

**PRIVATE & CONFIDENTIAL**

**PBA HOLDINGS BHD**

Company No: 200001012513(515119-U)  
(Incorporated in Malaysia)

**Interim Financial Report**

**31 DECEMBER 2019**

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

	Note	31 December 2019 RM'000	31 December 2018 RM'000
<b>Assets</b>			
Property, plant and equipment	5	1,076,318	1,022,675
Right-of-use assets		197,297	-
Investment in a joint venture		-	57
<b>Total non-current assets</b>		<u>1,273,615</u>	<u>1,022,732</u>
Inventories		8,970	11,460
Trade and other receivables	6	33,711	41,485
Current tax assets		802	5,762
Cash and cash equivalents		157,957	182,476
<b>Total current assets</b>		<u>201,440</u>	<u>241,183</u>
<b>Total assets</b>		<u>1,475,055</u>	<u>1,263,915</u>
<b>Equity</b>			
Share capital		327,579	327,579
Reserves		350,839	368,294
<b>Total equity</b>	7	<u>678,418</u>	<u>695,873</u>
Loans and borrowings	20	54,848	75,242
Deferred income	21	17,152	42,958
Contract liabilities	22	84,759	67,985
Deferred liabilities	23	56,766	58,361
Lease liabilities	24	228,406	-
Deferred tax liabilities		142,000	141,000
<b>Total non-current liabilities</b>		<u>583,931</u>	<u>385,546</u>
Loans and borrowings	20	6,200	2,200
Contract liabilities	22	31,960	22,480
Deferred liabilities	23	1,595	1,595
Trade and other payables		169,724	156,208
Lease liabilities	24	3,190	-
Current tax liability		37	13
<b>Total current liabilities</b>		<u>212,706</u>	<u>182,496</u>
<b>Total liabilities</b>		<u>796,637</u>	<u>568,042</u>
<b>Total equity and liabilities</b>		<u>1,475,055</u>	<u>1,263,915</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income  
**For the twelve months ended 31 December 2019 - unaudited**

	Note	Three months ended 31 December		Current year-to-date ended 31 December	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Continuing operations</b>					
Revenue	17	81,415	79,729	340,201	334,758
Cost of sales		<u>(59,282)</u>	<u>(62,088)</u>	<u>(233,440)</u>	<u>(238,716)</u>
<b>Gross profit</b>		<u>22,133</u>	<u>17,641</u>	<u>106,761</u>	<u>96,042</u>
Other operating income		3,373	3,756	17,200	17,942
Administrative expenses		<u>(35,311)</u>	<u>(26,642)</u>	<u>(100,634)</u>	<u>(83,000)</u>
<b>Operating loss/profit</b>		<u>(9,805)</u>	<u>(5,245)</u>	<u>23,327</u>	<u>30,984</u>
Interest income		1,210	2,002	4,840	5,182
Share of profit of equity-accounted joint venture		-	-	-	1
<b>(Loss)/profit before interest and tax</b>		<u>(8,595)</u>	<u>(3,243)</u>	<u>28,167</u>	<u>36,167</u>
Interest expense		<u>(20)</u>	<u>(13)</u>	<u>(52)</u>	<u>(30)</u>
<b>(Loss)/Profit before tax</b>		<u>(8,615)</u>	<u>(3,256)</u>	<u>28,115</u>	<u>36,137</u>
Tax (expense)/ Income	18	<u>(3,791)</u>	<u>(137,973)</u>	<u>(2,962)</u>	<u>(139,567)</u>
<b>(Loss)/profit for the year</b>		<u>(12,406)</u>	<u>(141,229)</u>	<u>25,153</u>	<u>(103,430)</u>
<b>Other comprehensive income, net of tax</b>					
Foreign currency translation differences for foreign operation		-	1	(216)	1
<b>Total other comprehensive (loss)/income for the year</b>		<u>-</u>	<u>1</u>	<u>(216)</u>	<u>1</u>
<b>Total comprehensive (loss)/income for the year</b>		<u>(12,406)</u>	<u>(141,228)</u>	<u>24,937</u>	<u>(103,429)</u>
<b>Earnings per share (sen) :</b>	27	<u>(3.75)</u>	<u>(42.67)</u>	<u>7.60</u>	<u>(31.25)</u>

Condensed Consolidated Statement of Changes in Equity  
For the twelve months ended 31 December 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 2018	327,579	(233)	215	484,983	812,544
Foreign currency translation differences for foreign operation	-	-	1	-	1
Total other comprehensive income for the year	-	-	1	-	1
Profit for the year	-	-	-	(103,430)	(103,430)
Total comprehensive income for the year	-	-	1	(103,430)	(103,429)
Dividends	-	-	-	(13,240)	(13,240)
Purchase of treasury shares	-	(2)	-	-	(2)
At 31 December 2018	<u>327,579</u>	<u>(235)</u>	<u>216</u>	<u>368,313</u>	<u>695,873</u>

