

PRIVATE & CONFIDENTIAL

PBA HOLDINGS BHD

Company No: 515119-U
(Incorporated in Malaysia)

Interim Financial Report

31 DECEMBER 2012

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Condensed Consolidated Statement of Financial Position
As at 31 December 2012 - unaudited

	Note	31 December 2012 RM'000	31 December 2011 RM'000	1 January 2011 RM'000
Assets				
Property, plant and equipment	5	767,753	740,249	721,109
Investment in a jointly controlled entity		1,296	1,418	803
Other investments		20,528	25,157	24,606
Total non-current assets		<u>789,577</u>	<u>766,824</u>	<u>746,518</u>
Inventories		11,696	12,440	13,571
Trade and other receivables		36,855	36,474	40,109
Current tax assets		6,043	4,116	5,017
Cash and cash equivalents		75,269	78,081	66,425
Total current assets		<u>129,863</u>	<u>131,111</u>	<u>125,122</u>
Total assets		<u>919,440</u>	<u>897,935</u>	<u>871,640</u>
Equity				
Share capital		165,635	165,635	165,635
Reserves		533,379	515,344	482,648
Total equity	6	<u>699,014</u>	<u>680,979</u>	<u>648,283</u>
Deferred liabilities	19	67,933	69,528	-
Deferred tax liabilities		220	6,500	11,000
Deferred income	18	6,385	-	-
Loans and borrowings	18	6,615	-	65,236
Other non-current payables		14,560	22,365	28,835
Total non-current liabilities		<u>95,713</u>	<u>98,393</u>	<u>105,071</u>
Deferred liabilities	19	1,595	1,595	-
Loans and borrowings		-	-	6,552
Trade and other payables		123,118	116,968	111,734
Total current liabilities		<u>124,713</u>	<u>118,563</u>	<u>118,286</u>
Total liabilities		<u>220,426</u>	<u>216,956</u>	<u>223,357</u>
Total equity and liabilities		<u>919,440</u>	<u>897,935</u>	<u>871,640</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the twelve months ended 31 December 2012 - unaudited

	Note	Three months ended 31 December		Current year-to-date ended 31 December	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Continuing operations					
Revenue		62,250	56,136	244,560	236,328
Cost of sales		(48,582)	(57,516)	(177,204)	(166,212)
Gross profit		<u>13,668</u>	<u>(1,380)</u>	<u>67,356</u>	<u>70,116</u>
Other operating income		2,990	9,329	10,484	18,526
Administrative expenses		(16,391)	(2,432)	(56,372)	(48,781)
Operating profit		<u>267</u>	<u>5,517</u>	<u>21,468</u>	<u>39,861</u>
Interest income		554	636	2,099	2,314
Share of profit of jointly controlled entity, net of tax		(1)	121	106	229
Profit before tax		<u>820</u>	<u>6,274</u>	<u>23,673</u>	<u>42,404</u>
Income tax expense	16	6,274	10,466	5,303	3,293
Profit for the year		<u>7,094</u>	<u>16,740</u>	<u>28,976</u>	<u>45,697</u>
Other comprehensive income, net of tax					
Foreign currency translation differences for foreign operation		(192)	409	(228)	386
Fair value of available-for-sale financial assets		280	1,875	883	(2,619)
Total other comprehensive income for the year		<u>88</u>	<u>2,284</u>	<u>655</u>	<u>(2,233)</u>
Total comprehensive income for the year		<u>7,182</u>	<u>19,024</u>	<u>29,631</u>	<u>43,464</u>
Profit for the period attributable to owners of the company		<u>7,094</u>	<u>16,740</u>	<u>28,976</u>	<u>45,697</u>
Total comprehensive income attributable to owners of the company		<u>7,182</u>	<u>19,024</u>	<u>29,631</u>	<u>43,464</u>
Basic earnings per ordinary share (sen) :	22	<u>2.14</u>	<u>5.05</u>	<u>8.75</u>	<u>13.79</u>

