

PRIVATE & CONFIDENTIAL

PBA HOLDINGS BHD

Company No: 515119-U
(Incorporated in Malaysia)

Interim Financial Report

30 SEPTEMBER 2019

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Condensed Consolidated Statement of Financial Position
As at 30 September 2019 - unaudited

	Note	30 September 2019 RM'000	31 December 2018 RM'000
Assets			
Property, plant and equipment	5	1,038,027	1,022,675
Right-of-use assets		199,002	-
Investment in a joint venture		-	57
Total non-current assets		<u>1,237,029</u>	<u>1,022,732</u>
Inventories		10,257	11,460
Trade and other receivables	6	40,744	41,485
Current tax assets		5,974	5,762
Cash and cash equivalents		200,428	182,476
Total current assets		<u>257,403</u>	<u>241,183</u>
Total assets		<u>1,494,432</u>	<u>1,263,915</u>
Equity			
Share capital		327,579	327,579
Reserves		369,039	368,294
Total equity	7	<u>696,618</u>	<u>695,873</u>
Loans and borrowings	20	77,057	75,242
Deferred income	21	38,943	42,958
Contract liabilities	22	78,425	67,985
Deferred liabilities	23	57,165	58,361
Lease liabilities	24	229,204	-
Deferred tax liabilities		138,000	141,000
Total non-current liabilities		<u>618,794</u>	<u>385,546</u>
Loans and borrowings	20	2,200	2,200
Contract liabilities	22	28,039	22,480
Deferred liabilities	23	1,595	1,595
Trade and other payables		143,882	156,208
Lease liabilities	24	3,224	-
Current tax liability		80	13
Total current liabilities		<u>179,020</u>	<u>182,496</u>
Total liabilities		<u>797,814</u>	<u>568,042</u>
Total equity and liabilities		<u>1,494,432</u>	<u>1,263,915</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the nine months ended 30 September 2019 - unaudited

	Note	Three months ended 30 September		Current year-to-date ended 30 September	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Continuing operations					
Revenue	17	77,350	84,058	258,786	255,029
Cost of sales		<u>(60,617)</u>	<u>(62,052)</u>	<u>(174,158)</u>	<u>(176,628)</u>
Gross profit		<u>16,733</u>	<u>22,006</u>	<u>84,628</u>	<u>78,401</u>
Other operating income		4,438	3,685	13,827	14,186
Administrative expenses		<u>(13,198)</u>	<u>(17,365)</u>	<u>(65,323)</u>	<u>(56,358)</u>
Operating profit		<u>7,973</u>	<u>8,326</u>	<u>33,132</u>	<u>36,229</u>
Interest income		1,242	1,064	3,630	3,180
Share of profit of equity-accounted joint venture		<u>-</u>	<u>(5)</u>	<u>-</u>	<u>1</u>
Profit before interest and tax		<u>9,215</u>	<u>9,385</u>	<u>36,762</u>	<u>39,410</u>
Interest expense		<u>(5)</u>	<u>(3)</u>	<u>(32)</u>	<u>(17)</u>
Profit before tax		<u>9,210</u>	<u>9,382</u>	<u>36,730</u>	<u>39,393</u>
Tax (expense)/ Income	18	<u>(3,029)</u>	<u>685</u>	<u>829</u>	<u>(1,594)</u>
Profit for the period		<u>6,181</u>	<u>10,067</u>	<u>37,559</u>	<u>37,799</u>
Other comprehensive income, net of tax					
Foreign currency translation differences for foreign operation		<u>-</u>	<u>1</u>	<u>(216)</u>	<u>1</u>
Total other comprehensive income for the period		<u>-</u>	<u>1</u>	<u>(216)</u>	<u>1</u>
Total comprehensive income for the period		<u>6,181</u>	<u>10,068</u>	<u>37,343</u>	<u>37,800</u>
Earnings per share (sen) :	27	<u>1.87</u>	<u>3.04</u>	<u>11.35</u>	<u>11.42</u>

Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 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
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)
At 30 September 2018	<u>327,579</u>	<u>(233)</u>	<u>216</u>	<u>515,333</u>	<u>842,895</u>

Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 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
At 1 January 2019				
As previously stated	327,579	(235)	216	368,313
Effects of adopting MFRS 16	-	-	-	(30,805)
As 1 January 2019 (restated)	327,579	(235)	216	337,508
Foreign currency translation differences for foreign operation	-	-	(216)	-
Total other comprehensive income for the period	-	-	(216)	-
Profit for the period	-	-	-	37,559
Total comprehensive income for the period	-	-	(216)	37,559
Dividends	-	-	-	(5,793)
At 30 September 2019	327,579	(235)	-	369,274

