

PRIVATE & CONFIDENTIAL

PBA HOLDINGS BHD

Company No: 515119-U
(Incorporated in Malaysia)

Interim Financial Report

30 September 2018

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Condensed Consolidated Statement of Financial Position
As at 30 September 2018 - unaudited

	Note	30 September 2018 RM'000	Restated 31 December 2017 RM'000
Assets			
Property, plant and equipment	5	1,007,362	1,014,995
Investment in a joint venture		57	55
Other investments		-	2,736
Total non-current assets		<u>1,007,419</u>	<u>1,017,786</u>
Inventories		9,372	7,423
Receivables, deposits and prepayments		50,774	46,805
Current tax assets		5,224	5,235
Cash and cash equivalents		177,869	141,391
Total current assets		<u>243,239</u>	<u>200,854</u>
Total assets		<u>1,250,658</u>	<u>1,218,640</u>
Equity			
Share capital		327,579	327,579
Reserves		516,944	486,594
Total equity	6	<u>844,523</u>	<u>814,173</u>
Loans and borrowings	19	74,120	60,121
Deferred income	20	44,680	40,279
Contract liabilities	21	66,550	58,690
Deferred liabilities	22	58,760	59,958
Deferred tax liabilities		3,000	3,000
Total non-current liabilities		<u>247,110</u>	<u>222,048</u>
Loans and borrowings	19	2,200	1,600
Contract liabilities	21	17,130	11,441
Deferred liabilities	22	1,595	1,595
Payables and accruals		138,057	167,783
Current tax liability		43	-
Total current liabilities		<u>159,025</u>	<u>182,419</u>
Total liabilities		<u>406,135</u>	<u>404,467</u>
Total equity and liabilities		<u>1,250,658</u>	<u>1,218,640</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the nine months ended 30 September 2018 - unaudited

	Note	Three months ended 30 September		Current year-to-date ended 30 September	
		2018 RM'000	Restated 2017 RM'000	2018 RM'000	Restated 2017 RM'000
Continuing operations					
Revenue	16	84,058	86,761	255,029	244,245
Cost of sales		<u>(62,052)</u>	<u>(55,617)</u>	<u>(176,628)</u>	<u>(165,080)</u>
Gross profit		<u>22,006</u>	<u>31,144</u>	<u>78,401</u>	<u>79,165</u>
Other operating income		4,567	6,026	16,817	14,990
Administrative expenses		<u>(17,365)</u>	<u>(17,207)</u>	<u>(56,358)</u>	<u>(50,263)</u>
Operating profit		<u>9,208</u>	<u>19,963</u>	<u>38,860</u>	<u>43,892</u>
Interest income		182	266	549	699
Share of profit of equity-accounted joint venture, net of tax		<u>(5)</u>	<u>(2)</u>	<u>1</u>	<u>(14)</u>
Profit before interest and tax		<u>9,385</u>	<u>20,227</u>	<u>39,410</u>	<u>44,577</u>
Interest expense		<u>(3)</u>	<u>(4)</u>	<u>(17)</u>	<u>(23)</u>
Profit before tax		<u>9,382</u>	<u>20,223</u>	<u>39,393</u>	<u>44,554</u>
Income tax expense	17	<u>685</u>	<u>(3,600)</u>	<u>(1,594)</u>	<u>(8,396)</u>
Profit for the period		<u>10,067</u>	<u>16,623</u>	<u>37,799</u>	<u>36,158</u>
Other comprehensive income, net of tax					
Foreign currency translation differences for foreign operation		<u>1</u>	<u>(2)</u>	<u>1</u>	<u>76</u>
Total other comprehensive income for the period		<u>1</u>	<u>(2)</u>	<u>1</u>	<u>76</u>
Total comprehensive income for the period		<u>10,068</u>	<u>16,621</u>	<u>37,800</u>	<u>36,234</u>
Basic earnings per share (sen) :	25	<u>3.04</u>	<u>5.02</u>	<u>11.42</u>	<u>10.92</u>

Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 2018 - unaudited

	-----Non-distributable-----			Distributable		Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Foreign Currency Translation reserve RM'000	Retained earnings RM'000	
At 1 January 2017	165,635	(230)	161,944	142	472,682	800,173
Foreign currency translation differences for foreign operation	-	-	-	76	-	76
Total other comprehensive income for the period	-	-	-	76	-	76
Profit for the period	-	-	-	-	36,158	36,158
Total comprehensive income for the period	-	-	-	76	36,158	36,234
Transition to no-par value regime on 31 Jan 2017	161,944	-	(161,944)	-	-	-
Dividends	-	-	-	-	(7,449)	(7,449)
Purchase of treasury shares	-	(1)	-	-	-	(1)
At 30 September 2017 (Restated)	<u>327,579</u>	<u>(231)</u>	<u>-</u>	<u>218</u>	<u>501,391</u>	<u>828,957</u>

Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 2018 - unaudited

	-----Non-distributable-----			Distributable		Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Foreign Currency Translation reserve RM'000	Retained earnings RM'000	
At 1 January 2018 (Restated)	327,579	(233)	-	215	486,612	814,173
Foreign currency translation differences for foreign operation	-	-	-	1	-	1
Total other comprehensive income for the period	-	-	-	1	-	1
Profit for the period	-	-	-	-	37,799	37,799
Total comprehensive income for the period	-	-	-	1	37,799	37,800
Dividends	-	-	-	-	(7,449)	(7,449)
Purchase of treasury shares	-	(1)	-	-	-	(1)
At 30 September 2018	327,579	(234)	-	216	516,962	844,523

Condensed Consolidated Statement of Cash Flows
For the nine months ended 30 September 2018 - unaudited

	Nine months ended 30 September	
	2018 RM'000	Restated 2017 RM'000
Cash flows from operating activities		
Profit before tax	39,393	44,554
Adjustments for :		
Depreciation of property, plant and equipment	44,378	40,885
Impairment loss on receivables	1,095	927
Amortisation of deferred liabilities	(1,196)	(1,196)
Amortisation of contract liabilities	399	1,453
Gain on disposal of other investments	(10)	(153)
Loss on disposal of property, plant and equipment	(75)	-
Property, plant & equipment written off	262	163
Share of results of joint venture	(1)	14
Dividend income	(2)	(41)
Interest income	(1,165)	(1,286)
Operating profit before working capital changes	83,078	85,320
Inventories	(1,948)	1,426
Receivables	(5,168)	(3,879)
Payables	(23,830)	(16,801)
Cash generated from operations	52,132	66,066
Income tax paid	(1,544)	(1,563)
Income tax refunded	-	41
Net cash from operating activities	50,588	64,544
Cash flows from investing activities		
Dividends received	2	1,409
Interest received	1,165	1,286
Proceeds from disposal of other investments	4,640	1,521
Proceeds from disposal of PPE	354	-
Purchase of other investments	(1,894)	(1,575)
Purchase of property, plant and equipment	(24,136)	(35,818)
Net cash used in investing activities	(19,869)	(33,177)
Cash flow from financing activities		
Dividends paid	(13,240)	(13,240)
Government loans received	20,000	30,000
Repayment of government loans	(1,000)	(1,000)
Purchase of treasury shares	(1)	(1)
Net cash from financing activities	5,759	15,759
Net increase in cash and cash equivalents	36,478	47,126
Cash and cash equivalents at beginning	141,391	95,028
Cash and cash equivalents at end	177,869	142,154

Cash and cash equivalents

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

	Nine months ended 30 September	
	2018 RM'000	2017 RM'000
Cash and bank balances	39,668	27,180
Short-term deposits with licensed banks	138,201	114,974
	177,869	142,154

Notes to the Condensed Consolidated Interim Financial Statements

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

The Condensed Consolidated Interim Financial Statements of the Group as at and for the period ended 30 September 2018 comprises the Company and its subsidiaries (together referred to as the Group) and the Group's interests in a joint venture entity.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2017 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 the Board of Directors on 28 November 2018.