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	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
Fair value of available-for-sale financial assets	-	-	-	(2,619)	-	-	(2,619)
Foreign currency translation differences for foreign operation	-	-	-	-	386	-	386
Total other comprehensive income for the year	-	-	-	(2,619)	386	-	(2,233)
Profit for the year	-	-	-	-	-	45,697	45,697
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>852</u>	<u>134</u>	<u>352,420</u>	<u>680,979</u>

Condensed Consolidated Statement of Changes in Equity
For the twelve months ended 31 December 2012 - unaudited

	/-----Non-distributable-----/				Distributable		Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Fair value reserve RM'000	Foreign Currency Translation reserve RM'000	Retained earnings RM'000	
At 1 January 2012	165,635	(6)	161,944	852	134	352,420	680,979
Fair value of available-for-sale financial assets	-	-	-	883	-	-	883
Foreign currency translation differences for foreign operation	-	-	-	-	(228)	-	(228)
Total other comprehensive income for the year	-	-	-	883	(228)	-	655
Profit for the year	-	-	-	-	-	28,976	28,976
Total comprehensive income for the year	-	-	-	883	(228)	28,976	29,631
Dividends	-	-	-	-	-	(11,594)	(11,594)
Purchase of treasury shares	-	(2)	-	-	-	-	(2)
At 31 December 2012	<u>165,635</u>	<u>(8)</u>	<u>161,944</u>	<u>1,735</u>	<u>(94)</u>	<u>369,802</u>	<u>699,014</u>

Condensed Consolidated Statement of Cash Flows
For the twelve months ended 31 December 2012 - unaudited

	Twelve months ended 31 December	
	2012	2011
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax from continuing operations	23,673	42,404
	<u>23,673</u>	<u>42,404</u>
Adjustments for :		
Depreciation of property, plant and equipment	48,190	49,660
Impairment of assets	2,266	-
Impairment of quoted shares	2,388	-
Amortisation of deferred liabilities	(1,595)	(665)
Gain on disposal of other investments	(1,084)	(2,498)
Gain on disposal of property, plant and equipment	(23)	(725)
Property, plant & equipment written off	125	23
Share of profit of jointly controlled entity	(106)	(229)
Dividend income	(722)	(619)
Interest income	(2,349)	(2,609)
Operating profit before changes in working capital changes	<u>70,763</u>	<u>84,742</u>
Inventories	745	1,131
Trade and other receivables	(343)	3,635
Trade and other payables	(6,708)	(880)
Cash generated from operations	<u>64,457</u>	<u>88,628</u>
Income tax (paid) / refunded	(2,865)	(242)
Net cash from operating activities	<u>61,592</u>	<u>88,386</u>
Cash flows from investing activities		
Dividends received	683	555
Interest received	2,349	2,609
Proceeds from disposal of other investments	27,382	32,439
Proceeds from disposal of property, plant and equipment	44	2,023
Purchase of other investments	(23,174)	(33,111)
Purchase of property, plant and equipment	(78,889)	(70,477)
Net cash used in investing activities	<u>(71,605)</u>	<u>(65,962)</u>
Cash flow from financing activities		
Dividend paid	(5,797)	(10,766)
Drawdown of loans	13,000	-
Purchase of treasury shares	(2)	(2)
Net cash from financing activities	<u>7,201</u>	<u>(10,768)</u>
Net (decrease) / increase in cash and cash equivalents	(2,812)	11,656
Cash and cash equivalents at 1 January	78,081	66,425
Cash and cash equivalents at 31 December	<u>75,269</u>	<u>78,081</u>

Cash and cash equivalents

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

	Twelve months ended 31 December	
	2012	2011
	RM'000	RM'000
Cash and bank balances	2,671	5,468
Short-term deposits with licensed banks	72,598	72,613
	<u>75,269</u>	<u>78,081</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 2012 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 2011 are available upon request from the Company's registered office at:

Level 32, Komtar
10000 Penang

These Condensed Consolidated Interim Financial Statements were authorized for issue by Board of Directors on 20 February 2013.

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 MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial 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 2011.

