
Malaysian institutional investors	16,550,000
<b>Total</b>	<b>82,750,000</b>

## 5. PARTICULARS OF THE IPO (*Cont'd*)

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(ii) **Eligible Employees and Retirees**

16,303,000 OFS Shares representing 4.9% of the enlarged issued and paid-up share capital of PBAHB have been reserved for the eligible employees and retirees of PBAHB Group. Any Shares allotted but not subscribed for by the eligible employees and retirees of PBAHB Group will be made available for application by the Malaysian investing public.

(iii) **Registered Domestic Water Consumers of Penang**

33,100,000 Public Issue Shares representing 10% of the enlarged issued and paid-up share capital of PBAHB have been reserved for the 318,758 domestic water consumers of Penang registered with PBAPP under their individual names and have been issued with November or December 2001 water bills.

Any Shares allotted but not subscribed for by the eligible registered domestic water consumers of Penang will be made available for application by the Malaysian investing public.

(iv) **Malaysian Public**

16,797,000 Public Issue Shares representing a total of 5.1% of the enlarged issued and paid-up share capital of PBAHB will be made available for application by the Malaysian investing public, in particular, Malaysian citizens, companies, societies, co-operatives and institutions of which at least 30% is set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

The Shares under Section 5.3(i) and 5.3(ii) above will not be underwritten. In the event that any of the 16,303,000 OFS Shares under Section 5.3(ii) above is not subscribed, it will be made available for subscription by the Malaysian public and will be fully underwritten together with the Shares under Section 5.3(iii) and 5.3(iv) above, at the rate of 1.75% of the offer/issue price of RM1.30 per Share.



## **5. PARTICULARS OF THE IPO (Cont'd)**

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### **5.4 Basis of Arriving at the Public Issue/OFS Price**

The Public Issue/OFS Price of RM1.30 per Share was determined and agreed upon by the Company, Offeror and their Adviser, Managing Underwriter and Placement Agent after taking into consideration the following factors:-

- (i) The Group's financial and operating history and conditions;
- (ii) The prospects of the Group as outlined in Section 8.8 and Section 8.9 of this Prospectus;
- (iii) The present monopoly position of PBAPP in water industry in the State;
- (iv) The forecast net PE Multiple of 8.57 times based on the forecast net EPS of 15.17 sen for the financial year ending 31 December 2002 will be based on the enlarged issued and paid-up share capital of 331,000,001 ordinary shares of RM0.50 each;
- (v) The proforma Group NTA as at 30 September 2001 of RM1.24 per ordinary share of RM0.50 each; and
- (vi) The forecast gross dividend yield of 1.92% for financial year ending 31 December 2002.

However, investors should also note that the market price of PBAHB Shares upon listing on the KLSE are subject to the vagaries of the market forces and other uncertainties which may affect the price of PBAHB Shares being traded.

### **5.5 Purposes of the IPO**

The purposes of the IPO are as follows:-

- (i) To provide an opportunity for the State Government through SSI to realise its investments in the PBAHB Group;
- (ii) To provide an opportunity for the eligible employees and retirees of PBAHB Group, registered domestic water consumers of Penang and the Malaysian investing public to participate in the equity and continuing growth of PBAHB Group;

## 5. PARTICULARS OF THE IPO (Cont'd)

- (iii) To enable PBAHB to gain access to the capital markets to tap external sources of debt and equity funds for the future expansion, diversification, modernisation and continued growth of PBAHB Group; and
- (iv) To obtain listing of and quotation for the entire enlarged issued and paid-up share capital of 331,000,001 PBAHB Shares on the Main Board of the KLSE.

### 5.6 Proceeds of the IPO

The gross proceeds of the OFS of RM127.34 million will accrue entirely to the Offeror and no part of the proceeds of the OFS will be receivable by PBAHB. The Offeror shall bear other expenses incidental to the listing of and quotation for the portion of the enlarged issued and paid-up ordinary share capital of PBAHB on the Main Board of the KLSE, estimated at RM603,000 including brokerage, placement and registration fees relating to the OFS Shares.

The total gross proceeds of RM66.30 million arising from the Public Issue will accrue entirely to PBAHB and will be utilised in the following manner:-

	Note	RM
Capital Expenditure	(a)	62,300,000
Estimated Listing Expenses	(b)	4,000,000
<b>Total</b>		<b>66,300,000</b>

#### (a) Capital Expenditure

The net proceeds amounting to RM62.30 million from the listing will be advanced to PBAPP for its planned capital expenditure as follows, and will be fully utilised by August 2003.

Capital Expenditure	2002/2003 (RM'million)
Water Resource Development	27.00
Part payment for Trunk Mains	22.30
Replacement of Mains	13.00
<b>Total</b>	<b>62.30</b>

## 5. PARTICULARS OF THE IPO (Cont'd)

For year 2002, about RM27.0 million of the proceeds from the Public Issue will be spent on water resources development, consisting of the construction of a new 1.14 million cu.m. treatment plant at Sungai Dua, a pumping station at the Lahar Tiang intake and a pumping station and balancing pond at the existing Sungai Dua Treatment plant.