1. Basis of preparation

These condensed consolidated interim financial statements ("Condensed Report") 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 2017.

2. Significant accounting policies

2.1 Adoption of Standards, Amendments to Standards, Annual Improvements to Standards and Issues Committee ("IC") Interpretation

The accounting policies adopted in the preparation of the Condensed Report are consistent with those followed in the preparation of the Group's audited financial statements for the financial year ended 31 December 2017, except for the adoption of the following new standards with effect from 1 January 2018:

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 2	Share-based Payment: Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 7	Mandatory Date of MFRS 9 and Transition Disclosures
Amendments to MFRS 140	Investment Property: Transfers of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to MFRS 2014-2016 Cycle (except for Amendments to MFRS 12 Disclosure of Interests in other Entities)	

Adoption of the above standards did not have any effect on the financial statements of the Group other than MFRS 9 *Financial Instruments* and MFRS 15 *Revenue from Contracts with Customers*. The impact of the adoption of these Standards on the Group's financial statements is as follows:

Notes to the Condensed Consolidated Interim Financial Statements

1. MFRS 9 Financial Instruments

MFRS 9 *Financial Instruments* replaces MFRS 139 *Financial Instruments: Recognition and Measurement* and all previous versions of MFRS 9. MFRS 9 brings together all three aspects of the accounting for financial instruments project: (i) classification and measurement, (ii) impairment and (iii) hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. However, hedge accounting requirements under this standard is irrelevant as the Group does not apply hedge accounting.

The following are the changes upon adoption of MFRS 9 *Financial Instruments*:

(i) Changes in accounting policies

Financial assets

Quoted equity shares previously held as available-for-sale (AFS) with fair value gains and losses recorded in other comprehensive income is now measured at fair value through profit or loss (FVTPL).

The Group's financial assets comprising trade receivables, other receivables and cash and cash equivalents which have previously been classified as loans and receivables (L&R) are now classified at amortised cost (AC). The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Financial liabilities

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities.

Impairment

MFRS 9 requires the Group to record Expected Credit Losses ("ECL") on all of its trade and other receivables, either on a 12-month or lifetime basis. The Group applies the simplified approach prescribed by MFRS 9, which requires a lifetime ECL to be recognised from initial recognition of the trade and other receivables which are financial assets. There is no material impact on the Group's receivables and profit before tax due to the reversal of the collective impairment provisions which the Group has adopted under the incurred loss model.

Notes to the Condensed Consolidated Interim Financial Statements

(ii) Classification and measurement of financial instruments

The following table summarises the reclassification and measurement of the Group's financial assets as at 31 December 2017:

	Measurement category		Carrying amount as at 31 December 2017	
	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM'000	New (MFRS 9) RM'000
Financial assets:				
Other investments				
- Quoted shares	AFS	FVTPL	1,876	1,876
- Money market placements	L&R	AC	860	860
Receivables and deposits	L&R	AC	44,338	44,338
Cash and cash equivalents	L&R	AC	141,391	141,391

2. MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 11 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*.

This Standard establishes a five-step model that will apply to recognition of revenue arising from contracts with customers and provides a more structured approach in measuring and recognising revenue. Under this Standard, revenue will be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

(i) Changes in accounting policies

The adoption of this Standard resulted in changes in accounting policies for recognition of revenue arising from capital contribution funds and transfer of assets from customers.