Condensed Consolidated Statement of Changes in Equity  
For the twelve months ended 31 December 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 year	-	-	(216)	-	(216)
Profit for the year	-	-	-	25,153	25,153
Total comprehensive income for the year	-	-	(216)	25,153	24,937
Dividends	-	-	-	(11,586)	(11,586)
Purchase of treasury shares	-	(1)	-	-	(1)
At 31 December 2019	327,579	(236)	-	351,075	678,418

Condensed Consolidated Statement of Cash Flows  
For the twelve months ended 31 December 2019 - unaudited

	Twelve months ended 31 December	
	2019 RM'000	2018 RM'000
<b>Cash flows from operating activities</b>		
Profit before tax	28,115	36,137
<b>Adjustments for :</b>		
Depreciation of PPE and ROU assets	69,967	59,854
Allowance for expected credit losses recovered	(2)	-
Expected credit loss on receivables, net	(3,403)	2,941
Amortisation of deferred liabilities	(1,595)	(1,595)
Amortisation of assets transferred from customers	(3,471)	(5,457)
Gain on disposal of other investments	-	(10)
Gain on disposal of PPE	(54)	(187)
PPE written off	114	290
Share of results of joint venture	-	(1)
Dividend income	-	(2)
Interest income	(5,927)	(5,182)
Interest on loans and borrowings	25,807	6,885
Realisation of government loan	(25,807)	(6,885)
Reversal of inventories written down	-	200
Inventories written off	(2,195)	-
<b>Operating profit before working capital changes</b>	81,549	86,988
Inventories	4,684	(4,237)
Receivables	11,108	(990)
Payables	13,427	(11,572)
Contract liabilities	9,128	12,498
<b>Cash generated from operations</b>	119,896	82,687
Income tax paid	(2,874)	(2,084)
Income tax refunded	5,896	-
<b>Net cash from operating activities</b>	122,918	80,603
<b>Cash flows from investing activities</b>		
Dividends received	-	2
Interest received	5,927	5,182
Proceeds from disposal of other investments	-	4,640
Proceeds from disposal of PPE	65	466
Purchase of other investments	-	(1,894)
Purchase of PPE	(96,324)	(53,072)
<b>Net cash used in investing activities</b>	(90,332)	(44,676)
<b>Cash flow from financing activities</b>		
Dividends paid	(11,585)	(13,240)
Government loans received	-	20,000
Payment of lease liabilities	(3,319)	-
Repayment of government loans	(42,200)	(1,600)
Purchase of treasury shares	(1)	(2)
<b>Net cash from financing activities</b>	(57,105)	5,158
Net increase in cash and cash equivalents	(24,519)	41,085
Cash and cash equivalents at beginning	182,476	141,391
<b>Cash and cash equivalents at end</b>	157,957	182,476

**Cash and cash equivalents**

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

	Twelve months ended 31 December	
	2019 RM'000	2018 RM'000
Cash and bank balances	35,485	27,308
Short-term deposits with licensed banks	122,472	155,168
	157,957	182,476

## 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 year ended 31 December 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 28 February 2020.

### 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:

	<b>Increase/(Decrease) RM'000</b>
<b>Assets</b>	
Right-of-use assets	<u>204,111</u>
<b>Liabilities</b>	
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:

	<b>RM'000</b>
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 year:

## Notes to the Condensed Consolidated Interim Financial Statements

	Plant and Machinery RM'000	Right-of-use assets Office premises RM'000	Total RM'000	Lease liabilities RM'000
As at 1 January 2019	196,284	7,827	204,111	234,916
Depreciation expense	(5,223)	(1,591)	(6,814)	-
Interest expense	-	-	-	13,342
Payments	-	-	-	(16,662)
As at 31 December 2019	<u>191,061</u>	<u>6,236</u>	<u>197,297</u>	<u>231,596</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 year ended 31 December 2019, the Group acquired assets with a cost of RM96.32 million (31 December 2018 : RM53.07 million).

Other assets with a carrying amount of RM0.11 million were written off during the year ended 31 December 2019 (31 December 2018 : RM0.29 million).

