

PRIVATE & CONFIDENTIAL

PBA HOLDINGS BHD

Company No: 515119-U
(Incorporated in Malaysia)

Interim Financial Report

31 DECEMBER 2011

Contents

	Page
Interim Financial Report	
Condensed Consolidated Statement of Financial Position	1
Condensed Consolidated Statement of Comprehensive Income	2
Condensed Consolidated Statement of Changes in Equity	3 - 4
Condensed Consolidated Statement of Cash Flows	5
Notes to the Condensed Consolidated Interim Financial Statements	6 - 15

Condensed Consolidated Statement of Financial Position
As at 31 December 2011 - unaudited

	Note	31 December 2011 RM'000	31 December 2010 RM'000
Assets			
Property, plant and equipment	5	740,249	721,109
Investment in a jointly controlled entity		1,418	803
Other investments	18	25,157	24,606
Total non-current assets		<u>766,824</u>	<u>746,518</u>
Inventories		12,440	13,571
Trade and other receivables		36,464	40,109
Current tax assets		4,116	5,017
Cash and cash equivalents		78,081	66,425
Total current assets		<u>131,101</u>	<u>125,122</u>
Total assets		<u>897,925</u>	<u>871,640</u>
Equity			
Share capital		165,635	165,635
Reserves		515,344	482,648
Total equity	7	<u>680,979</u>	<u>648,283</u>
Employee benefits		22,365	28,835
Term loans	20	-	65,236
Deferred Liability	21	69,528	-
Deferred tax liabilities		6,500	11,000
Total non-current liabilities		<u>98,393</u>	<u>105,071</u>
Trade and other payables		105,674	109,640
Employee benefits		11,284	2,094
Term loans	20	-	6,552
Deferred Liability	21	1,595	-
Total current liabilities		<u>118,553</u>	<u>118,286</u>
Total liabilities		<u>216,946</u>	<u>223,357</u>
Total equity and liabilities		<u>897,925</u>	<u>871,640</u>

Condensed Consolidated Statement of Comprehensive Income
For the twelve months ended 31 December 2011 - unaudited

	Note	Three months ended 31 December		Current year-to-date ended 31 December	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Continuing operations					
Revenue		56,138	50,367	236,330	198,543
Cost of sales		(57,123)	(34,478)	(165,819)	(141,647)
Gross (loss)/profit		(985)	15,889	70,511	56,896
Other operating income		9,331	7,762	18,528	16,435
Administrative expenses		(2,780)	(10,625)	(48,325)	(43,124)
Provision for and write off of receivables		(34)	(470)	(706)	(824)
Provision for and write off of inventories		-	-	(98)	(1)
Operating profit		5,532	12,556	39,910	29,382
Interest income		632	368	2,310	1,371
Finance cost - Bank charges		(11)	(5)	(45)	(19)
Net finance cost		621	363	2,265	1,352
Share of profit of jointly controlled entity, net of tax		121	96	229	96
Profit before tax		6,274	13,015	42,404	30,830
Income tax expenses	16	10,466	(330)	3,293	(4,600)
Profit for the year		16,740	12,685	45,697	26,230
Other comprehensive income for the year	18	2,285	829	(2,233)	1,236
Total comprehensive income for the year		19,025	13,514	43,464	27,466
Profit for the period attributable to owners of the company		16,740	12,685	45,697	26,230
Total comprehensive income attributable to owners of the company		19,025	13,514	43,464	27,466
Basic earnings per ordinary share (sen) :	25	5.05	3.83	13.79	7.92

Condensed Consolidated Statement of Changes in Equity
For the twelve months ended 31 December 2010 - unaudited

	/-----Non-distributable-----/					Distributable		Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Share option reserve RM'000	Fair value reserve RM'000	Foreign Currency Translation reserve RM'000	Retained earnings RM'000	
At 1 January 2010	165,635	(2)	161,944	868	-	331	301,985	630,761
Effect of adopting FRS 139	-	-	-	-	1,652	-	-	1,652
At 1 January 2010, as restated	165,635	(2)	161,944	868	1,652	331	301,985	632,413
Total comprehensive income for the year	-	-	-	-	1,819	(583)	26,230	27,466
Dividends							(11,594)	(11,594)
Purchase of treasury shares	-	(2)	-	-	-	-	-	(2)
ESOS lapsed, forfeited or expired	-	-	-	(868)	-	-	868	-
At 31 December 2010	165,635	(4)	161,944	-	3,471	(252)	317,489	648,283

Condensed Consolidated Statement of Changes in Equity
For the twelve months ended 31 December 2011 - unaudited