- (a) Revenue from capital contribution funds are in relation to contributions by customers for connecting the external reticulation mains to the trunk mains. This revenue which was previously recognised on an invoiced basis is now recognised when the performance obligation is met, that is when final reconnection from the trunk mains to the external reticulation mains take place.
- (b) The Group receives mains and land from developers ("transferred assets") with the purpose of providing consumers with ongoing access to water supply. The transferred assets are recognised at fair value as property, plant and equipment with a corresponding increase in deferred income previously. The adoption of MFRS 15 did not have any effect on the accounting of the transferred assets except for the change in the presentation as required by MFRS 15. Amount that was presented as deferred income will now be presented as contract liabilities and further analysed into current and non-current portion while the amortisation of deferred income which was presented as other income will now be presented as revenue.

Notes to the Condensed Consolidated Interim Financial Statements

(iii) Reconciliation of profit or loss for the quarter and period ended 30 September 2017

	Note	Three months ended 30 September 2017			Current year to-date ended 30 September 2017		
		Previously stated RM'000	Effects of adoption RM'000	Restated RM'000	Previously stated RM'000	Effects of adoption RM'000	Restated RM'000
Revenue	2.1.2 (i)	84,313	2,448	86,761	245,698	(1,453)	244,245
Cost of sales		(55,617)	-	(55,617)	(165,080)		(165,080)
Gross profit		28,696	2,448	31,144	80,618	(1,453)	79,165
Other operating income	2.1.2 (i)(b)	8,152	(2,126)	6,026	17,346	(2,356)	14,990
Administrative expenses		(17,211)	-	(17,211)	(50,286)		(50,286)
Operating profit		19,637	322	19,959	47,678	(3,809)	43,869
Interest Income		266	-	266	699		699
Share of loss of equity accounted joint venture, net of tax		(2)	-	(2)	(14)		(14)
Profit before tax		19,901	322	20,223	48,363	(3,809)	44,554
Tax expense		(3,600)	-	(3,600)	(8,396)		(8,396)
Net profit for the period		16,301	322	16,623	39,967	(3,809)	36,158
Profit for the period attributable to owners of the Company		16,301	322	16,623	39,967	(3,809)	36,158
Basic earnings per share attributable to owner of the Company (sen)		4.92		5.02	12.06		10.92

Notes to the Condensed Consolidated Interim Financial Statements

(iv) Reconciliation of comprehensive income for the quarter and period ended 30 September 2017

	Note	Three months ended 30 September 2017 RM'000	Current year to- date ended 30 September 2017 RM'000
Total comprehensive income previously reported		16,236	40,125
Add/(Less): Adjustments upon adoption of MFRS 9 and MFRS 15			
- Change in revenue recognition		385	(3,891)
- Change of measurement basis for other investments	2.1.1(i)	-	-
Total comprehensive income, restated		<u>16,621</u>	<u>36,234</u>

(v) Reconciliation of equity and material adjustments to statement of financial position

Reconciliation of equity as at 1 January 2017

	Previously stated RM'000	Effects of adoption RM'000	Restated RM'000
Fair value reserve	20	(20)	-
Retained earnings	472,662	20	472,682

Reconciliation of equity as at 30 September 2017

	Previously stated RM'000	Effects of adoption RM'000	Restated RM'000
Fair value reserve	82	(82)	-
Retained earnings	501,309	82	501,391

Reconciliation of equity as at 31 December 2017

	Previously stated RM'000	Effects of adoption RM'000	Restated RM'000
Fair value reserve	114	(114)	-
Retained earnings	496,702	(10,090)	486,612

Notes to the Condensed Consolidated Interim Financial Statements

Material adjustments to statement of financial position as at 31 December 2017

	Note	Previously stated RM'000	Effects of adoption RM'000	Restated RM'000
NON-CURRENT LIABILITIES				
Deferred income	2.1.2(i)(b)	100,206	(59,927)	40,279
Contract liabilities				
- transfer of assets	2.1.2(i)(b)	-	58,690	58,690
CURRENT LIABILITIES				
Contract liabilities				
- capital contribution funds	2.1.2(i)(a)	-	10,204	10,204
- transfer of assets	2.1.2(i)(b)	-	1,237	1,237
Total contract liabilities		-	70,131	70,131

2.2 Standards issued but not yet effective

As at the date of authorisation of this Condensed Report, the following Standards and Amendments to Standards have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective and have not been adopted by the Group.