To meet increasing water demand in the new growth areas of Penang, PBAHB has allocated RM22.3 million of the proceeds from the Public Issue to lay new distribution mains and RM13.0 million to replace existing mains which are beyond their design lives.

### (b) Estimated Listing Expenses

The estimated listing expenses to be borne by the Company amounting to RM4.0 million for the listing of and quotation for the enlarged issued and paid-up ordinary share capital of PBAHB on the Main Board of the KLSE comprise of the following:-

	<b>RM</b>
Advisers and experts	910,000
Underwriting commission	1,135,157
Management and placement fee	190,843
Brokerage	663,000
KLSE – Initial listing fee	50,000
SC – Registration fees	5,000
SC – Processing fee	132,750
ROC – Lodgement fee	500
Issuing house fee and disbursement	290,000
Advertisement	180,000
Printing of application forms, share certificates and prospectus	329,000
Miscellaneous expenses	113,750
	<hr/>
<b>Total Estimated Listing Expenses</b>	<b>4,000,000</b>
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### 5.7 Brokerage and Underwriting Commission

Brokerage relating to the Public Issue Shares will be paid by the Company at the rate of 1.00% of the issue price of RM1.30 per Share in respect of successful applications bearing the stamp of MIMB, a member company of the KLSE, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIDFCCS.

Brokerage with respect to the OFS Shares is payable by the Offeror at the rate of 1.00% of the offer price of RM1.30 per Share.

## 5. PARTICULARS OF THE IPO (Cont'd)

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The Managing Underwriter and the Underwriters as mentioned in Section 1 of this Prospectus have agreed to fully underwrite the 49,897,000 Public Issue Shares which are available for subscription by the registered domestic water consumers of Penang and the Malaysian public. The underwriting commission is payable by the Company at the rate of 1.75% of the issue price of RM1.30 per Share. A management fee of 0.25% of the issue price of RM1.30 per Share on the Public Issue Shares is payable to the Managing Underwriter by the Company for managing the underwriting of the Shares.

The Shares under Section 5.3(i) and 5.3(ii) will not be underwritten. In the event that any of the 16,303,000 OFS Shares under Section 5.3(ii) is not subscribed, it will be made available for subscription by the Malaysian public and will be fully underwritten together with the Shares under Section 5.3(iii) and 5.3(iv), at the rate of 1.75% of the offer/issue price of RM1.30 per Share.

### 5.8 Details of Underwriting Agreement

The Underwriting Agreement between SSI, PBAHB, the Managing Underwriter and the Underwriters stipulated that in the event of any material breach of the warranties or representations, or any material failure to perform any of the undertakings or any change rendering any of the said warranties, representations or undertakings inaccurate in any material respect coming to the notice of the Underwriters or any of them prior to the Closing Date, the Underwriters or any of them shall be entitled (but not bound) by notice to the Company from the Managing Underwriter to elect to treat such breach, failure or change as releasing or discharging them or any of them from their obligations.

Some of the salient terms of the Underwriting Agreement are summarised as follows:-

The obligation of the Managing Underwriter and the Underwriters shall be conditional upon the following:-

- (i) that PBAHB shall obtain the approval of the KLSE for the Listing on the KLSE;
- (ii) that the Public Issue, the OFS and the compliance by the Company and/or SSI of its terms do not, and up to and on the date on which the application lists will be closed but in any event shall not exceed three (3) months period from the date of issuance of the Prospectus (hereinafter referred to as "the Closing Date") will not, infringe the terms of, or constitute a default under any trust deed, agreements or other instruments or obligations to which the Company and/or SSI is a party or by which the Company and/or SSI is bound and the execution and issue or delivery by the Company and/or SSI of the Agreement and performance of the obligations to be assumed hereunder and in respect of the Public Issue and the OFS have been duly authorised by the Company and/or SSI so that upon due execution the same will constitute valid and legally binding obligations of the Company and/or SSI;

## 5. PARTICULARS OF THE IPO (Cont'd)

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- (iii) that the Public Issue, the OFS and the issue of the Prospectus and the compliance by the Company and/or SSI with its terms and the terms of the Agreement:-
- (a) are in accordance with the Memorandum and Articles of Association of the Company; and
  - (b) do not, and up to and on the Closing Date will not, infringe the terms of, or constitute a default under any trust deed, agreement or other instrument or obligation to which the Company and/or SSI is a party or by which it is bound;

and the execution and issue by the Company and/or SSI of the Agreement and the Prospectus and performance of the obligations to be assumed hereunder and thereunder have been duly authorised by the Company and/or SSI so that upon due execution or issue the same will constitute valid and legally binding obligations of the Company and/or SSI in accordance with their respective terms;

- (iv) that save and except those disclosed in the Prospectus and further to the best knowledge and belief of the Company, it is not in default under any agreement to which it is bound and that the Company is not engaged in any litigation, arbitration or administrative proceedings which is/are presently current or pending or to the knowledge of the Company threatened, which default, litigation, arbitration or administrative proceedings, as the case may be might materially and adversely affect the condition of the Company, financially or otherwise;