Condensed Consolidated Statement of Cash Flows
For the nine months ended 30 September 2019 - unaudited

	Nine months ended 30 September	
	2019	2018
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	36,730	39,393
Adjustments for :		
Depreciation of PPE and ROU assets	49,301	44,378
Expected credit loss on receivables, net	(2,254)	1,095
Amortisation of deferred liabilities	(1,196)	(1,196)
Amortisation of assets transferred from customers	(3,019)	(5,078)
Gain on disposal of other investments	-	(10)
Gain on disposal of PPE	(54)	(75)
PPE written off	114	262
Share of results of joint venture	-	(1)
Dividend income	-	(2)
Interest income	(4,476)	(3,797)
Interest on loans and borrowings	4,015	5,163
Realisation of government loan	(4,015)	(5,163)
Inventories written off	(1,250)	-
Operating profit before working capital changes	73,895	74,969
Inventories	2,453	(1,948)
Receivables	2,856	(3,879)
Payables	(6,554)	(16,801)
Contract liabilities	5,584	(2,842)
Cash generated from operations	78,234	49,499
Income tax paid	(2,338)	(1,544)
Income tax refunded	23	-
Net cash from operating activities	75,919	47,955
Cash flows from investing activities		
Dividends received	-	2
Interest received	4,476	3,797
Proceeds from disposal of other investments	-	4,640
Proceeds from disposal of PPE	65	354
Purchase of other investments	-	(1,894)
Purchase of PPE	(46,235)	(24,136)
Net cash used in investing activities	(41,694)	(17,237)
Cash flow from financing activities		
Dividends paid	(11,585)	(13,240)
Government loans received	-	20,000
Payment of lease liabilities	(2,488)	-
Repayment of government loans	(2,200)	(1,000)
Purchase of treasury shares	-	(1)
Net cash from financing activities	(16,273)	5,759
Net increase in cash and cash equivalents	17,952	36,477
Cash and cash equivalents at beginning	182,476	141,392
Cash and cash equivalents at end	200,428	177,869

Cash and cash equivalents

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

	Nine months ended 30 September	
	2019	2018
	RM'000	RM'000
Cash and bank balances	26,902	39,668
Short-term deposits with licensed banks	173,526	138,201
	200,428	177,869

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 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 26 November 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	(3,917)	(1,192)	(5,109)	-
Interest expense	-	-	-	10,007
Payments	-	-	-	(12,495)
As at 30 September 2019	<u>192,367</u>	<u>6,635</u>	<u>199,002</u>	<u>232,428</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 30 September 2019, the Group acquired assets with a cost of RM46.24 million (30 September 2018 : RM24.14 million).

Other assets with a carrying amount of RM0.11 million were written off during the period ended 30 September 2019 (30 September 2018 : RM0.26 million).

Notes to the Condensed Consolidated Interim Financial Statements

b) Depreciation and amortization

	Three months ended		Current year to-date ended	
	30-Sep 2019 RM'000	30-Sep 2018 RM'000	30-Sep 2019 RM'000	30-Sep 2018 RM'000
Charge for the year				
- Property, plant and equipment	14,712	15,233	44,192	44,378
- Right-of-use assets	1,705	-	5,109	-
	16,417	15,233	49,301	44,378

c) Capital commitments

	At 30 September 2019 RM'000	At 31 December 2018 RM'000
Approved Capital Expenditure:-		
i) Contracted but not provided for in the Financial Statements	133,000	136,000
ii) Approved but not contracted for	6,000	21,000

d) Transfer of assets from customers

During the period ended 30 September 2019, assets transferred from Customers amounted to RM11.63 million (30 September 2018 : RM13.15 million)

6. Trade and other receivables

	At 30 September 2019 RM'000	At 31 December 2018 RM'000
Trade		
Trade receivables	38,301	33,919
Less: Allowance for expected credit losses	(9,696)	(6,156)
	28,605	27,763
Non-trade		
Other receivables	7,377	7,881
Less: Allowance for expected credit losses	(2,097)	(1,849)
	5,280	6,032
Deposits	6,549	6,619
Prepayments	310	118
GST claimable	-	953
	12,139	13,722
	40,744	41,485

Notes to the Condensed Consolidated Interim Financial Statements

7. Total equity

No additional issuance of share capital as at 30 September 2019.

