

PRIVATE & CONFIDENTIAL

PBA HOLDINGS BHD

Company No: 515119-U
(Incorporated in Malaysia)

Interim Financial Report

31 March 2019

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Condensed Consolidated Statement of Financial Position
As at 31 March 2019 - unaudited

	Note	31 March 2019 RM'000	31 December 2018 RM'000
Assets			
Property, plant and equipment	5	1,015,300	1,022,675
Right-of-use assets		202,412	
Investment in a joint venture		-	57
Other investments		-	-
Total non-current assets		<u>1,217,712</u>	<u>1,022,732</u>
Inventories		10,188	11,460
Trade and other receivables		38,783	41,485
Current tax assets		6,257	5,762
Cash and cash equivalents		194,339	182,476
Total current assets		<u>249,567</u>	<u>241,183</u>
Total assets		<u>1,467,279</u>	<u>1,263,915</u>
Equity			
Share capital		327,579	327,579
Reserves		351,745	368,294
Total equity	6	<u>679,324</u>	<u>695,873</u>
Loans and borrowings	19	75,980	75,242
Deferred income	20	41,620	42,958
Contract liabilities	21	70,476	67,985
Deferred liabilities	22	57,962	58,361
Lease liabilities	23	230,799	-
Deferred tax liabilities		135,000	141,000
Total non-current liabilities		<u>611,837</u>	<u>385,546</u>
Loans and borrowings	19	2,200	2,200
Contract liabilities	21	25,891	22,480
Deferred liabilities	22	1,595	1,595
Trade and other Payables		142,315	156,208
Lease liabilities	23	3,292	-
Current tax liability		825	13
Total current liabilities		<u>176,118</u>	<u>182,496</u>
Total liabilities		<u>787,955</u>	<u>568,042</u>
Total equity and liabilities		<u>1,467,279</u>	<u>1,263,915</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three months ended 31 March 2019 - unaudited

	Note	Three months ended 31 March		Current year-to-date ended 31 March	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Continuing operations					
Revenue	16	84,432	85,935	84,432	85,935
Cost of sales		<u>(55,238)</u>	<u>(54,214)</u>	<u>(55,238)</u>	<u>(54,214)</u>
Gross profit		<u>29,194</u>	<u>31,721</u>	<u>29,194</u>	<u>31,721</u>
Other operating income		6,263	5,534	6,263	5,534
Administrative expenses		<u>(26,303)</u>	<u>(20,544)</u>	<u>(26,303)</u>	<u>(20,544)</u>
Operating profit		<u>9,154</u>	<u>16,711</u>	<u>9,154</u>	<u>16,711</u>
Interest income		160	174	160	174
Share of profit of equity-accounted joint venture		<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Profit before interest and tax		<u>9,314</u>	<u>16,886</u>	<u>9,314</u>	<u>16,886</u>
Interest expense		<u>(17)</u>	<u>(4)</u>	<u>(17)</u>	<u>(4)</u>
Profit before tax		<u>9,297</u>	<u>16,882</u>	<u>9,297</u>	<u>16,882</u>
Tax Income/ (expense)	17	<u>5,175</u>	<u>(1,800)</u>	<u>5,175</u>	<u>(1,800)</u>
Profit for the period		<u>14,472</u>	<u>15,082</u>	<u>14,472</u>	<u>15,082</u>
Other comprehensive income, net of tax					
Foreign currency translation differences for foreign operation		<u>(216)</u>	<u>-</u>	<u>(216)</u>	<u>-</u>
Total other comprehensive income for the period		<u>(216)</u>	<u>-</u>	<u>(216)</u>	<u>-</u>
Total comprehensive income for the period		<u>14,256</u>	<u>15,082</u>	<u>14,256</u>	<u>15,082</u>
Earnings per share (sen) :	26	<u>4.37</u>	<u>4.56</u>	<u>4.37</u>	<u>4.56</u>

Condensed Consolidated Statement of Changes in Equity
For the three months ended 31 March 2019 - unaudited