Effective for financial periods beginning on or after 1 January 2019

MFRS 116	Leases
Amendments to MFRS 9	Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 119	Employee Benefits: Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Treatments
Annual Improvements to MFRS Standards 2015-2017 Cycle	

Effective for financial periods beginning on or after 1 January 2021

MFRS 17	Insurance Contracts
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Effective date yet to be confirmed

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures – Sale of Contribution of Assets between and Investor and its Associate of Joint Venture

3. Changes in estimates

The preparation of interim financial statements requires management to make judgements, estimations 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.

Notes to the Condensed Consolidated Interim Financial Statements

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 estimating uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017.

4. Seasonality of operations

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

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

During the period ended 30 September 2018, the Group acquired assets with a cost of RM24.14 million (30 September 2017 : RM35.82 million).

Other assets with a carrying amount of RM0.26 million were written off during the period ended 30 September 2018 (30 September 2017 : RM0.16 million).

b) Depreciation and amortization

	Three months ended		Current year to-date ended	
	30-Sep 2018 RM'000	30-Sep 2017 RM'000	30-Sep 2018 RM'000	30-Sep 2017 RM'000
Charge for the period	15,233	13,744	44,378	40,885

c) Impairment

During the period ended 30 September 2018, there was no asset impairment (30 September 2017 : Nil)

d) Capital Commitments

	At 30 September 2018 RM'000	At 31 December 2017 RM'000
Approved Capital Expenditure:-		
i) Contracted but not provided for in the Financial Statements	157,000	50,700
ii) Approved but not contracted for	29,000	159,000

e) Transfer Of Assets From Customers

During the period ended 30 September 2018, assets transferred from Customers amounted to RM13.15 million (30 September 2017 : RM14.31 million)

6. Share capital

No additional issuance of share capital as at 30 September 2018 except for the following:

Notes to the Condensed Consolidated Interim Financial Statements

Treasury shares

During the period ended 30 September 2018, the Company repurchased 1,000 of its ordinary shares from the open market at an average price of RM1.21 per share (30 September 2017 : 1,000 at an average price of RM1.29 per share). The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act, 2016.

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 September 2018 except that Island Springwater Sdn. Bhd., a wholly-owned subsidiary of the Company, was dissolved on 28 February 2018. There is no impact to the Group's financial statements for the current financial period.

8. Operating segments

The Group has only one reportable segment, which is principally engaged in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers in the State of Penang and to engage in water related business. The Group's Chief Executive Officer (the Chief operating decision maker) reviews internal management reports on the reportable segment on a quarterly basis.

Accordingly, information by operating segment on the Group's operations as required by MFRS 8 is not presented.

9. Subsequent event

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

10. Contingencies

There are no contingencies to the Company for the period.

11. Related parties

There are no other significant transactions and changes with a joint venture entity, Government related entities and key management personnel compensation for the year save as disclosed in Note 19 (ii) & (iii) Loans and borrowings.

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 September 2018 decreased by RM2.7 million or 3.1% as compared to the corresponding quarter in 2017. The Group registered a profit before tax of RM9.4 million as compared to the preceding year's corresponding quarter of profit before tax of RM20.2 million. This is mainly due to higher maintenance cost incurred for slope repairs and other associated works resulting from the major floods which occurred in Penang in November 2017.