(For avoidance of doubt, the sentence "...materially and adversely affect the condition of the Company..." denotes those litigation, arbitration or administrative proceedings which would result in more than five per centum (5%) of the shareholders funds of the Company;

- (v) that save as disclosed in the Prospectus to the best of its knowledge and belief, no other circumstances or situations have arisen which is or are likely to adversely affect the condition of the Company financially or otherwise, or the earnings, affairs or business prospects of the Company or to so affect the success of the Public Issue and/or the OFS and that no material information has been withheld from the Underwriters by the Company and/or SSI which may in any way affect their decision to underwrite the Underwritten Shares;
- (vi) that to the best of the knowledge and belief of the Company and/or SSI, no other circumstances or situations have arisen which would affect the success of the Public Issue and/or the OFS and that no information has been withheld by the Company and/or SSI from the Managing Underwriter which might in any way affect their decision to underwrite the Underwritten Shares.

## 5. PARTICULARS OF THE IPO (Cont'd)

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If any of the foregoing conditions in the Agreement is not satisfied on or before the Closing Date, the Underwriters or any one of them may opt to terminate the Agreement by giving notice in writing delivered to the Company and the Managing Underwriter and in that event (except for the liability of the Company for the payment of costs and expenses as provided in Clause 7.1 of the Agreement incurred prior to or in connection with such termination) the parties hereto shall be released and discharged from their obligations hereunder PROVIDED THAT the Underwriters may at their discretion and subject to such conditions as the Underwriters may impose waive compliance with any of the provisions of Clause 4.1 of the Agreement.

The Underwriters may also terminate the Agreement if upon the expiration of three (3) months from the date of the Agreement, the application made by the Company to the KLSE for the listing of and the quotation for the Underwritten Shares on the Main Board of the KLSE shall not have been approved or shall have been rejected as the case may be. Upon such termination, the Company shall return such monies as may have been paid by the Underwriters under the Agreement within 48 hours of the receipt of the notice of termination against the delivery by the Underwriters of all share certificates as may have been issued or delivered to them under the provisions of the Agreement.

If in the reasonable and justified opinion of the Managing Underwriter and the Underwriters, the success of the Public Issue and the OFS or of the distribution or sale of the Public Issue Shares and/or the OFS Shares is likely to be materially and adversely affected by any of the following occurrences:-

- (i) any government requisition or other occurrence of a similar nature; or
- (ii) any change in the national or international monetary, financial (including stock market conditions and interest rates) political or economic conditions or exchange control or currency exchange rates;

the Managing Underwriter may request the Company to amend any of the terms in the Prospectus including the number of the Public Issue Shares comprised in the Public Issue, the number of OFS Shares comprised in the OFS, the number of the Underwritten Shares, the Issue Price, the OFS Price, the par value of the Public Issue Shares, the par value of the OFS Shares, the Closing Date or to amend the amount of the Underwriting Commission or to take such other reasonable measures, subject to any approval required from the authorities.

## 6. RISK FACTORS

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**Applicants for the IPO Shares should carefully consider the following risk factors in addition to the other information contained in this Prospectus before making an application.**

### 6.1 No Prior Market for PBAHB Shares

Prior to this IPO, there has been no public market for PBAHB Shares. The Public Issue/OFS Price of RM1.30 per Share for the IPO Shares has been determined after taking into consideration a number of factors, including but not limited to, PBAHB's financial history and operating conditions, its prospects and the prospects for the industry in which PBAHB Group operates, the management of the Group and the prevailing market conditions at the time the application of PBAHB's listing was submitted to the SC.

There can be no assurance that the Public Issue/OFS Price will correspond to the price at which PBAHB Shares will trade on the Main Board of the KLSE upon or subsequent to its listing or that an active market for PBAHB Shares will develop or, if developed, that such market will be sustained.

### 6.2 Sole Revenue Contribution

Currently, PBAHB Group's sole revenue contributor is from its sole subsidiary, PBAPP. PBAPP's revenue is dependent on the sale of water.

### 6.3 Licence Period

PBAPP is operating as the sole Water Supplier to the State pursuant to the licence granted by the State Government for the period from 1 March 1999 to 31 December 2005.

The salient terms of the licence are as follows:-

- (i) A licence
  - To maintain and operate water supply systems;
  - To undertake, provide or make available any water supply service;
  - To abstract water from any river and treat the same; and
  - To operate or manage any facilities for the supply of water to consumers and collect and retain the charges as stipulated in paragraph (iii) below.

within the Water Supply Area described in paragraph (ii) below.

## 6. RISK FACTORS *(Cont'd)*

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- (ii) The licensee is authorised to supply water pursuant to this licence within the following Water Supply Area, namely the whole area comprising the State.
- (iii) The monthly charges for water supplied to consumers by the licensee shall be at the rate prescribed or approved by the State Authority.
- (iv) The rights and duties of the licensee shall be as contained in the Water Supply Enactment 1998 and the rules and regulations enforced as at the date of the issuance of this licence and as made from time to time under the Water Supply Enactment 1998.
- (v) The water supplied by the licensee to the customers shall comply with the standards set by the DWS from time to time.
- (vi) The licensee shall discharge its responsibilities and carry out its rights under the licence in accordance with the Water Supply Enactment 1998, the rules and regulations and all applicable laws.