	/---Non-distributable---/ Foreign Currency			Distributable	
	Share Capital RM'000	Treasury Shares RM'000	Translation Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
At 1 January 2018	327,579	(233)	215	484,983	812,544
Profit for the period	-	-	-	15,082	15,082
Total comprehensive income for the period	-	-	-	15,082	15,082
At 31 March 2018	327,579	(233)	215	500,065	827,626

Condensed Consolidated Statement of Changes in Equity
For the three months ended 31 March 2019 - unaudited

	/---Non-distributable---/ Foreign Currency Translation Reserve			Distributable Retained Earnings	Total Equity
	Share Capital RM'000	Treasury Shares RM'000	RM'000	RM'000	RM'000
At 1 January 2019					
As previously stated	327,579	(235)	216	368,313	695,873
Effects of adopting MFRS 16	-	-	-	(30,805)	(30,805)
As 1 January 2019 (restated)	327,579	(235)	216	337,508	665,068
Foreign currency translation differences for foreign operation	-	-	(216)	-	(216)
Total other comprehensive income for the period	-	-	(216)	-	(216)
Profit for the period	-	-	-	14,472	14,472
Total comprehensive income for the period	-	-	(216)	14,472	14,256
At 31 March 2019	327,579	(235)	-	351,980	679,324

Condensed Consolidated Statement of Cash Flows
For the three months ended 31 March 2019 - unaudited

	Three months ended 31 March	
	2019	2018
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	9,297	16,882
Adjustments for :		
Depreciation of PPE and ROU assets	16,586	14,543
Impairment loss on receivables	1,090	31
Amortisation of deferred liabilities	(399)	(399)
Amortisation of assets transferred from customers	(382)	(325)
Gain on disposal of other investments	-	(124)
Gain on disposal of PPE	(22)	-
PPE written off	23	116
Share of results of joint venture	-	(1)
Dividend income	-	(1)
Interest income	(1,355)	(376)
Interest on loans and borrowings	1,338	-
Realisation of government loan	(1,338)	-
Reversal of inventories written down	652	-
Inventories written off	(1,902)	-
Operating profit before working capital changes	23,588	30,346
Inventories	2,522	(615)
Receivables	1,483	1,930
Payables	(8,132)	(27,478)
Contract Liabilities	3,397	618
Cash generated from operations	22,858	4,801
Income tax paid	(531)	(513)
Income tax refunded	23	-
Net cash from operating activities	22,350	4,288
Cash flows from investing activities		
Dividends received	-	1
Interest received	1,355	376
Proceeds from disposal of other investments	-	4,640
Proceeds from disposal of PPE	25	-
Purchase of other investments	-	(1,894)
Purchase of PPE	(4,650)	(6,115)
Net cash used in investing activities	(3,270)	(2,992)
Cash flow from financing activities		
Dividends paid	(5,792)	(5,793)
Government loans received	-	20,000
Payment of lease liabilities	(825)	-
Repayment of government loans	(600)	-
Net cash from financing activities	(7,217)	14,207
Net increase in cash and cash equivalents	11,863	15,503
Cash and cash equivalents at beginning	182,476	141,392
Cash and cash equivalents at end	194,339	156,895

Cash and cash equivalents

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

	Three months ended 31 March	
	2019	2018
	RM'000	RM'000
Cash and bank balances	37,963	22,933
Short-term deposits with licensed banks	156,376	133,962
	194,339	156,895

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 31 March 2019 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 2018 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 30 May 2019.

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 2018.

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 2018, except for the adoption of the following new standards with effect from 1 January 2019:

Amendments to MFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

MFRS 16 Leases

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

Annual Improvements to MFRS Standards 2015-2017 Cycle

IC Interpretation 23 Uncertainty over Income Tax Treatments

The initial application of the above standards is not expected to have any material impact to the financial statements of the Group upon adoption except as mentioned below:

Notes to the Condensed Consolidated Interim Financial Statements

MFRS 16 Leases

MFRS 16 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under MFRS 16 is substantially unchanged under MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact for leases where the Group is the lessor. The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying MFRS 117 and IC Interpretation 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption MFRS 16 as at 1 January 2019 is as follows:

	Increase/(Decrease) RM'000
Assets	
Right-of-use assets	<u>204,111</u>
Liabilities	
Lease Liabilities	<u>234,916</u>
Total adjustment on equity:	
Retained earnings	<u>(30,805)</u>

a) Nature of the effect of adoption of MFRS 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of MFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively. Upon adoption of MFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Notes to the Condensed Consolidated Interim Financial Statements

- Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under MFRS 117). The requirements of MFRS 16 was applied to these leases from 1 January 2019.

- Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of RM204 million were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of RM235 million were recognised.
- The net effect of these adjustments had been adjusted to retained earnings amounted to RM31 million.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	RM'000
Operating lease commitments as at 31 December 2018	547,253
Weighted average incremental borrowing rate as at 1 January 2019	5.68%
Discounted operating lease commitments at 1 January 2019	224,200
Add:	
Commitments relating to leases previously classified as rental expenses	10,716
Lease liabilities as at 1 January 2019	<u>234,916</u>

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of MFRS 16, which have been applied from the date of initial application:

- Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial

Notes to the Condensed Consolidated Interim Financial Statements

direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of use assets are subject to impairment.

- Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

- Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Notes to the Condensed Consolidated Interim Financial Statements

	Plant and Machinery RM'000	Right-of-use assets		Lease liabilities RM'000
		Office premises RM'000	Total RM'000	
As at 1 January 2019	196,284	7,827	204,111	234,916
Depreciation expense	(1,306)	(393)	(1,699)	-
Interest expense	-	-	-	3,335
Payments	-	-	-	(4,160)
As at 31 March 2019	<u>194,978</u>	<u>7,434</u>	<u>202,412</u>	<u>234,091</u>

2.2 Standards issued but not yet effective

As at the date of authorization 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 2020

Amendments to References to the Conceptual Framework in MFRS Standards

Effective for annual periods beginning on or after 1 January 2021

MFRS 17 Insurance Contracts

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.

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 2018.

4. Seasonality of operations

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

5. Property, plant and equipment

a) Acquisition and disposals

During the period ended 31 March 2019, the Group acquired assets with a cost of RM4.65 million (31 March 2018 : RM6.12 million).

Other assets with a carrying amount of RM0.02 million were written off during the year ended 31 March 2019 (31 March 2018 : RM0.12 million).

Notes to the Condensed Consolidated Interim Financial Statements

b) Depreciation and amortization

	Three months ended		Current year to-date ended	
	31-Mar 2019 RM'000	31-Mar 2018 RM'000	31-Mar 2019 RM'000	31-Mar 2018 RM'000
Charge for the year				
- Property, plant and equipment	14,887	14,543	14,887	14,543
- Right-of-use assets	1,699	-	1,699	-
	16,586	14,543	16,586	14,543

c) Impairment

During the period ended 31 March 2019, there was no asset impairment (31 March 2018 : Nil)

d) Capital commitments

	At 31 March 2019 RM'000	At 31 December 2018 RM'000
Approved Capital Expenditure:-		
i) Contracted but not provided for in the Financial Statements	135,000	136,000
ii) Approved but not contracted for	17,000	21,000

e) Transfer of assets from customers

During the period ended 31 March 2019, assets transferred from Customers amounted to RM2.89 million (31 March 2018 : RM2.82 million)

6. Total equity

No additional issuance of share capital as at 31 March 2019 except for the following:

Treasury shares

During the period ended 31 March 2019, there was no repurchase of issued ordinary shares from the open market (31 March 2018 : Nil).

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 March 2019.

Notes to the Condensed Consolidated Interim Financial Statements

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 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 31 March 2019 decreased by RM1.5 million or 1.7% as compared to the corresponding quarter in 2018. The Group registered a profit before tax of RM9.3 million as compared to the preceding year's corresponding quarter of profit before tax of RM16.9 million. These are mainly due to recognition of impairment loss on receivables and leases in accordance with *MFRS 9 Financial Instruments* and *MFRS 16 Leases* respectively coupled with increase in energy usage and write off of inventories.