	Individual Period 3rd quarter		Changes Amount	Changes %
	Current Year Quarter	Preceding Year Corresponding Quarter (Restated)		
	30/9/2018	30/9/2017		
	RM'000	RM'000	RM'000	%
Revenue	84,058	86,761	(2,703)	-3.1%
Operating Profit	9,208	19,963	(10,755)	-53.9%
Profit Before Interest and Tax	9,385	20,227	(10,842)	-53.6%
Profit Before Tax	9,382	20,223	(10,841)	-53.6%
Profit After Tax	10,067	16,623	(6,556)	-39.4%
Profit Attributable to Ordinary Equity Holders of the Parent	10,067	16,623	(6,556)	-39.4%
Total Comprehensive income for the period	10,068	16,621	(6,553)	-39.4%

13. Variation of results against preceding quarter

Group revenue decreased from RM88.8 million to RM84.1 million as compared to the immediate preceding quarter. The Group registered a profit before tax of RM9.4 million as compared to the immediate preceding quarter of RM16.9 million primarily due to higher maintenance cost incurred for slope repairs and other associated works resulting from the major floods which occurred in Penang in November 2017.

	Individual Period 3rd quarter		Changes Amount	Changes %
	Current Quarter	Immediate Preceding Quarter (Restated)		
	30/9/2018	30/6/2018		
	RM'000	RM'000	RM'000	%
Revenue	84,058	88,782	(4,724)	-5.3%
Operating Profit	9,208	16,686	(7,478)	-44.8%
Profit before Interest and Tax	9,385	16,884	(7,499)	-44.4%
Profit before Tax	9,382	16,874	(7,492)	-44.4%
Profit after Tax	10,067	16,395	(6,328)	-38.6%
Profit attributable to Ordinary Equity Holders of the Parent	10,067	16,395	(6,328)	-38.6%
Total Comprehensive income for the period	10,068	16,395	(6,327)	-38.6%

Notes to the Condensed Consolidated Interim Financial Statements

14. Current year prospects

Revenue from sales of water is expected to further increase in line with population growth and business activity levels. More costs are expected to be incurred to repair the slopes affected by the floods in November 2017 and periodic landslides.

15. Profit forecast or profit guarantee

Not applicable.

16. Revenue

Timing of revenue recognition by point in time and over time are as follows :

	Three months ended 30 September			Current year to-date ended 30 September		
	2018 RM'000	2017 RM'000	Changes %	2018 RM'000	2017 RM'000	Changes %
Sale of water	80,153	80,866	-1%	238,153	236,027	1%
Capital contribution funds	2,543	3,588	-29%	11,043	5,125	>100%
Others	1,362	2,307	>100%	5,833	3,093	>100%
	<u>84,058</u>	<u>86,761</u>	<u>-3.1%</u>	<u>255,029</u>	<u>244,245</u>	<u>4.4%</u>

Timing of revenue recognition:

- At a point in time	80,398	81,110	-1%	238,908	236,681	0.9%
- Over time	3,660	5,651	-35%	16,121	7,564	>100%
	<u>84,058</u>	<u>86,761</u>	<u>-3.1%</u>	<u>255,029</u>	<u>244,245</u>	<u>4.4%</u>

17. Income tax expense

	Three months ended 30 September		Current year to-date ended 30 September	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current income tax				
Malaysian - current year	45	600	1,545	1,600
Overprovision in prior year	70	-	49	(4)
	<u>115</u>	<u>600</u>	<u>1,594</u>	<u>1,596</u>
Deferred Tax				
Origination and reversal of temporary differences	(800)	3,000	-	6,800
Income tax expense from continuing operations	<u>(685)</u>	<u>3,600</u>	<u>1,594</u>	<u>8,396</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.

Notes to the Condensed Consolidated Interim Financial Statements

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 September 2018 RM'000
Profit before taxation	39,393
Taxation at Malaysian statutory tax rate of 24%	9,454
Income not subject to tax	(1,997)
Expenses not deductible for tax purposes	821
Current year reinvestment allowance	(6,663)
Underprovision in prior year	49
Others	(70)
Tax expense for the period	1,594

As at 30 September 2018, the unutilised reinvestment allowance of the Group available indefinitely for off setting against future taxable profits amounted to RM605 million (30 September 2017 : RM547 million).

