

PRIVATE & CONFIDENTIAL

PBA HOLDINGS BHD

Company No: 515119-U
(Incorporated in Malaysia)

Interim Financial Report

30 JUNE 2010

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Condensed Consolidated Statement of Financial Position
As at 30 June 2010 - unaudited

	Note	30 June 2010 RM'000	31 December 2009 RM'000 (Restated)
Assets			
Property, plant and equipment	5	685,722	681,447
Prepaid lease land payments		17,024	17,052
Investment in jointly controlled entity		1,289	1,289
Other investments	18	22,006	21,060
Total non-current assets		<u>726,041</u>	<u>720,848</u>
Trade and other receivables		34,296	33,303
Inventories		17,705	15,333
Current tax assets		10,230	9,507
Cash and cash equivalents		56,823	62,307
Total current assets		<u>119,054</u>	<u>120,450</u>
Total assets		<u>845,095</u>	<u>841,298</u>
Equity			
Share capital		165,635	165,635
Reserves		315,966	304,833
Share premium		161,945	161,945
Total equity attributable to owners of the company		<u>643,547</u>	<u>632,413</u>
Minority Interest		-	-
Total equity	6	<u>643,547</u>	<u>632,413</u>
Liabilities			
Loans and borrowings	20	66,253	71,788
Employee benefits		28,330	25,694
Deferrad tax liabilities		8,900	6,350
Total non-current liabilities		<u>103,483</u>	<u>103,832</u>
Loans and borrowings	20	6,632	6,552
Trade and other payables		89,262	96,041
Employee benefits		2,171	2,460
Total current liabilities		<u>98,065</u>	<u>105,053</u>
Total liabilities		<u>201,549</u>	<u>208,885</u>
Total equity and liabilities		<u>845,095</u>	<u>841,298</u>

Condensed Consolidated Statement of Comprehensive Income
For the six month ended 30 June 2010 - unaudited

	Note	Three months ended 30 June		Current year-to-date ended 30 June	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Continuing operations					
Revenue		50,209	45,616	99,063	89,907
Cost of sales		(34,886)	(35,376)	(69,828)	(70,119)
Gross profit		<u>15,323</u>	<u>10,240</u>	<u>29,235</u>	<u>19,788</u>
Other income		3,255	3,696	6,517	5,756
Administrative expenses		(11,281)	(10,747)	(21,796)	(20,196)
Results from operating activities		<u>7,297</u>	<u>3,189</u>	<u>13,956</u>	<u>5,348</u>
Finance income		-	-	-	-
Finance cost		(5)	(7)	(8)	(19)
Net finance cost		<u>(5)</u>	<u>(7)</u>	<u>(8)</u>	<u>(19)</u>
Share of profit of jointly controlled entity, net of tax		-	-	-	-
Profit before tax		<u>7,293</u>	<u>3,182</u>	<u>13,948</u>	<u>5,329</u>
Income tax expenses	16	(1,534)	(143)	(2,815)	737
Profit from continuing operations		<u>5,759</u>	<u>3,039</u>	<u>11,133</u>	<u>6,066</u>
Discontinued operation					
Profit / (Loss) from discontinued operation, net of tax		-	-	-	-
Profit for the period		<u>5,759</u>	<u>3,039</u>	<u>11,133</u>	<u>6,066</u>
Other comprehensive income for the period, net of tax	18	<u>(455)</u>	<u>-</u>	<u>1</u>	<u>-</u>
Total comprehensive income for the period		<u>5,304</u>	<u>3,039</u>	<u>11,134</u>	<u>6,066</u>
Profit attributable to :					
Owners of the company		5,759	3,039	11,133	6,066
Minority interests		-	-	-	-
Profit for the period		<u>5,759</u>	<u>3,039</u>	<u>11,133</u>	<u>6,066</u>
Total comprehensive income attributable to :					
Owners of the company		5,304	3,039	11,134	6,066
Minority interests		-	-	-	-
Total comprehensive income for the period		<u>5,304</u>	<u>3,039</u>	<u>11,134</u>	<u>6,066</u>
Basic earnings per ordinary share (sen) :					
From continuing operations	24	1.74	0.92	3.36	1.83
From discounted operation		-	-	-	-
		<u>1.74</u>	<u>0.92</u>	<u>3.36</u>	<u>1.83</u>