Although the licence period is only for a period of 6 years, the State Government is most likely to continue renewing the licence to PBAPP given the State Government's commitment in PBAPP vide the vesting of all movable property and selected immovable property in relation to the water supply system to PBAPP as well as being the majority shareholder of PBAHB Group.

In the event that the shareholding of the State in PBAHB Group is reduced to less than 51%, a concession agreement will be signed between the State and the Company.

### 6.4 No Competition

By virtue of the licence granted by the State Government, presently PBAPP faces no competition and enjoys being the sole supplier of water in the State serving a population of about 1.26 million plus all the industrial users in the State. Although there is no assurance that PBAPP will be able to maintain its monopolistic market share in the future, so long as the State Government remains the major shareholder in PBAHB Group, the Group does not foresee any new competitors in the near future.



## **6. RISK FACTORS (Cont'd)**

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### **6.5 Water Tariff Revision**

The rising inflation and other costs may have an adverse impact on PBAPP's financial performance thus, the PBAHB Group's financial performance. However, the increased costs may be mitigated by revising the water tariff. The latest water tariff was effective 1 January 2001. As stipulated in the licence, PBAHB Group is required to seek approval from the State Government for future water tariff revisions.

### **6.6 Regulatory Environment**

Pursuant to the Penang Water Authority (Successor Company) Enactment 1998 and the Water Supply Enactment 1998, the operations of the PBAHB Group are regulated. By virtue of the licence granted by the State Government to PBAPP issued by the DWS, PBAPP is required to obtain State Government's approval with respect to certain matters directly affecting its operations and financial results inclusive of water tariff revisions.

In addition to the State Enactments, PBAHB Group also operates under the guidance of the relevant legislation set out in Section 7.6 of this Prospectus.

### **6.7 Infrastructure Development**

PBAHB's subsidiary, PBAPP in conjunction with the State Government is responsible for planning for all major infrastructure development to meet the increasing water demand in the State. The State Government shall be responsible for all water resource development projects, including dams and inter-state water transfer whilst PBAPP will undertake the infrastructure development, maintenance and refurbishment of the water supply system as well as expanding the distribution network to meet increasing water demand in the State.

For the period 2000 – 2004, PBAPP plans to spend a total of RM475.0 million for the maintenance and upgrading of treatment plants, reservoirs, providing new water mains, water meters and information technology of the water supply system. This is to maintain the high quality water supply to consumers and to further reduce the NRW to 18% by the year 2005.

## **6. RISK FACTORS (Cont'd)**

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### **6.8 Dependence on Key Personnel**

The PBAHB Group's future success will also depend on its ability to attract and retain skilled personnel. To ensure this, its sole subsidiary, PBAPP has since its corporatisation on 1 March 1999, revised its scheme of service to be in line with the commercial sector. In addition, PBAPP will also adopt a comprehensive human resource management policy covering areas of continued training, career development, productivity-linked reward scheme as well as a conducive working environment with emphasis on safety, health and promotion of positive working cultures.

### **6.9 System Disruption**

The Group did not experience any disruption in business having significant effect on its operations for the 12 months prior to the date of this Prospectus.

In 2001, PBAPP's daily total treated water capacity is about 1.10 million cu.m., sufficient to supply the State's daily total demand of treated water of about 0.758 million cu.m..

With regards to the total water storage capacity of treated water in the State, PBAPP is able to maintain a daily storage capacity of 0.4 million cu.m. of treated water.

### **6.10 Control and Influence by Substantial Shareholders**

Upon the public listing of PBAHB, the State Government will directly control 55% of the issued and paid-up share capital of PBAHB through SSI and indirectly control 10% of the issued and paid-up share capital of PBAHB through PDC.

SSI (55%), PDC (10%) and YBPP (10%) will be the substantial shareholders after the OFS and the Public Issue.

For as long as the State Government directly and/or indirectly owns over 50% of the issued and paid-up share capital of PBAHB, it will be able to effect the adoption of any ordinary resolution properly brought before any annual or extraordinary general meeting of the PBAHB's shareholders. In addition, the State Government will be able to prevent or initiate a change in control of PBAHB.

## 6. RISK FACTORS *(Cont'd)*

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### 6.11 Rights of the Special Shareholder

SSI as a body empowered to enter into contracts and to hold and enjoy movable and immovable properties of every description on behalf of the State Government, shall hold 1 Special Share each in PBAPP and PBAHB with the par value of RM1.00 each and RM0.50 each respectively.

The Special Share may be held only by or transferred only to the SSI or its successors or the Chief Minister, or any person acting on behalf of the State Government.