18. Corporate proposals

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

19. Loans and borrowings

- i) The unsecured and interest free term loan was obtained from the Federal Government via the State Government of Penang to finance Non Revenue Water (NRW) projects :
- a) RM20 million : repayable over 20 years period with effect from 11 September 2016
 - b) RM24 million : repayable over 20 years period with effect from 10 December 2018

The subsidiary company has fully drawdown RM20.0 million from the 1st term loan agreement and RM24.0 million from the 2nd term loan agreement.

- ii) On 1 June 2016, the main subsidiary of the Company obtained a loan from the State Government amounting to RM80.0 million to finance capital expenditure projects. The loan is unsecured with 4.0% interest p.a.. The subsidiary has fully drawdown RM80.0 million. The loan is repayable over a 10 year period with effect from 3 May 2020.
- iii) On 6 November 2017, the State Government has agreed to give the subsidiary Company a loan amounting to RM60.0 million to finance capital expenditure projects. The loan is unsecured with 4.0% interest p.a. and repayable over a 20 years period. As at 30 September 2018, the loan is still pending the approval from Suruhanjaya Perkhidmatan Air Negara ("SPAN").

Notes to the Condensed Consolidated Interim Financial Statements

	At 30 September 2018 RM'000	At 31 December 2017 RM'000
i) Loan from Federal Government via the State Government of Penang		
Nominal value of loans	42,000	43,000
Less: Deemed interest recognised as deferred income	(16,787)	(18,117)
Add: Amortised interest	1,040	1,330
Less: Repayment	(1,000)	(1,000)
	25,253	25,213
ii) Loan from State Government of Penang		
Nominal value of loans	80,000	60,000
Less: Deemed interest recognised as deferred income	(33,056)	(27,433)
Add: Amortised interest	4,123	3,941
	51,067	36,508
Total loans and borrowings	76,320	61,721
Analysed as:		
Non-current	74,120	60,121
Current	2,200	1,600
	76,320	61,721

20. Deferred income

	At 30 September 2018 RM'000	At 31 December 2017 RM'000
Term loans		
Balance at beginning	40,279	31,368
Transfer from loans and borrowings	9,564	14,182
Less : Amortisation	(5,163)	(5,271)
Balance at end	44,680	40,279

Deferred income represents the difference between the nominal value of the unsecured term loans obtained by the Company and their fair values measured on initial recognition. The deferred income is amortised over the useful life of the assets funded which ranged from 25 years to 50 years. There are two types of term loans taken by the Company, i.e.

- (i) RM44 million interest-free loans from the Federal Government via the State Government of Penang to finance Non-Revenue Water projects, and
- (ii) RM80 million interest bearing loan at 4% p.a. from the State Government of Penang to finance the Company's capital expenditure projects.

Notes to the Condensed Consolidated Interim Financial Statements

21. Contract liabilities

	At 30 September 2018 RM'000	At 31 December 2017 RM'000
Transfer of assets from customers		
Balance at beginning	59,927	44,313
Additions during the financial year	13,150	18,367
Less : Amortisation	(5,078)	(2,753)
Balance at end	<u>67,999</u>	<u>59,927</u>
Capital Contribution Funds		
Balance at beginning	10,204	-
Addition	5,477	10,204
Balance at end	<u>15,681</u>	<u>10,204</u>
Total Contract liabilities	83,680	70,131
Analysed as:		
Non-current	66,550	58,690
Current	17,130	11,441
	<u>83,680</u>	<u>70,131</u>

The contract liabilities from transfer of assets from customers consist of the fair value of the assets transferred to a subsidiary company and Capital Contribution Funds (CCF). The contract liabilities are amortised over the useful life of the transferred assets and CCF.