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2010 - unaudited

Note	-----Attributable to owners of the Company-----							Total RM'000	Minority interests RM'000	Total equity RM'000
	-----Non-distributable-----				Distributable					
	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Fair value reserve RM'000	Share option reserve RM'000	Treasury reserve RM'000	Retained earnings RM'000			
At 1 January 2009	165,603	161,910	374	-	895	-	295,429	624,211	-	624,211
Total comprehensive income for the period	-	-	-	-	-	(1)	6,066	6,065	-	6,065
At 30 June 2009	165,603	161,910	374	-	895	(1)	301,495	630,276	-	630,276

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2010 - unaudited

Note	-----Attributable to owners of the Company-----							Total RM'000	Minority interests RM'000	Total equity RM'000
	-----Non-distributable-----				Distributable					
	Share capital RM'000	Share premium RM'000	Translation reserve RM'000	Fair value reserve RM'000	Share option reserve RM'000	Treasury reserve RM'000	Retained earnings RM'000			
At 1 January 2010, as previously stated	165,635	161,945	330	-	868	(2)	301,985	630,761	-	630,761
-effect of adopting FRS 139	-	-	-	1,652	-	-	-	1,652	-	1,652
At 1 January 2010, as restated	165,635	161,945	330	1,652	868	(2)	301,985	632,413	-	632,413
Total comprehensive income for the period	-	-	-	1	-	(1)	11,133	11,134	-	11,134
At 30 June 2010	165,635	161,945	330	1,653	868	(3)	313,118	643,547	-	643,547

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2010 - unaudited

Note	Six months ended 30 June	
	2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit/loss before tax from :		
- continuing operations	13,948	5,329
	<u>13,948</u>	<u>5,329</u>
Adjustment for :		
Amortisation of prepaid land lease payments	105	129
Depreciation of property, plant and equipment	18,730	17,108
Dividend income	(248)	(168)
Finance income	(747)	(1,070)
Gain on disposal of property, plant and equipment	(4)	(37)
Gain on disposal of other investment	(668)	(478)
Net change in provisions	4,235	1,160
Property, plant & equipment written off	80	53
	<u>35,431</u>	<u>22,027</u>
Operating profit before changes in working capital		
Change in inventories	(2,372)	(732)
Change in trade and other payables	(2,277)	(7)
Change in trade and other receivables, prepayments and other financial assets	(932)	4,506
	<u>29,850</u>	<u>25,794</u>
Cash (used in) / generated from operations		
Income tax refund / (paid)	(973)	66
Retirement benefits paid	(1,889)	(1,126)
	<u>26,989</u>	<u>24,733</u>
Net cash (used in) / from operating activities		

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2010 - unaudited

	Note	Six months ended 30 June	
		2010 RM'000	2009 RM'000
Cash flows from investing activities			
Acquisition of quoted investments	18	(15,510)	(11,839)
Acquisition of property, plant and equipment		(27,726)	(24,600)
Dividends received		233	149
Interest received		747	1,070
Proceeds from disposal of quoted investments	18	15,233	11,658
Proceeds from disposal of property, plant and equipment		7	40
Net cash from / (used in) investing activities		<u>(27,017)</u>	<u>(23,521)</u>
Cash flow from financing activities			
Dividend paid to owner of the company		-	(7,452)
Treasury shares		(1)	(1)
Repayment of loans and borrowings		(5,455)	(5,455)
Net cash from / (used in) financing activities		<u>(5,456)</u>	<u>(12,908)</u>
Net increase / (decrease) in cash and cash equivalents		(5,484)	(11,696)
Cash and cash equivalents at 1 January		62,307	80,164
Cash and cash equivalents at 31 March		<u>56,823</u>	<u>68,468</u>

Cash and cash equivalents

Cash and cash equivalents included in the condensed consolidated statement of cash flow comprise :

	Six months ended 30 June	
	2010 RM'000	2009 RM'000
Cash and bank balances	7,923	(432)
Bank overdraft	48,900	68,900
	<u>56,823</u>	<u>68,468</u>

Notes to the Condensed Consolidated Interim Financial Statements

PBA Holdings Bhd is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The Condensed Consolidated Interim Financial Statements of the Group as at and for the six month period ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in jointly controlled entity.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2009 are available upon request from the Company's registered office at:

Level 32, Komtar
10000 Penang

These Condensed Consolidated Interim Financial Statements were approved by Board of Directors on 25 August 2010.

1. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad and FRS 134, *Interim Financing Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

2. Significant accounting policies

Except for the new Financial Reporting Standards, Amendments and Interpretations applicable to the Group effective from 1 January 2010 as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statement as at and for the year ended 31 December 2009.

- FRS 7, Financial Instruments: Disclosures
- FRS 8, Operating Segments
- FRS 101, Presentation of Financial Statements (revised)
- FRS 123, Borrowing Costs (revised)
- FRS 139, Financial Instruments: Recognition and Measurement
- Amendments to FRS 7, Financial Instruments: Disclosures
- Amendments to FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement - Reclassification of Financial Assets
- Improvements to FRSs (2009)
- IC Interpretation 9, Reassessment of Embedded Derivatives
- IC Interpretation 10, Interim Financial Reporting and Impairment

Other than the application of FRS 101 and FRS 139, the application of the above FRSs, Amendments and Interpretations did not result in a significant change in accounting policies and presentation of the financial results of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

(a) Change in accounting policy**(i) FRS 139, *Financial Instruments: Recognition and measurement***

The adoption of FRS 139 has resulted in the following adjustments made to the carrying amount of the Group's other investments as follows:

Group	Fair value reserve RM'000	Other investments RM'000
At 31 December 2009 / 1 January 2010, as previously stated	-	19,408
Adjustments arising from adoption of FRS 139:		
- Fair value of other investments in equity	1,652	1,652
At 31 December 2009 / 1 January 2010, as restated	1,652	21,060

Prior to the adoption of FRS 139, other investments in equity, other than investments in subsidiaries and jointly controlled entity were stated at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, quoted investments in equity, other than investment in subsidiaries and jointly controlled entity are now categorized and measured as available-for-sale as detailed above and measured at fair values with the gains or losses recognized in other comprehensive income.

ii) FRS 123, *Borrowing Costs*

Before 1 January 2010, borrowing cost was all expensed to profit or loss as and when they were incurred. With the adoption of FRS 123, the Group capitalizes borrowing costs that are directly attributable to the acquisition, construction and production of qualifying assets as part of the cost of the asset for which the commencement date of capitalization is on or after 1 January 2010.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 123.

Hence, the adoption of FRS 123 does not affect the basic and diluted earnings per ordinary share for prior periods and has no material impact to current period's basic and diluted earnings per ordinary share.

iii) FRS 101 (revised), *Presentation of Financial Statements*

The Group applies revised FRS 101 (revised), which became effective as of 1 January 2010. As a result, the Group presents all non-owner changes in equity in the consolidated statement of comprehensive income.

Comparative information, with the exception of the requirements under FRS 139, have been re-presented so that it is in conformity with the revised standard. This standard does not have any impact on earnings per ordinary share.

Notes to the Condensed Consolidated Interim Financial Statements

3. Changes in estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2009.

4. Seasonality of operations

There is no seasonality or cyclicity on the Group's operations.

5. Property, plant and equipment**a) Acquisition and disposals**

During the six months ended 30 June 2010 the Group acquired assets with a cost of RM27.73 million (six months ended 30 June 2009: RM24.60 million).

Assets with a carrying amount of RM7,000 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: RM40,000), resulting in a gain on disposal of RM4,000 (six months ended 30 June 2009: gain of RM37,000), which is included in other income.

b) Capital Commitments

	At 30 June 2010 RM'000	At 31 December 2009 RM'000
Approved Capital Expenditures:-		
i) Contracted but not provided for in the Financial Statements	81,000	65,000
ii) Approved but not contracted for	222,000	266,000

6. Share capital and share premium

No additional issuance of share capital and share premium as at 30 June 2010 except for the following :

a) Treasury shares

During the six months ended 30 June 2010, the Company repurchased 1,000 of its issued ordinary shares from the open market at an average price of RM0.85 per share. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965

7. Changes in composition of the Group

There are no changes in the composition of the Group for the current quarter and current financial year to-date ended 30 June 2010.

8. Operating segments

There is only one business segment being to abstract raw water, treat, supply and distribute water to the state of Penang. Other operation of the Group mainly comprise investment holding, provision of water bottling services and training facilities none of which constitutes a separately reportable segment.

Notes to the Condensed Consolidated Interim Financial Statements

9. Subsequent event

There are no material events subsequent to the statement of financial position date up to the date of the issue of this report.

10. Contingencies

Group

A third party has filed a claim in court against the Group for damages amounting to approximately RM26,000,000. However, the Group's solicitors opined that the claim is unjustified.