The rights of the Special Shareholder, inter alia, include the following:-

- (a) The right from time to time to appoint any Entitled Person to be Directors, (hereinafter referred to as "Government Appointed Directors"), so that there shall not be less than 2 nor more than 11 Government Appointed Directors at any time;
- (b) The right to receive notice or to attend and speak at all general meetings or any other meeting of any class of shareholders of the Company but the Special Shareholder shall carry no right to vote nor any other rights at any such meeting;
- (c) The right to require the Company to redeem the Special Share at par at any time;
- (d) The right to repayment of the capital paid up on the Special Share in priority to any other Member in the event of winding up of PBAHB and PBAPP; and
- (e) Certain matters which vary the rights attaching to the Special Share can only be effected with the consent in writing of the Special Shareholder, in particular matters relating to creation and issue of additional shares which carry different voting rights, the dissolution of PBAHB and PBAPP, substantial disposal of assets, amalgamations, mergers and takeovers, proposed reduction in the Company's share capital and amendment, or removal or alteration of the Articles of Association.

### 6.12 Business Risks Inherent in the Water Industry

PBAHB Group is principally a Water Supplier that handles sourcing of raw water, treatment, supply and sale of treated water. As such, PBAHB Group is subject to certain business risks inherent in the water industry. These risks include but are not limited to constraints in labour supply, the possible increase in the operating and capital costs due to inflation, changes in the economic and business conditions and unfavourable changes in Government policies.

## 6. RISK FACTORS *(Cont'd)*

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Other factors which will likely have a material impact on the business of PBAHB Group are:-

(a) **Uninterrupted Electricity Supply**

The successful operation of PBAHB Group is dependent on the continuous electricity supply from Tenaga Nasional Berhad. In the event of a major electricity failure, PBAHB Group will be able to operate 60% of its capacity through its power generators.

(b) **Deterioration of Water Quality**

Owing to the increasing pollution in the country, there is a trend in the deterioration of raw water sources. This may result in higher treatment cost for PBAHB Group to maintain the quality of treated water in compliance with the standards set out by the MOH and WHO.

(c) **Availability of Raw Water Sources**

It is projected that the present water supply in the State will not be able to sustain its future level of demand. In the event of a drought, the State will face the risk of water shortage. About 80% of the current supply is derived from Sungai Dua Treatment plant which draws its raw water from Sungai Muda. When flows in Sungai Muda is insufficient, it is supplemented by the Mengkuang dam.

The operation costs of the water industry is expected to increase due to inflation and cost of electricity, given that electricity forms the major portion of the expenditure in the operation costs of sourcing raw water, treatment, supply and sale of water. However, the electricity charges are beyond the control of PBAHB Group. Although the risk of increasing operation costs can be mitigated by water tariff revision in the future, it is subject to the State Government's approval.

### 6.13 Profit Estimate and Forecast

This Prospectus contains consolidated profit estimate and forecast of the PBAHB Group for the financial years ended/ending 31 December 2001 and 2002 respectively that have been prepared based on assumptions which the Directors deemed to be reasonable, but nevertheless subject to uncertainties and contingencies arising from the following factors, namely economic growth, population growth and water demand, which are beyond PBAHB Group's control. Due to the subjective judgements and inherent uncertainties underlying the profit estimate and forecast, there can be no assurance that the estimate and forecast contained herein will be achieved and actual results may be materially different from those estimated and forecast.

Investors are deemed to have read and understood the assumptions underlying the estimate and forecast contained herein. If in doubt, prospective investors should consult their professional advisers before taking any action.

## 7. INDUSTRY OVERVIEW

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### 7.1 Private Sector Participation in the Water Industry

The privatisation policy was first announced as a national policy by the Federal Government in 1983 to achieve the following objectives:-

- (i) to facilitate national economic growth;
- (ii) to relieve the financial and administrative burden on the Government;
- (iii) to reduce the size and presence of public sector in the economy;
- (iv) to improve the efficiency and productivity level of the country; and
- (v) to promote achievement of the New Economic Policy.

*(Source : Privatization Masterplan, EPU)*

The Federal Government's Water Privatisation Policy was also introduced in 1983, aligned with the overall objectives as stated above. Since 1989, selected water treatment plants of the following states: Selangor, Negeri Sembilan, Kedah, Perak, Labuan and Sabah were privatised. In 1994, Johor State Water Department became the first state water authority to be corporatised and in April 1999, the company was privatised. In 1996, LAKU Management Sdn Bhd, a corporatised water company covering the areas of Miri, Bintulu and Limbang in Sarawak was formed. The PBA and the Terengganu Water Department were corporatised in March 1999 and July 1999 respectively.

*(Source : Malaysia Water Industry Report 97/98 & 98/99, Water Supply Branch, Public Works Department, Malaysia)*

Upon completion of the listing exercise and quotation of the PBAHB Shares on the KLSE, the PBAHB Group will be the first holistic water supplier in the country listed on the Main Board of the KLSE.

### 7.2 Water Supply

Under the mid-term review of the 7<sup>th</sup> Malaysia Plan, the development of water supply focused on the accelerated completion of on-going as well as expansion of existing projects to meet high water demand resulting from the robust economic activities during the first two years of the review period. Water supply grew at 5% per annum to meet domestic and industrial requirements.