22. Deferred liabilities

	At 30 September 2018 RM'000	At 31 December 2017 RM'000
Non-current	58,760	59,958
Current	1,595	1,595
Total Deferred liabilities	<u>60,355</u>	<u>61,553</u>

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

Notes to the Condensed Consolidated Interim Financial Statements

23. Material litigation

There was no material litigation except for the claim made by Prominent Multimedia Sdn. Bhd. ("PMSB"). On 9 February 2015, a subsidiary of the Company appointed PMSB via a contract to implement a project known as Integrated Revenue Management System. PMSB failed to complete the implementation within the timeframe agreed in the contract and consequently, the subsidiary terminated the contract with PMSB.

On 5 May 2016, PMSB issued a Notice of Arbitration to the subsidiary referring the matter to the Kuala Lumpur Regional Centre of Arbitration ("KLRCA") claiming a sum of RM10,444,000 for wrongful termination of the contract. The subsidiary made a counterclaim of RM10,517,000 against PMSB. A hearing was conducted on 24 to 26 January 2018 and further fixed for continued hearing on 20 to 23 March 2018. Subsequently, negotiations to resolve the dispute commenced. Following which both parties have agreed on an amicable settlement. Parties agreed to withdraw their respective claims with no liberty to file afresh and no orders as to costs. The subsidiary has paid RM1,000,000 to PMSB as ex-gratia payment on 20 April 2018.

On 2 May 2018, PMSB's solicitor has written to the Arbitrator to confirm the settlement and to withdraw the claim against the subsidiary. The subsidiary's counterclaim against PMSB also will be withdrawn accordingly. The Company has written to the KLRCA to request a report.

24. Dividends

The Board of Directors has declared an interim single tier dividend of 1.75 sen per share amounting to RM5,793,000 for the financial year ending 31 December 2018 (30 September 2017 – interim single tier dividend of 1.75 sen per share amounting to RM5,793,000).

Notes to the Condensed Consolidated Interim Financial Statements

25. Earnings per ordinary share

Basic earnings per ordinary shareholders

	Three months ended 30 September 2018 Continuing operations RM'000	Restated Three months ended 30 September 2017 Continuing operations RM'000	Current year to-date 30 September 2018 Continuing operations RM'000	Restated Current year to-date 30 September 2017 Continuing operations RM'000
Profit for the period	10,067	16,623	37,799	36,158
	Three months ended 30 September 2018 '000 Shares	Three months ended 30 September 2017 '000 Shares	Current year to-date 30 September 2018 '000 Shares	Current year to-date 30 September 2017 '000 Shares
Issued ordinary shares at 1 January	331,271	331,271	331,271	331,271
Effect of share buyback	(270)	(268)	(270)	(268)
Weighted average number of ordinary shares	331,001	331,003	331,001	331,003
	Three months ended 30 September 2018 Continuing operations Sen	Three months ended 30 September 2017 Continuing operations Sen	Current year to-date 30 September 2018 Continuing operations Sen	Current year to-date 30 September 2017 Continuing operations Sen
Basic earnings per share	3.04	5.02	11.42	10.92

Notes to the Condensed Consolidated Interim Financial Statements

26. Auditor's report on preceding annual financial statements

The auditor's report on the audited annual financial statements for the year ended 31 December 2017 was not qualified

27. Notes to the Condensed Statement of Comprehensive Income

	Three months ended 30 September 2018 RM'000	Year to-date 30 September 2018 RM'000
a) Interest Income	(182)	(549)
b) Other Operating Income	(4,567)	(16,817)
c) Interest expense	3	17
d) Depreciation and amortization	15,233	44,378
e) Recoveries of receivables	(1)	(0)
f) Gain on disposal of other investments	-	(10)
g) Water Intake Fees to State Government of Penang	2,306	6,762
h) Leasing charges to Pengurusan Aset Air Berhad (PAAB)	3,241	9,724
i) License Fees to Suruhanjaya Perkhidmatan Air Negara (SPAN)	809	2,439