	/-----Non-distributable-----/					Distributable		Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Share option reserve RM'000	Fair value reserve RM'000	Foreign Currency Translation reserve RM'000	Retained earnings RM'000	
At 1 January 2011	165,635	(4)	161,944	-	3,471	(252)	317,489	648,283
Total comprehensive income for the year	-	-	-	-	(2,619)	386	45,697	43,464
Dividends	-	-	-	-	-	-	(10,766)	(10,766)
Purchase of treasury shares	-	(2)	-	-	-	-	-	(2)
At 31 December 2011	<u>165,635</u>	<u>(6)</u>	<u>161,944</u>	<u>-</u>	<u>852</u>	<u>134</u>	<u>352,420</u>	<u>680,979</u>

Condensed Consolidated Statement of Cash Flows
For the twelve months ended 31 December 2011 - unaudited

	Note	Twelve months ended 31 December	
		2011 RM'000	2010 RM'000
Cash flows from operating activities			
Profit before tax from continuing operations		42,404	30,830
		<u>42,404</u>	<u>30,830</u>
Adjustment for :			
Depreciation of property, plant and equipment		49,660	38,198
Net change in provisions		8,818	5,948
Gain on disposal of other investments		(2,498)	(1,063)
Gain on disposal of property, plant and equipment		(725)	(3,873)
Property, plant & equipment written off		23	81
Share of profit of jointly controlled entity		(229)	(96)
Dividend income		(619)	(642)
Interest income		(2,605)	(1,629)
		<u>94,229</u>	<u>67,754</u>
Operating profit before changes in working capital			
Inventories		1,131	1,762
Trade and other receivables		3,655	(6,806)
Trade and other payables		(3,620)	25,566
		<u>95,395</u>	<u>88,276</u>
Cash generated from operations			
Retirement benefits paid		(6,099)	(3,173)
Deferred Liability		(665)	-
Income tax (paid) / refunded		(241)	4,612
		<u>88,390</u>	<u>89,715</u>
Net cash from operating activities			
Cash flows from investing activities			
Dividends received		555	570
Interest received		2,605	1,629
Proceeds from disposal of other investments	18	32,439	27,977
Proceeds from disposal of property, plant and equipment		2,023	3,902
Purchase of other investments	18	(33,111)	(28,641)
Purchase of property, plant and equipment		(70,477)	(72,886)
		<u>(65,966)</u>	<u>(67,449)</u>
Net cash used in investing activities			
Cash flow from financing activities			
Dividend paid		(10,766)	(11,594)
Repayment of term loans		-	(6,552)
Purchase of treasury shares		(2)	(2)
		<u>(10,768)</u>	<u>(18,148)</u>
Net cash used in financing activities			
Net increase in cash and cash equivalents		11,656	4,118
Cash and cash equivalents at 1 January		66,425	62,307
		<u>78,081</u>	<u>66,425</u>
Cash and cash equivalents at 31 December			

Cash and cash equivalents

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

	Twelve months ended 31 December	
	2011 RM'000	2010 RM'000
Cash and bank balances	5,468	5,525
Short-term deposits with licensed banks	72,613	60,900
	<u>78,081</u>	<u>66,425</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 year ended 31 December 2011 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 2010 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 29 February 2012.

1. Basis of preparation

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 2010.

2. Significant accounting policies

Except for the new Financial Reporting Standards, Amendments and Interpretations applicable to the Group effective from 1 January 2011 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 2010.

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
 - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
 - Addition Exemption for First-time Adopters
- Amendments to FRS 7, Financial Instruments : Disclosures - Improving Disclosures about Financial Instruments
- IC Interpretation 4, Determining whether an arrangement contains a Lease
- Improvements to FRSs (2010)

The adoption 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.

The following revised FRSs, new IC Interpretations and Amendments to FRSs applicable to the Group has been issued by the MASB and are effective for annual periods commencing on or after 1 July 2011 and 1 January 2012, and have yet to be adopted by the Group.

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

FRS 124, Related Party Disclosures (revised)

Notes to the Condensed Consolidated Interim Financial Statements

2. Significant accounting policies (continued)

The initial application of the above FRSs and amendments to FRSs and Interpretation is not expected to have any significant impact on the Group.

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 2010.

4. Seasonality of operations

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

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

During the year ended 31 December 2011 the Group acquired assets with a cost of RM70.48 million (31 December 2010 : RM72.89 million).

During the year ended 31 December 2011, the subsidiary company disposed off 50 units of unoccupied residential premises of the net book value RM1,289,000 for RM2,010,000.