The Group has filed an application for the above matter to be referred for arbitration. The Directors, having relied on the opinion of the solicitors and the recommendation of the Company's management, are of the opinion that no provision is necessary.

Company

	At 30 June 2010 RM'000	At 31 December 2009 RM'000
Corporate guarantee given to a bank in respect of credit facilities granted to a jointly controlled entity	362	362

11. Related parties

No disclosure of related party transactions is required in the financial statements of state-controlled enterprises of transactions with other state-controlled enterprises as permitted by FRS 124 – Related Party Disclosures.

Notes to the Condensed Consolidated Interim Financial Statements

NOTES PURSUANT TO BURSA MALAYSIA LISTING REQUIREMENTS:**Chapter 9, Appendix 9B, Part A.****12. Review of Group performance**

Group revenue for the quarter ended 30 June 2010 increased by RM4.6 million or 10.1 percent as compared to the preceding year corresponding quarter 2009. Group profit before tax of RM7.3 million increased by 128.1 percent as compared to the preceding year corresponding quarter of RM3.2 million. This is mainly due to the increase in trade consumption and trunk mains contributions as well as income from other investment.

13. Variation of results against preceding quarter

Group revenue improved from RM48.9 million to RM50.2 million as compared to the immediate preceding quarter. Group profit before tax of RM7.3 million was up by RM0.6 million compared to the immediate preceding quarter of RM6.7 million largely due to the higher revenue.

14. Current year prospects

Revenue from trade sales of water has shown improvement and the trend is expected to sustain in 2nd half of the year. Nevertheless, the Board remains mindful on measures implemented to mitigate escalating costs and the economic conditions of the Company.

15. Profit forecast or profit guarantee

Not applicable.

16. Income Tax expense

	Three months ended		Current year-to-date ended	
	30 June		30 June	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Current income tax				
Malaysian - current year	134	143	265	263
- prior year	-	-	-	-
	<u>134</u>	<u>143</u>	<u>265</u>	<u>263</u>
Deferred Tax				
Origination and reversal of temporary differences	1,400	-	2,550	(1,000)
Recognition of previously unrecognised tax losses	-	-	-	-
	<u>1,400</u>	<u>-</u>	<u>2,550</u>	<u>(1,000)</u>
Income tax expense from continuing operations	<u>1,534</u>	<u>143</u>	<u>2,815</u>	<u>(737)</u>

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax expected for the full year applied to the pre-tax income of the interim period.

The lower tax charge of the Group is due to reinvestment allowance claimed by the subsidiary company.

Notes to the Condensed Consolidated Interim Financial Statements

16. Income Tax expense (continued)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group for the current year to-date is as follows:

	30 June 2010 RM'000
Profit before taxation	13,948
Taxation at Malaysian statutory tax rate of 25%	3,487
Income not subject to tax	(214)
Expenses not deductible for tax purposes	621
Deferred tax assets recognised in respect of unutilised reinvestment allowances	(1,079)
Tax expense for the year	2,815

The unutilised reinvestment allowances and unabsorbed capital allowances of the Group are available indefinitely for off setting against future taxable profits.

	30 June 2010 RM'000
Unutilised reinvestment allowances	294,534
Unabsorbed capital allowances	18,469

Last year, a subsidiary company has been issued with prior years' notices of additional tax payable and tax refundable of RM5.8 million and RM8.0 million respectively by the Inland Revenue Board ("IRB"). The additional tax payable was caused by the rejection of the reinvestment allowances claimed by the subsidiary in prior years on certain assets whilst the tax refundable was due to the additional capital allowances claimed arising from revised tax computations of prior years.

The rejection of the reinvestment allowances by IRB may potentially reduce the above unutilized reinvestment allowances by RM231.3 million and hence, the amount of unutilized reinvestment allowance available to set off against future taxable profits. The subsidiary has submitted an appeal to the IRB and the management, after consulting the tax lawyers, is of the opinion that there are grounds to appeal against the rejection.

The deferred tax calculation of the Group as at 30 June 2010 has taken into account of the unutilized reinvestment allowance rejected of RM231.3 million. In the event that the subsidiary is not successful in its appeal, the deferred tax liability of the Group will increase by approximately RM57.8 million with the corresponding amount being expensed to the consolidated income statement.