Treasury shares

During the period ended 30 September 2019, there was no repurchase of issued ordinary shares from the open market (30 September 2018 : 1,000 at an average price of RM1.21 per share).

8. 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 2019.

9. 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.

10. Subsequent event

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

11. Contingencies

There are no contingencies to the Company for the period.

12. 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 period save as disclosed in Note 20 Loans and borrowings.

Notes to the Condensed Consolidated Interim Financial Statements

NOTES PURSUANT TO BURSA MALAYSIA LISTING REQUIREMENTS:**Chapter 9, Appendix 9B, Part A.****13. Review of Group performance**

Group revenue for the quarter ended 30 September 2019 decreased by RM6.7 million or 8.0% as compared to the corresponding quarter in 2018. The Group registered a profit before tax of RM9.2 million as compared to the preceding year's corresponding quarter of profit before tax of RM9.4 million. These are mainly due to reversal of water sales in accordance with MFRS 15 revenue from contracts with customers.

	Individual Period 3rd quarter		Changes RM'000	Changes %
	Current Year Quarter	Preceding Year Corresponding Quarter		
	30/9/2019 RM'000	30/9/2018 RM'000		
Revenue	77,350	84,058	(6,708)	-8.0%
Operating Profit	7,973	10,957	(2,984)	-27.2%
Profit before interest and tax	9,215	9,385	(170)	-1.8%
Profit before tax	9,210	9,382	(172)	-1.8%
Profit after tax	6,181	10,067	(3,886)	-38.6%
Profit attributable to ordinary equity holders of the parent	6,181	10,067	(3,886)	-38.6%
Total comprehensive profit for the period	6,181	10,068	(3,887)	-38.6%

14. Variation of results against preceding quarter

Group revenue decreased from RM97.0 million to RM77.4 million as compared to the immediate preceding quarter. The Group registered a profit before tax of RM9.2 million as compared to the immediate preceding quarter of RM18.2 million primarily due to reversal of water sales in accordance with MFRS 15 revenue from contracts with customers.

	Individual Period 3rd quarter		Changes RM'000	Changes %
	Current Quarter	Immediate Preceding Quarter		
	30/9/2019 RM'000	30/6/2019 RM'000		
Revenue	77,350	97,004	(19,654)	-20.3%
Operating profit	7,973	16,894	(8,921)	-52.8%
Profit before interest and tax	9,215	18,233	(9,018)	-49.5%
Profit before tax	9,210	18,223	(9,013)	-49.5%
Profit after tax	6,181	16,906	(10,725)	-63.4%
Profit attributable to ordinary equity holders of the parent	6,181	16,906	(10,725)	-63.4%
Total comprehensive profit for the period	6,181	16,906	(10,725)	-63.4%

Notes to the Condensed Consolidated Interim Financial Statements

15. Current year prospects

Revenue from sales of water is expected to further increase in line with population growth and business activity levels.

16. Profit forecast or profit guarantee

Not applicable.

17. 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		
	2019	2018	Changes	2019	2018	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Sale of water	67,755	80,153	-15%	234,355	238,153	-2%
Capital contribution funds	8,695	2,543	242%	20,497	11,043	86%
Others	900	1,362	-34%	3,934	5,833	-33%
	<u>77,350</u>	<u>84,058</u>	<u>-8%</u>	<u>258,786</u>	<u>255,029</u>	<u>1%</u>

Timing of revenue recognition:

- At a point in time	76,715	82,541	-7%	255,767	249,551	2%
- Over time	635	1,517	-58%	3,019	5,478	-45%
	<u>77,350</u>	<u>84,058</u>	<u>-8%</u>	<u>258,786</u>	<u>255,029</u>	<u>1%</u>

18. Income tax expense

	Three months ended 30 September		Current year to-date ended 30 September	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Current income tax				
Malaysian - current year	30	45	1,440	1,545
Under/(Over) provision in prior year	(1)	70	731	49
	<u>29</u>	<u>115</u>	<u>2,171</u>	<u>1,594</u>
Deferred Tax				
Origination and reversal of temporary differences	3,000	(800)	(3,000)	-
Income tax expense/ (income) continuing operations	<u>3,029</u>	<u>(685)</u>	<u>(829)</u>	<u>1,594</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 2019 RM'000
Profit before taxation	36,730
Taxation at Malaysian statutory tax rate of 24%	8,815
Income not subject to tax	(11,474)
Expenses not deductible for tax purposes	1,099
Under provision of tax in prior year	731
Tax income for the period	(829)

Unabsorbed reinvestment allowance can be carried forward for seven consecutive years of assessment immediately following the gazettelement of the Finance Act 2018. Based on existing legislation, as at 30 September 2019, it is anticipated that only RM18.5 million out of the RM604 million (30 September 2018 : RM604 million) available will be utilised to set-off against future taxable profits in the next seven years.