## 7. INDUSTRY OVERVIEW (Cont'd)

In 2000, the national water production capacity was 12.81 million cu.m. per day, which exceeded the quantity supplied at 10.40 million cu.m. per day. The production capacity and quantity of water supplied for 1995 – 2000 in the states of Malaysia are as follows:-

PRODUCTION CAPACITY AND QUANTITY OF WATER SUPPLIED, 1995 – 2000 (million cu.m. per day)						
State	1995		1998		2000	
	Production Capacity	Quantity Supplied	Production Capacity	Quantity Supplied	Production Capacity	Quantity Supplied
Johor	1.18	0.86	1.35	1.05	1.43	1.25
Kedah	0.85	0.55	0.92	0.60	0.96	0.67
Kelantan	0.20	0.19	0.21	0.21	0.21	0.21
Melaka	0.23	0.22	0.27	0.25	0.38	0.31
N. Sembilan	0.43	0.36	0.43	0.39	0.59	0.52
Pahang	0.65	0.53	0.69	0.58	0.93	0.84
Perak	0.95	0.78	0.98	0.82	1.30	1.00
Perlis	0.09	0.06	0.09	0.06	0.09	0.07
<b>Penang</b>	<b>0.78</b>	<b>0.60</b>	<b>0.84</b>	<b>0.66</b>	<b>1.10</b>	<b>0.73</b>
Sabah*	0.60	0.50	0.60	0.60	0.81	0.79
Sarawak	0.66	0.44	0.66	0.48	1.01	0.67
Selangor**	2.52	2.31	3.04	2.66	3.52	3.01
Terengganu	0.34	0.22	0.34	0.25	0.48	0.33
<b>Total</b>	<b>9.48</b>	<b>7.62</b>	<b>10.42</b>	<b>8.61</b>	<b>12.81</b>	<b>10.4</b>

Note:- \* Includes Wilayah Persekutuan Labuan

\*\* Includes Wilayah Persekutuan Kuala Lumpur

(Source : Mid-Term Review of the 7<sup>th</sup> Malaysia Plan 1996 – 2000)

### 7.3 Water Demand

Under the 8<sup>th</sup> Malaysia Plan 2001-2005, demand for water for domestic and industrial use is expected to increase by 5.4% per annum during the Plan period. The national water supply coverage is expected to increase to 95%, with almost 100% coverage of urban areas and 91% of rural areas in 2005. Besides meeting the increasing demand in urban areas, the Government will continue to provide good quality drinking water to small rural communities. In this regard, the development of infrastructure facilities will continue to be undertaken to tap groundwater and treat water from rivers and streams to supplement piped water. Supply of water will be further improved in states that have low water coverage in rural areas. In addition, the utilisation of downstream surface water for industrial and non-critical purposes will be implemented.

(Source : 8<sup>th</sup> Malaysia Plan 2001 – 2005)

## 7. INDUSTRY OVERVIEW (*Cont'd*)

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The capacity of water supplied to customers increased by 35.1% to 12.81 million cu.m. per day in year 2000 from 9.48 million cu.m. per day in 1995. The 8<sup>th</sup> Malaysia Plan 2001-2005 projected that the rate of increase in water demand for Malaysia between 2001 and 2005 will be 5.4% per annum in comparison to the population growth of 2.3% per annum. The national demand for water had increased by 36.5% since year 1995 from 7.62 million cu.m. per day to 10.40 million cu.m. per day in 2000.

*(Source : Mid Term Review of the 7<sup>th</sup> Malaysia Plan 1996 - 2000 and 8<sup>th</sup> Malaysia Plan 2001 - 2005)*

### 7.4 Water Industry Prospect

In general, water demand has direct correlation with the economic and population growth of the country.

#### 7.4.1 National Economic Growth

The performance of the Malaysian economy in 2001 has been adversely affected by the greater-than-expected slowdown in the world economy, particularly in the US as well as the continuing weak performance of the Japanese economy. The recent attack on the US has led to greater uncertainties with respect to the severity and duration of the recovery in the US. There are concerns on the risks of the US economy entering into a recession and its contagion on other industrialised and developing countries. In light of the more difficult environment, real GDP growth of the Malaysian economy is projected to grow by 1-2% for 2001, while Gross National Product per capita is forecast to be somewhat lower at RM13,333, from RM13,411 last year. Per capita income, however, is expected to increase by 1.3% to USD8,944 (2000: USD8,831), after taking into account lower domestic inflation.

While the output of all major sectors in the economy are expected to register slower growth, it is estimated that the manufacturing sector will record the sharpest deterioration in output growth, to 0.2% in 2001 (2000: 21%) after seven consecutive quarters of robust double-digit growth. The steep decline in value added of the manufacturing sector has, however, to some extent been offset by the better performance from the agriculture, construction and services sectors. The services sector has emerged to be the main source of growth to the GDP, with an estimated 4.4% increase in 2001 (2000: 4.8%). The main contributors to this are the financial sector (5.1%), transportation and communications (6.4%), utilities (4.8%) and government services (7.1%).

## 7. INDUSTRY OVERVIEW (*Cont'd*)

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Value added derived from services provided by electricity, gas and water suppliers is expected to continue to expand in 2001, albeit at a slower pace of 4.8% compared with 7.5% in 2000, mainly due to the softening in industrial and business activities. In the first six months, electricity consumption by the commercial sector increased by 7.1% (2000: 10.8%), while the industrial sector registered an increase of 2.6% (2000: 17.5%). The volume of water supplied to customers is expected to decrease to 9,840 million litres per day.