	Individual Period 1st quarter		Changes Amount RM'000	Changes %
	Current Year Quarter	Preceding Year Corresponding Quarter		
	31/3/2019 RM'000	31/3/2018 RM'000		
Revenue	84,432	85,935	(1,503)	-1.7%
Operating Profit	9,154	16,711	(7,557)	-45.2%
Profit before interest and tax	9,314	16,886	(7,572)	-44.8%
Profit before tax	9,297	16,882	(7,585)	-44.9%
Profit after tax	14,472	15,082	(610)	-4.0%
Profit attributable to ordinary equity holders of the parent	14,472	15,082	(610)	-4.0%
Total comprehensive profit for the period	14,256	15,082	(826)	-5.5%

13. Variation of results against preceding quarter

Group revenue increased from RM79.7 million to RM84.4 million as compared to the immediate preceding quarter. The Group registered a profit before tax of RM9.3 million as compared to the immediate preceding quarter of loss before tax of RM3.3 million primarily due to the recognition of impairment loss on receivables in accordance with *MFRS 9 Financial Instruments*.

	Individual Period 1st quarter		Changes Amount RM'000	Changes %
	Current Quarter	Immediate Preceding Quarter		
	31/3/2019 RM'000	31/12/2018 RM'000		
Revenue	84,432	79,729	4,703	5.9%
Operating profit/ (loss)	9,154	(3,495)	12,649	->100%
Profit/ (loss) before interest and tax	9,314	(3,243)	12,557	->100%
Profit/ (loss) before tax	9,297	(3,256)	12,553	->100%
Profit/ (loss) after tax	14,472	(141,229)	155,701	->100%
Profit/ (loss) attributable to ordinary equity holders of the parent	14,472	(141,229)	155,701	->100%
Total comprehensive profit/ (loss) for the period	14,256	(141,231)	155,487	->100%

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.

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			Current year to-date ended		
	31 March			31 March		
	2019	2018	Changes	2019	2018	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Sale of water	80,775	79,436	2%	80,775	79,436	2%
Capital contribution funds	2,934	5,936	-51%	2,934	5,936	-51%
Others	723	563	28%	723	563	28%
	<u>84,432</u>	<u>85,935</u>	<u>-2%</u>	<u>84,432</u>	<u>85,935</u>	<u>-2%</u>

Timing of revenue recognition:

- At a point in time	84,049	85,610	-2%	84,049	85,610	-2%
- Over time	383	325	18%	383	325	18%
	<u>84,432</u>	<u>85,935</u>	<u>-2%</u>	<u>84,432</u>	<u>85,935</u>	<u>-2%</u>

17. Income tax expense

	Three months ended		Current year to-date ended	
	31 Mar		31 Mar	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Current income tax				
Malaysian - current year	825	1,000	825	1,000
Overprovision in prior year	-	-	-	-
	<u>825</u>	<u>1,000</u>	<u>825</u>	<u>1,000</u>
Deferred Tax				
Origination and reversal of temporary differences	(6,000)	800	(6,000)	800
	<u>(5,175)</u>	<u>1,800</u>	<u>(5,175)</u>	<u>1,800</u>
Income tax (income)/ expense continuing operations				
	<u>(5,175)</u>	<u>1,800</u>	<u>(5,175)</u>	<u>1,800</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:

	31 March 2019 RM'000
Profit before taxation	9,297
Taxation at Malaysian statutory tax rate of 24%	2,231
Income not subject to tax	(7,729)
Expenses not deductible for tax purposes	323
Tax expense for the period	(5,175)

Unabsorbed reinvestment allowance can be carried forward for seven consecutive years of assessment immediately following gazettelement of the Finance Act 2018. Based on existing legislation, as at 31 March 2019, it is anticipated that only RM22.4 million out of the RM608 million (31 March 2018 : RM586.6 million) available will be utilised to set-off against future taxable profits in the next seven years.

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 million from the 1st term loan agreement and RM24 million from the 2nd term loan agreement.

- ii) On 1 June 2016, the principal subsidiary of the Company obtained a loan from the State Government amounting to RM80 million to finance capital expenditure projects. The loan is unsecured with 4.0% interest p.a.. The subsidiary has fully drawdown RM80 million. The loan is repayable over a 10 year period with effect from 3 May 2020.