Other assets with a carrying amount of RM23,000 were disposed off during the year ended 31 December 2011 (31 December 2010: RM81,000), resulting in a gain on disposal of RM5,000 (31 December 2010: gain of RM3,000), which is included in other income.

b) Depreciation and amortization

	Three months ended		Current year to-date ended	
	31 December		31 December	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Charge for the period / year	17,423	9,774	49,660	38,198

c) Capital Commitments

	At 31 December	At 31 December
	2011	2010
	RM'000	RM'000
Approved Capital Expenditures:-		
i) Contracted but not provided for in the Financial Statements	107,000	64,000
ii) Approved but not contracted for	134,000	247,000

Notes to the Condensed Consolidated Interim Financial Statements

6. Share capital and share premium

No additional issuance of share capital and share premium as at 31 December 2011 except for the following :

a) Treasury shares

During the year ended 31 December 2011, the Company repurchased 2,000 of its issued ordinary shares from the open market at an average price of RM0.99 (1,000 shares) and RM0.93 (1,000 shares) per share (31 December 2010 : 2,000 shares at average price of RM0.85 (1,000 shares) and RM0.89 (1,000 shares) 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 31 December 2011.

8. Operating segments

There is only one business segment being to abstract raw water, treat, supply and distribute water in 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.

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 claim in court against the Group by a third party in 2010 for damages for the supply of goods and services is in the process of negotiation for a settlement.

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Company

	At 31 December 2011 RM'000	At 31 December 2010 RM'000
Corporate guarantee given to a bank in respect of credit facilities granted to a jointly controlled entity	129	225

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 31 December 2011 increased by RM5.8 million or 11.5% as compared to the preceding year corresponding quarter 2010. Group profit before tax of RM6.3 million decreased by 51.8% as compared to the preceding year corresponding quarter of RM13.0 million. The decreases were mainly due to the increase in the cost of sales.

Additional Information

The following are new major expenditures incurred for the year 2011 :-

a) Water Intake Fees

A subsidiary company has been charged by the State Government of Penang for water intake fees at RM0.30 per c.u.m of production volume with effect from 1 January 2011.

b) Leasing Charges

On 2 June 2011, a subsidiary company has entered into a Facility Agreement and a Leasing Agreement with Pengurusan Aset Air Berhad (PAAB) to enable the subsidiary to carry out water supply services on the land leased from PAAB. The amount of leasing charges is RM14.56 million per annum for a period of 45 years with effect from 1 August 2011.

The leased assets from PAAB have a book value of RM655.3 million at the date of the agreements.

c) License Fees

A subsidiary company has been awarded by the Suruhanjaya Perkhidmatan Air Negara on 2 June 2011 for Service & Facility Licenses issued pursuant to Section 9 of the Water Services Industry Act 2006.

The License shall be effective from 1 June 2011 to 31 May 2014. The License Fee is calculated based on 1% of the revenue from the sale of water by the subsidiary.

13. Variation of results against preceding quarter

Group revenue decreased from RM59.3 million to RM56.1 million as compared to the immediate preceding quarter. Group profit before tax of RM6.3 million was down by RM1.0 million compared to the immediate preceding quarter of RM7.3 million largely due to lower sales of water revenue.

14. Current year prospects

Revenue from sales of water is expected to sustain for the year. Nevertheless, the Board continues to be mindful on measures implemented to mitigate escalating costs amidst prevailing economic conditions.

15. Profit forecast or profit guarantee

Not applicable.

Notes to the Condensed Consolidated Interim Financial Statements

16. Income Tax expense

	Three months ended 31 December		Current year to-date ended 31 December	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Current income tax				
Malaysian - current year	(854)	349	1,319	710
- prior year	(112)	(819)	(112)	(760)
	<u>(966)</u>	<u>(470)</u>	<u>1,207</u>	<u>(50)</u>
Deferred Tax				
- Origination and reversal of temporary differences	(9,500)	819	(4,500)	3,518
- Prior Year	-	(19)	-	1,132
	<u>(9,500)</u>	<u>800</u>	<u>(4,500)</u>	<u>4,650</u>
Income tax expense from continuing operations	<u>(10,466)</u>	<u>330</u>	<u>(3,293)</u>	<u>4,600</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 effective tax rate of the Group is due to reinvestment allowance claimed by the subsidiary company.

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:

	31 December 2011 RM'000
Profit before taxation	42,404
Taxation at Malaysian statutory tax rate of 25%	10,601
Income not subject to tax	(912)
Expenses not deductible for tax purposes	1,752
Deferred tax assets recognised in respect of unutilised reinvestment allowances	(14,734)
Tax expense for the year	(3,293)

As at 31 December 2011, the unutilised reinvestment allowance of the Group available indefinitely for off setting against future taxable profits amounted to RM354 million.

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.