Given that services account for 54.6% of the GDP, the sector is expected to provide the leading contribution to the overall growth of 2.9% to GDP growth.

Malaysia's economic growth continues to be achieved within an environment of low inflation and unemployment. Inflation remains subdued and stable with the increase in Consumer Price Index less than 2%, largely on account of the moderation in private sector demand as well as measures implemented by the Government to contain price increases. In spite of higher retrenchments, the nation still enjoys full employment.

*(Source : Economic Report 2001/2002)*

Looking ahead, the Malaysian economy will continue to be subjected to the vagaries of the global business cycle. As an open, trade-oriented economy, the slowdown in the external environment will have an impact on the domestic economy. While slower growth is a matter of some concern, it is important to recognise that Malaysia's underlying economic fundamentals remain on track for sustainable long-term growth. The Government's growth strategies will continue to emphasise the contribution of domestic demand to broaden the sources of growth and to develop a more diversified and resilient economy. The conduct of macroeconomic policy will remain focused on ensuring that no imbalances arise. The priority will be on maintaining low inflation and strong liquidity position that will avoid a misalignment of the exchange rate and that will provide a conducive environment for sustainable growth. At the same time, stronger measures have been introduced to expedite corporate reforms. Recent measures include initiatives to further deleverage corporate debts and to improve operational restructuring. A strong and efficient corporate sector together with a strong and competitive banking system would constitute an important element in supporting the future growth of the Malaysian economy. This would provide the foundation for the Malaysian economy to respond promptly and effectively to the upturn in the global business cycle. Prospects for the Malaysian economy is expected to improve with growth picking up at 4%-5% in the later part of 2002, led mainly by stronger performances in the manufacturing and services sectors.

*(Source : Bank Negara Malaysia Quarterly Bulletin, Press Release by Bank Negara Malaysia: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2001, 23 August 2001)*



## 7. INDUSTRY OVERVIEW *(Cont'd)*

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### 7.4.2 Economic Growth in Penang

The State has earned itself the name “The Silicon Island of Malaysia”. This was the result of the State Government’s successful policy in promoting the State as the Integrated Manufacturing Centre to the Multi-National Corporations (MNCs).

The Penang economy rebounded in 1999 after a contraction of 8.45% in 1998. The economy had grown even stronger in 2000, achieving a growth rate of 7.66 %, up from a 6.35% growth in 1999.

Due to the presence of the large number of the MNCs in the State, Penang’s economic performance in 2001 was very much affected by the slowdown in the US. The weakening economic performance in the State was mainly attributed to the significant decline in the manufacturing sector, with its contribution to the State GDP dropping from 45.7% to 41.3% in 2001.

Presently, the US is one of the main trading partners of Malaysia and Penang, accounting for about 30% of Malaysian exports. Much of that is electronics and electrical.

The tertiary sector which comprises WRHR (wholesales, retail, hotel and restaurant), FIREBS (finance, insurance, real estate and business services), utilities, storage, communication and transport and other services, is the largest revenue earner in the Penang economy. In 2001, the tertiary sector had contributed RM8,971.80 million or 53.5% to the Penang economy. Despite the slowdown in the manufacturing sector, the tertiary sector, driven by growth in the utilities and business services sectors, recorded growth of 5.42% in 2001.

*(Source : The Second Penang Strategic Development Plan 2001 - 2010 and SERI On-line Publication: Economic Briefing to the Penang State Government, Penang Economic Report 2001, Volume 3, Issue 12, December 2001, <http://www.seri.com.my>)*

## 7. INDUSTRY OVERVIEW (*Cont'd*)

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### 7.4.3 Population Growth in Penang

The average population growth rate in Penang is expected to be around 2.1% per annum for the period 2001 - 2005 and it is expected to reach 1.45 million people by year 2005 whilst the national average population growth rate is expected to be 2.3% for the same period.

The average employment growth rate in Penang is expected to be about 4.0% for the period 2001 - 2005 whilst the national average employment growth rate is expected to be about 3.2% for the same period. For the year 2005, Penang is expected to register an unemployment rate of 1.6%, the second lowest in the country.

*(Source : 8<sup>th</sup> Malaysia Plan 2001 - 2005)*

### 7.5 Non-Revenue Water

Based on the 8<sup>th</sup> Malaysia Plan 2001 – 2005, priority will be given to minimise wastage and losses. During the Plan period, an effective and comprehensive demand management and conservation strategy will be introduced. The NRW is thus expected to be reduced from 36% in 2000 to 31% in 2005. The public awareness campaign on the importance of conserving water will be intensified. Building by-laws will be amended to ensure that new houses and industrial premises are fitted with water conservation devices. Efforts will also be undertaken to improve the monitoring and surveillance of dams. These measures will include close monitoring of dam characteristics such as hydrological yield, storage volume, critical level and mode of release of water for better balancing of supply and demand, particularly during the dry season.