Notes to the Condensed Consolidated Interim Financial Statements

	At 31 March 2019 RM'000	At 31 December 2018 RM'000
Unsecured		
i) Loan from Federal Government via the State Government of Penang		
Nominal value of loans	40,400	42,000
Less: Deemed interest recognised as government grant	(15,401)	(16,787)
Add: Amortised interest	344	1,387
Less: Repayment	(600)	(1,600)
	24,743	25,000
ii) Loan from State Government of Penang		
Nominal value of loans	80,000	80,000
Less: Deemed interest recognised as government grant	(27,558)	(33,056)
Add: Amortised interest	995	5,498
	53,437	52,442
Total loans and borrowings	78,180	77,442
Analysed as:		
Non-current	75,980	75,242
Current	2,200	2,200
	78,180	77,442

20. Deferred income

	At 31 March 2019 RM'000	At 31 December 2018 RM'000
Government grant		
Balance at beginning	42,958	40,279
Transfer from loans and borrowings	-	9,564
Less : Amortisation	(1,338)	(6,885)
Balance at end	41,620	42,958

Government grant 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 government grant 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

	2019	2018
	RM'000	RM'000
Capital Contribution Funds		
Balance at beginning	20,964	20,964
Additions	7,992	-
Less : Amortisation	(4,595)	-
Balance at end	<u>24,361</u>	<u>20,964</u>
Transfer of assets from customers		
Balance at beginning	69,501	59,927
Additions	2,888	15,031
Less : Amortisation	(383)	(5,457)
Balance at end	<u>72,006</u>	<u>69,501</u>
Total Contract liabilities	96,367	90,465
Analysed as:		
Non-current	70,476	67,985
Current	25,891	22,480
	<u>96,367</u>	<u>90,465</u>

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

22. Deferred liabilities

	At 31 March	At 31 December
	2019	2018
	RM'000	RM'000
Non-current	57,962	58,361
Current	1,595	1,595
Total deferred liabilities	<u>59,557</u>	<u>59,956</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. Lease liabilities

	At 31 March 2019 RM'000	At 31 December 2018 RM'000
Lease liabilities		
Balance at beginning	-	-
Effects of adopting MFRS 16	234,916	-
Balance at beginning, restated	<u>234,916</u>	-
Add : Interest expense	3,335	-
Less: Payments	(4,160)	-
Balance at end	<u>234,091</u>	-

24. Material litigation

As at 30 May 2019, there was no material litigation against the Group.

25. Dividends

The Board of Directors recommend a final single tier dividend of 1.75 sen amounting to RM5,792,000 for the financial year ended 31 December 2018 subject to the approval of shareholders at the forthcoming Annual General Meeting (31 December 2017 – final single tier dividend of 2.25 sen amounting to RM7,448,000).

Notes to the Condensed Consolidated Interim Financial Statements

26. Earnings per ordinary share

	Three months ended 31 March 2019 Continuing operations RM'000	Three months ended 31 March 2018 Continuing operations RM'000	Current year to-date 31 March 2019 Continuing operations RM'000	Current year to-date 31 March 2018 Continuing operations RM'000
Profit for the period	14,472	15,082	14,472	15,082
	Three months ended 31 March 2019 '000 Shares	Three months ended 31 March 2018 '000 Shares	Current year to-date 31 March 2019 '000 Shares	Current year to-date 31 March 2018 '000 Shares
Issued ordinary shares at 1 January	331,271	331,271	331,271	331,271
Effect of share buyback	(272)	(270)	(272)	(270)
Weighted average number of ordinary shares	330,999	331,001	330,999	331,001
	Three months ended 31 March 2019 Continuing operations Sen	Three months ended 31 March 2018 Continuing operations Sen	Current year to-date 31 March 2019 Continuing operations Sen	Current year to-date 31 March 2018 Continuing operations Sen
Earnings per share	4.37	4.56	4.37	4.56

Notes to the Condensed Consolidated Interim Financial Statements

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 2018 was not qualified

28. Notes to the Condensed Statement of Comprehensive Income

	Three months ended 31 March 2019 RM'000	Year to-date 31 March 2019 RM'000
a) Interest Income	(160)	(160)
b) Other Operating Income	(6,263)	(6,263)
c) Interest expense	17	17
d) Depreciation and amortization	16,586	16,586
e) Provision for receivables	1,090	1,090