As of year to date, further to the discussions held with the IRB, the subsidiary company has submitted the revised tax computation for assessment years 2000 (current year basis) to 2007 and is currently awaiting the issuance of revised assessments from the IRB. The revised assessments, if issued, will reduce the unutilized reinvestment allowance under dispute from RM231.3 million to an appealed amount of RM221.5 million.

Notes to the Condensed Consolidated Interim Financial Statements

17. Unquoted investments and properties

There was no sale of unquoted investments and/or properties for the quarter under review and financial period to date.

18. Other investments

Other investments comprise of quoted investments in equity managed by external fund management companies in accordance with the terms of respective Investment Management mandate.

(a) The total purchase consideration and sale proceeds of investments for the quarter ended 30 June 2010 and financial year to-date 30 June 2010 and gain/loss arising there from are as follows:

	Three months ended 30 June 2010 RM'000	Year-to-date 30 June 2010 RM'000
Balance at 01-04-10/01-01-10	22,413	21,060
Add : Purchase of investments	3,033	15,510
Less : Proceeds from disposal of investments	(2,897)	(15,233)
Gain/(Loss) on disposal of investments	(88)	668
Fair value of quoted investments	(455)	1
Gross Balance at 30-06-10	22,006	22,006

b) These investments are managed by external fund management companies in accordance with the terms of the investment management mandate.

As at 30 June 2010 and 31 December 2009, the funds were invested as follows:

	Three months ended 30 June 2010 RM'000	Year-to-date 31 December 2009 RM'000
Shares quoted in Malaysia, at fair value	16,835	17,125
Fixed deposits with licensed banks	1,309	1,147
Money market placement	3,862	2,788
Total	22,006	21,060

19. Corporate proposals

There are no corporate proposals which have been announced for the current quarter and current financial year to-date.

20. Loans and borrowings

	Currency	At 30 June 2010 RM'000	At 31 December 2009 RM'000
Non-current			
<i>Unsecured:</i>			
Term Loan from Penang State Government	RM	66,253	71,788
Current			
<i>Unsecured:</i>			
Term Loan from Penang State Government	RM	6,632	6,552
Total loans and borrowings		<u>72,885</u>	<u>78,340</u>

Notes to the Condensed Consolidated Interim Financial Statements

20. Loans and borrowings (continued)**(a) Issues and repayment schedule**

The following current loans and borrowings were repaid during the six months ended 30 June 2010:

	Interest Rate Nominal	Face value RM'000	Carrying amount RM'000
Repayments			
Unsecured term loans	0%	(5,455)	(5,455)

21. Off balance sheet financial instrument

The Group does not have any financial instruments with off balance sheet risk as at 25 August 2010, the latest practicable date which is not earlier than 7 days from the date of this quarterly report.

22. Material litigation

As at 25 August 2010, there was no material litigation against the Group except as disclosed in note 10.

23. Dividends

A final tax exempt dividend of 4% per share, totalling RM6,625,000 for the financial year ended 31 December 2009 was approved by shareholders at the Annual General Meeting on 15 June 2010 and paid on 16 July 2010 (31 December 2008 – final dividend of 4% less tax at 25% amounting to RM4,968,000).

Notes to the Condensed Consolidated Interim Financial Statements

24. Earnings per ordinary share

Basic earnings per ordinary shareholders

	Continuing operations RM'000	Continuing operations RM'000	Continuing operations RM'000	Continuing operations RM'000
Profit for the period	5,759	3,039	11,134	6,066
	Three months ended 30 June 2010 '000 Shares	Three months ended 30 June 2009 '000 Shares	Current year-to-date 30 June 2010 '000 Shares	Current year-to-date 30 June 2009 '000 Shares
Issued ordinary shares at 1 January	331,230	331,206	331,230	331,206
Effect of share buyback	(1)	(1)	(1)	(1)
Weighted average number of ordinary shares	331,229	331,205	331,229	331,205
	Three months ended 30 June 2010 Continuing operations Sen	Three months ended 30 June 2009 Continuing operations Sen	Current year-to-date 30 June 2010 Continuing operations Sen	Current year-to-date 30 June 2009 Continuing operations Sen
Basic earnings per ordinary share	1.74	0.92	3.36	1.83

Diluted earnings per share

Diluted earnings per share is not applicable as the exercise price for the ESOS is higher than the market price of the Company's ordinary shares. ESOS exercise for the Company has expired on 14 July 2010.

25. Auditor's report on preceding annual financial statements

The auditor's report on the audited annual financial statements for the year ended 31 December 2009 was not qualified