These are the Group's first financial statements prepared in accordance with MFRS and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. The transition to MFRS has no significant financial impact to the financial statements of the Group.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to MFRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 119, *Employee Benefits (2011)*
- MFRS 127, *Separate Financial Statements (2011)*
- MFRS 128, *Investments in Associates and Joint Ventures (2011)*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards – Government Loans*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*

Notes to the Condensed Consolidated Interim Financial Statements

- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The initial application of the other standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Group upon their first adoption.

2. Significant accounting policies

The Group's financial statements for annual period beginning on 1 January 2012 were prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). The transitioning to MFRS will not 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 2011.

4. Seasonality of operations

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

Notes to the Condensed Consolidated Interim Financial Statements

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

During the year ended 31 December 2012 the Group acquired assets with a cost of RM78.89 million (31 December 2011 : RM70.48 million).

Other assets with carrying amount of RM125,000 were disposed off during the year ended 31 December 2012 (31 December 2011: RM23,000), resulting in a gain on disposal of RM23,000 (31 December 2011: gain of RM5,000), which is included in other income.

b) Depreciation and amortization

	Three months ended		Current year to-date ended	
	31 December		31 December	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Charge for the period	13,527	17,423	48,190	49,660

c) Impairment

During the year ended 31 December 2012, the subsidiary company has impaired its assets amounting to RM2.30 million (mainly on Telok Bahang conventional treatment plant which no longer in operational of RM0.2 million and raw water intake at Sungai Perai of RM1.9 million).

d) Capital Commitments

	At 31 December	At 31 December
	2012	2011
	RM'000	RM'000
Approved Capital Expenditures:-		
i) Contracted but not provided for in the Financial Statements	118,000	107,000
ii) Approved but not contracted for	44,000	134,000

6. Share capital

No additional issuance of share capital as at 31 December 2012 except for the following:

a) Treasury shares

During the year ended 31 December 2012, the Company repurchased 2,000 of its issued ordinary shares from the open market at an average price of RM0.89 per share (1,000 shares) and RM0.92 (1,000 shares) per share (31 December 2011 : 2,000 shares at average price of RM0.99 (1,000 shares) and RM0.93 (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 2012.

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 operations 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 issuance of this report.

10. Contingencies

Company

	At 31 December 2012 RM'000	At 31 December 2011 RM'000
Corporate guarantee given to a bank in respect of credit facilities granted to a jointly controlled entity	25	129

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.

There are no significant changes in the key management personnel compensation for the year.

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 2012 increased by RM6.1 million or 10.9% as compared to the preceding year corresponding quarter 2011. The increase was mainly due to the increase in consumption. Group profit before tax of RM0.8 million decreased by 86.9% as compared to the preceding year corresponding quarter of RM6.3 million. The decrease was mainly due to the increase in the administrative and depreciation expenses.

13. Variation of results against preceding quarter

Group revenue increased from RM60.0 million to RM62.3 million as compared to the immediate preceding quarter. Group profit before tax of RM0.8 million was down by RM0.4 million compared to the immediate preceding quarter of RM1.2 million largely due to higher cost of sales.

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.

16. Income tax expense

	Three months ended 31 December		Current year to-date ended 31 December	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Current income tax				
Malaysian - current year	906	(854)	977	1,319
- prior year	-	(112)	-	(112)
	<u>906</u>	<u>(966)</u>	<u>977</u>	<u>1,207</u>
Deferred Tax				
- Origination and reversal of temporary differences	(7,180)	(9,500)	(6,280)	(4,995)
- Prior Year		-	-	495
	<u>(7,180)</u>	<u>(9,500)</u>	<u>(6,280)</u>	<u>(4,500)</u>
Income tax expense from continuing operations	<u>(6,274)</u>	<u>(10,466)</u>	<u>(5,303)</u>	<u>(3,293)</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 a 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:

	31 December 2012 RM'000
Profit before taxation	23,673
Taxation at Malaysian statutory tax rate of 25%	5,918
Income not subject to tax	(429)
Expenses not deductible for tax purposes	3,309
Deferred tax assets recognised in respect of unutilised reinvestment allowances	(14,753)
Others	652
Tax expense for the year	(5,303)

As at 31 December 2012, the unutilised reinvestment allowance of the Group available indefinitely for off setting against future taxable profits amounted to RM410.3 million.