*(Source : 8<sup>th</sup> Malaysia Plan 2001 – 2005)*

One of the factors that would affect PBAHB Group's financial performance would be the NRW, which could be caused by the following:-

- (a) leakage and burst in the trunk mains and distribution mains;
- (b) metering loss due to under-registration of meters arises from tampering of meters and less than ideal maintenance;
- (c) routine maintenance of pipelines such as flushing and cleaning;
- (d) stealing of water and illegal connections; and
- (e) unmetered water used in fire fighting activities.

## 7. INDUSTRY OVERVIEW (Cont'd)

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Presently, PBAHB Group's NRW level registered at 23% of the total water output, one of the lowest in the country. The Company is very much aware of the impact of NRW and has taken measures to reduce the percentage of NRW to 18% by the year 2005 through scheduled maintenance plans.

### 7.6 Relevant Legislation

The PBAHB Group will continue to carry out its business in accordance with sound environmental standards and to give priority to protecting the environment.

The legislation relevant to the water sources and water supplies are as follows:-

#### (i) Water Supply Enactment 1998

The regulation governing the water supply system and services in the State is the Water Supply Enactment 1998, under the direction and supervision of the DWS who is appointed by the State Authority.

The Water Supply Enactment 1998 regulates the sources of water, catchment areas, water supply areas, duties and powers of the DWS, licensing, supply of water, water charges and deposit, offences and penalties.

#### (ii) Waters Act 1920 (Revised 1989)

Under the Waters Act 1920 (Revised 1989), the entire property in and control of all rivers in any state is vested solely in the Ruler of such state and in the case of Penang and Melaka, it is vested in the State Authority. No person may in any manner obstruct or interfere with any river except under and in all accordance with the terms of a licence under this Act. A licence to divert water from a river in any district for:-

- (a) private or domestic purposes;
- (b) use in the cultivation of rice; and
- (c) industrial and other purposes,

may be granted by the District Officer of such district with the approval of the State Authority.

## 7. INDUSTRY OVERVIEW (*Cont'd*)

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This Act only applies to the states of Negeri Sembilan, Pahang, Perak, Selangor (including the Federal Territory of Kuala Lumpur), Melaka and Penang. For the other states there are similar provisions in the state Enactments.

*(Source : Malaysia Water Industry Report 98/99, Water Supply Branch, Public Works Department)*

### (iii) **Environmental Quality Act 1974**

The Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order, 1987 enforced under the Environmental Quality Act 1974 governs the environmental impacts due to prescribed activities. One of which is the construction of dams or impounding reservoirs with a surface area of 200 hectare or more. EIA is also required for the groundwater development for industrial, agricultural or urban water supply for quantity greater than 4,500 cu.m. per day.

*(Source : Malaysia Water Industry Report 98/99, Water Supply Branch, Public Works Department)*

### (iv) **Geological Survey Act 1974**

This legislation governs the abstraction of groundwater. Any person who develops a well for the purpose of extracting water is required to notify the Director General of Geological Survey Department. The requirement does not apply to any well which is less than 9.15 metre in depth without reaching bedrock or yield less than 2.3 cu.m. of water per day and is used for domestic purpose.

*(Source : Malaysia Water Industry Report 98/99, Water Supply Branch, Public Works Department)*

### (v) **Others**

- (a) The Drainage Work Act 1954;
- (b) National Forestry Act 1984;
- (c) Street Drainage and Building Act 1974; and
- (d) Mineral (Penang) Enactment 2001.

## 7. INDUSTRY OVERVIEW (*Cont'd*)

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The other legislation relevant to public water supply is the proposed *Safe Drinking Water Act*, which is in the process of being drafted by the MOH, to control the quality of drinking water supplied to the public. Currently, the quality of treated water supplied by State Water Supply Authority is based on WHO standards.

*(Source : Malaysia Water Industry Report 98/99, Water Supply Branch, Public Works Department)*

### 7.7 Water Quality Management

MOH formed a committee in 1982 to develop a National Guidelines for Drinking Water Quality (NGDWQ). The NGDWQ was formulated based on the WHO Drinking Water Quality Guidelines (1982) and was prepared by a panel of representatives from the Public Works Department, the Department of Chemistry, the Department of Environment and the MOH which is directly or indirectly involved in the surveillance of water in this country.

Within the criteria specified in NGDWQ, treated drinking water must be clear, colourless and odourless. In addition, it must be free from all harmful micro organism, chemical and radiochemical contaminants.

In 1983, the National Drinking Water Quality Surveillance Program (NDWQSP) was set up by MOH in close collaboration with Water Supply Branch of the Public Works Department Malaysia, State Water Supply Authorities, Chemistry Department and Department of Environment. The objective of this program is to raise the standard of health by ensuring the safety and acceptability of drinking water supplied to the consumers and thereby reducing the incidences of water-borne communicable diseases or intoxication associated with poor quality of public water supplies. This program ensures that Public Health and Water Supply Authorities personnel will be alerted in time on any incidences of contamination or deterioration in drinking water quality so that preventive or remedial measures can be taken in time before any major outbreak of diseases or poisoning occurs.

*(Source : Malaysia Water Industry Report 98/99, Water Supply Branch, Public Works Department, Malaysia)*