Notes to the Condensed Consolidated Interim Financial Statements

18. Other investments

Other investments comprise 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 31 December 2011 and financial year to-date 31 December 2011 and gain/loss arising there from are as follows:

	Three months ended 31 December 2011 RM'000	Year to-date 31 December 2011 RM'000
Balance at 01-10-11/01-01-11	22,997	24,606
Add : Purchase of investments	6,362	33,111
Less : Proceeds from disposal of investments	(6,175)	(32,439)
Gain/(Loss) on disposal of investments	98	2,498
Fair value of quoted investments	1,875	(2,619)
Gross Balance at 31-12-11	25,157	25,157

(b) As at 31 December 2011 and 31 December 2010, the funds were invested as follows:

	Year to-date 31 December 2011 RM'000	Year to-date 31 December 2010 RM'000
Shares quoted in Malaysia, at fair value	21,751	20,918
Fixed deposits with licensed banks	126	1,327
Money market placement	3,280	2,361
Total	25,157	24,606

19. Corporate proposals

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

Notes to the Condensed Consolidated Interim Financial Statements

20. Loans and borrowings

	Note	Currency	At 31 December 2011 RM'000	At 31 December 2010 RM'000
Non-current				
<i>Unsecured:</i>				
Term Loan from Penang State Government		RM	71,788	65,236
Current				
<i>Unsecured:</i>				
Term Loan from Penang State Government		RM	-	6,552
			71,788	71,788
Less : Amount reclassified to Deferred Liability	21	RM	(71,788)	-
Total loans and borrowings			-	71,788

The unsecured and interest free term loans were obtained from the State Government of Penang to finance major water projects.

During the year, the subsidiary company has obtained letter of consent from the State Government of Penang to defer the entire term loan outstanding amount pursuant to the migration of the Penang State water assets and the loans thereon with Government of Malaysia and PAAB.

Consequent to the deferring of the term loan, the outstanding amount of the term loan was reclassified as deferred liability.

21. Deferred Liability

	At 31 December 2011 RM'000	At 31 December 2010 RM'000
Non-current		
Amount Novated from Penang State Government	69,528	-
Current		
Amount Novated from Penang State Government	1,595	-
Total Deferred Liability	71,123	-

The Deferred Liability is to be amortised over a period of 45 years with effect from 1 August 2011 based on the estimated period over which the economic benefits is expected to flow to the subsidiary.

Notes to the Condensed Consolidated Interim Financial Statements

22. Off balance sheet financial instrument

The Group does not have any financial instruments with off balance sheet risk as at 29 February 2012, the latest practicable date which is not earlier than 7 days from the date of this quarterly report.

23. Material litigation

As at 29 February 2011, there was no material litigation against the Group except as disclosed in note 10.

24. Dividends

The Board of Directors recommended a final tax exempt dividend of 3.5% amounting to approximately RM5,798,000 in respect of the financial year ended 31 December 2011 subject to the approval of shareholders at the forthcoming Annual General Meeting (31 December 2010 – final tax exempt dividend of 3% amounting to RM4,969,000).

Notes to the Condensed Consolidated Interim Financial Statements

25. Earnings per ordinary share

Basic earnings per ordinary shareholders

	Three months ended 31 December 2011 Continuing operations RM'000	Three months ended 31 December 2010 Continuing operations RM'000	Current year to-date 31 December 2011 Continuing operations RM'000	Current year to-date 31 December 2010 Continuing operations RM'000
Profit for the year	16,740	12,685	45,697	26,230
	Three months ended 31 December 2011 '000 Shares	Three months ended 31 December 2010 '000 Shares	Current year to-date 31 December 2011 '000 Shares	Current year to-date 31 December 2010 '000 Shares
Issued ordinary shares at 1 January	331,266	331,271	331,266	331,271
Effect of share buyback	(1)	(3)	(1)	(3)
Weighted average number of ordinary shares	331,265	331,268	331,265	331,268
	Three months ended 31 December 2011 Continuing operations Sen	Three months ended 31 December 2010 Continuing operations Sen	Current year to-date 31 December 2011 Continuing operations Sen	Current year to-date 31 December 2010 Continuing operations Sen
Basic earnings per ordinary share	5.05	3.83	13.79	7.92

Notes to the Condensed Consolidated Interim Financial Statements

26. Realised and Unrealised Profits or Losses

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2011, into realised and unrealised profits, was compiled with the Guidance on Special Matter No 1, Determination of Realised and Unrealised Profit or Losses in the context of Disclosures pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysia Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad, is as follows:

	At 31 December 2011 RM'000	At 31 December 2010 RM'000
Total retained earnings :		
Realised gain	303,828	273,654
Unrealised loss	(6,500)	(11,000)
	<u>297,328</u>	<u>262,654</u>
Share of retained earnings of jointly controlled entity		
Realised gain	1,312	1,055
	<u>298,640</u>	<u>263,709</u>
Add : Consolidation adjustments	53,780	53,780
Total retained earnings	<u>352,420</u>	<u>317,489</u>

27. Auditor's report on preceding annual financial statements

The auditor's report on the audited annual financial statements for the year ended 31 December 2010 was not qualified