17. Corporate proposals

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

18. Loans and borrowings and Deferred Income

During the year ended 31 December 2012, the subsidiary company has drawdown RM13.0 million from a RM20.0 million term loan agreement.

The unsecured and interest free term loan was obtained from the State Government of Penang to finance Non Revenue Water (NRW) projects and repayable over 20 years period with effect 14 September 2016.

The term loan has been discounted using the prevailing financial rate of 5.5%.The fair value of the term loan was recognised as Deferred Income which will be amortised over 20 years period with effect 14 September 2016.

	At 31 December 2012 RM'000	At 31 December 2011 RM'000
Non-current		
<i>Unsecured:</i>		
Loans and borrowings	6,615	-
Deferred Income	6,385	-
Term Loan from State Government of Penang	13,000	-

Notes to the Condensed Consolidated Interim Financial Statements

19. Deferred liabilities

	At 31 December 2012 RM'000	At 31 December 2011 RM'000
Non-current	67,933	69,528
Current	1,595	1,595
Total Deferred liabilities	69,528	71,123

The deferred liabilities representing lease incentive are to be amortised over the lease period of 45 years with effect from 1 August 2011.

20. Material litigation

As at 20 February 2012, there was no material litigation against the Group.

21. Dividends

The Board of Directors recommended a final single tier dividend of 4.0% amounting to approximately RM6,625,000 in respect of the financial year ended 31 December 2012 subject to the approval of shareholders at the forthcoming Annual General Meeting (31 December 2011 – final tax exempt dividend of 3.5% amounting to RM5,798,000).

Notes to the Condensed Consolidated Interim Financial Statements

22. Earnings per ordinary share

Basic earnings per ordinary shareholders

	Three months ended 31 December 2012 Continuing operations RM'000	Three months ended 31 December 2011 Continuing operations RM'000	Current year to-date 31 December 2012 Continuing operations RM'000	Current year to-date 31 December 2011 Continuing operations RM'000
Profit for the year	7,094	16,740	28,976	45,697
	Three months ended 31 December 2012 '000 Shares	Three months ended 31 December 2011 '000 Shares	Current year to-date 31 December 2012 '000 Shares	Current year to-date 31 December 2011 '000 Shares
Issued ordinary shares at 1 January	331,265	331,266	331,265	331,266
Effect of share buyback	(1)	(1)	(1)	(1)
Weighted average number of ordinary shares	331,264	331,265	331,264	331,265
	Three months ended 31 December 2012 Continuing operations Sen	Three months ended 31 December 2011 Continuing operations Sen	Current year to-date 31 December 2012 Continuing operations Sen	Current year to-date 31 December 2011 Continuing operations Sen
Basic earnings per ordinary share	2.14	5.05	8.75	13.79

Notes to the Condensed Consolidated Interim Financial Statements

23. Realised and Unrealised Profits or Losses

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2012, 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 2012 RM'000	At 31 December 2011 RM'000
Total retained earnings :		
Realised gain	314,632	303,856
Unrealised	-	(6,500)
	314,632	297,356
Share of retained earnings of jointly controlled entity		
Realised	1,390	1,284
	316,022	298,640
Add : Consolidation adjustments	53,780	53,780
Total retained earnings	369,802	352,420

24. Auditor's report on preceding annual financial statements

The auditor's report on the audited annual financial statements for the year ended 31 December 2011 was not qualified

25. Notes to the Condensed Statement of Comprehensive Income

	Three months ended 31 December 2012 RM'000	Year to-date 31 December 2012 RM'000
a) Interest Income	615	2,349
b) Other Operating Income	2,990	10,484
c) Depreciation and amortization	13,527	48,190
d) Provision for and write off of receivables	215	1,629
e) Gain on disposal of quoted investments	(833)	(1,084)
f) Impairments of quoted shares	2,388	2,388
g) Impairments of assets	-	2,266
h) Water Intake Fees to State Government of Penang	2,145	8,095
i) Leasing charges to Pengurusan Aset Air Berhad (PAAB)	3,242	12,966
j) License Fees to Suruhanjaya Perkhidmatan Air Negara (SPAN)	579	2,326