19. Corporate proposals

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

20. Loans and borrowings

- 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 30 September 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	1,032	1,387
Less: Repayment	(2,200)	(1,600)
	23,831	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	2,984	5,498
	55,426	52,442
Total loans and borrowings	79,257	77,442
Analysed as:		
Non-current	77,057	75,242
Current	2,200	2,200
	79,257	77,442

21. Deferred income

	At 30 September 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	(4,015)	(6,885)
Balance at end	38,943	42,958

Government grant represents the difference between the nominal value of the loans obtained as mentioned in Note 20 and the fair value of the loans measured on initial recognition. The government grant is realised over the period from the initial loan drawdown date up to the maturity date of the loans. 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

22. Contract liabilities

	At 30 September 2019 RM'000	At 31 December 2018 RM'000
Capital Contribution Funds		
Balance at beginning	20,964	20,964
Additions	19,079	-
Less : Amortisation	(13,495)	-
Balance at end	<u>26,548</u>	<u>20,964</u>
Transfer of assets from customers		
Balance at beginning	69,501	59,927
Additions	11,626	15,031
Less : Amortisation	(1,211)	(5,457)
Balance at end	<u>79,916</u>	<u>69,501</u>
Total Contract liabilities	106,464	90,465
Analysed as:		
Non-current	78,425	67,985
Current	28,039	22,480
	<u>106,464</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.

23. Deferred liabilities

	At 30 September 2019 RM'000	At 31 December 2018 RM'000
Non-current	57,165	58,361
Current	1,595	1,595
Total deferred liabilities	<u>58,760</u>	<u>59,956</u>

Pursuant to migration of the Penang State Water Assets and the loans to Pengurusan Aset Air Berhad ("PAAB") in the financial year 2011, the Company had entered into Facility and Lease Agreements ("FLA") with PAAB to enable water supply services to be carried out on the lands leased from PAAB. The FLA is effective for a period of 45 years from 1 August 2011.

Following the above events, the outstanding balance of the loans obtained from the Federal Government via the State Government of Penang was converted into lease incentives, classified under deferred liabilities and are amortised over the lease period of 45 years with effect from 1 August 2011.

Notes to the Condensed Consolidated Interim Financial Statements

24. Lease liabilities

	At 30 September 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	234,916	-
Add : Interest expense	10,007	-
Less: Payments	(12,495)	-
Balance at end	<u>232,428</u>	<u>-</u>
Analysed as:		
Non-current	229,204	-
Current	3,224	-
	<u>232,428</u>	<u>-</u>

25. Material litigation

As at 26 November 2019, there was no material litigation against the Group.

26. Dividends

The Board of Directors has declared a single tier interim dividend of 1.75 sen per share amounting to RM5,793,000 for the financial year ending 31 December 2019 (30 September 2018 – single tier interim dividend of 1.75 sen per share amounting to RM5,793,000).

Notes to the Condensed Consolidated Interim Financial Statements

27. Earnings per ordinary share

	Three months ended 30 September 2019 Continuing operations RM'000	Three months ended 30 September 2018 Continuing operations RM'000	Current year to-date 30 September 2019 Continuing operations RM'000	Current year to-date 30 September 2018 Continuing operations RM'000
Profit for the period	6,181	10,067	37,559	37,799
	Three months ended 30 September 2019 '000 Shares	Three months ended 30 September 2018 '000 Shares	Current year to-date 30 September 2019 '000 Shares	Current year to-date 30 September 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 30 September 2019 Continuing operations Sen	Three months ended 30 September 2018 Continuing operations Sen	Current year to-date 30 September 2019 Continuing operations Sen	Current year to-date 30 September 2018 Continuing operations Sen
Earnings per share	1.87	3.04	11.35	11.42

Notes to the Condensed Consolidated Interim Financial Statements

28. 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

29. Notes to the Condensed Statement of Comprehensive Income

	Three months ended 30 September 2019 RM'000	Year to-date 30 September 2019 RM'000
a) Interest Income	(1,242)	(3,630)
b) Other Operating Income	(4,438)	(13,827)
c) Interest expense	5	32
d) Depreciation and amortization	16,417	49,301
e) Expected credit loss on receivables	(6,227)	(2,254)