## Notes to the Condensed Consolidated Interim Financial Statements

**b) Depreciation and amortization**

	Three months ended		Current year to-date ended	
	31-Dec 2019 RM'000	31-Dec 2018 RM'000	31-Dec 2019 RM'000	31-Dec 2018 RM'000
Charge for the year				
- Property, plant and equipment	18,961	15,476	63,153	59,854
- Right-of-use assets	1,705	-	6,814	-
	<b>20,666</b>	<b>15,476</b>	<b>69,967</b>	<b>59,854</b>

**c) Capital commitments**

	At 31 December 2019 RM'000	At 31 December 2018 RM'000
Approved Capital Expenditure:-		
i) Contracted but not provided for in the Financial Statements	87,000	136,000
ii) Approved but not contracted for	<u>183,000</u>	<u>21,000</u>

**d) Transfer of assets from customers**

During the year ended 31 December 2019, assets transferred from Customers amounted to RM18.47 million (31 December 2018 : RM15.03 million)

**6. Trade and other receivables**

	At 31 December 2019 RM'000	At 31 December 2018 RM'000
<b>Trade</b>		
Trade receivables	30,223	33,919
Less: Allowance for expected credit losses	(8,044)	(6,156)
	<u>22,179</u>	<u>27,763</u>
<b>Non-trade</b>		
Other receivables	8,492	7,881
Less: Allowance for expected credit losses	(2,957)	(1,849)
	<u>5,535</u>	<u>6,032</u>
Deposits	5,687	6,619
Prepayments	310	118
GST claimable	-	953
	<u>11,532</u>	<u>13,722</u>
	<u>33,711</u>	<u>41,485</u>

## Notes to the Condensed Consolidated Interim Financial Statements

### **7. Total equity**

No additional issuance of share capital as at 31 December 2019.

### **Treasury shares**

During the year ended 31 December 2019, the Company repurchased 1,000 of its ordinary shares from the open market at an average price of RM1.13 per share (31 December 2018 : 2,000 at an average price of RM1.17 per share). The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act, 2016.

### **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 31 December 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 year.

### **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 year 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 31 December 2019 increased by RM1.7 million or 2.1% as compared to the corresponding quarter in 2018. The Group registered a loss before tax of RM8.6 million as compared to the preceding year's corresponding quarter of RM3.3 million. These are mainly due to increase in doubtful debts expense recognized in accordance with MFRS 15 revenue from contracts with customers.

	Individual Period 4th quarter		Changes RM'000	Changes %
	Current Year Quarter	Preceding Year Corresponding Quarter		
	31/12/2019	31/12/2018		
	RM'000	RM'000		
Revenue	81,415	79,729	1,686	2.1%
Operating Loss	(9,805)	(5,245)	(4,560)	86.9%
Loss before interest and tax	(8,595)	(3,243)	(5,352)	165.0%
Loss before tax	(8,615)	(3,256)	(5,359)	164.6%
Loss after tax	(12,406)	(141,229)	128,823	-91.2%
Loss attributable to ordinary equity holders of the parent	(12,406)	(141,229)	128,823	-91.2%
Total comprehensive loss for the year	(12,406)	(141,228)	128,822	-91.2%

**14. Variation of results against preceding quarter**

Group revenue increased from RM77.4 million to RM81.4 million as compared to the immediate preceding quarter. The Group registered a loss before tax of RM8.6 million as compared to the immediate preceding quarter of profit before tax of RM9.2 million primarily due to increase in doubtful debts expense recognized in accordance with MFRS 15 revenue from contracts with customers.

	Individual Period 4th quarter		Changes RM'000	Changes %
	Current Quarter	Immediate Preceding Quarter		
	31/12/2019	30/9/2019		
	RM'000	RM'000		
Revenue	81,415	77,350	4,065	5.3%
Operating (loss)/profit	(9,805)	7,973	(17,778)	>100%
(Loss)/Profit before interest and tax	(8,595)	9,215	(17,810)	>100%
(Loss)/Profit before tax	(8,615)	9,210	(17,825)	>100%
(Loss)/Profit after tax	(12,406)	6,181	(18,587)	>100%
(Loss)/Profit attributable to ordinary equity holders of the parent	(12,406)	6,181	(18,587)	>100%
Total comprehensive (loss)/profit for the year	(12,406)	6,181	(18,587)	>100%

## 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			Current year to-date ended		
	31 December			31 December		
	2019	2018	Changes	2019	2018	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Sale of water	79,093	72,941	8%	313,448	311,094	1%
Capital contribution funds	1,450	6,181	-77%	21,947	17,224	27%
Others	872	607	44%	4,806	6,440	-25%
	<u>81,415</u>	<u>79,729</u>	<u>2%</u>	<u>340,201</u>	<u>334,758</u>	<u>2%</u>
Timing of revenue recognition:						
- At a point in time	80,964	79,350	2%	336,730	329,301	2%
- Over time	451	379	19%	3,471	5,457	-36%
	<u>81,415</u>	<u>79,729</u>	<u>2%</u>	<u>340,201</u>	<u>334,758</u>	<u>2%</u>

**18. Income tax expense**

	Three months ended		Current year to-date ended	
	31 December		31 December	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
<b>Current income tax</b>				
Malaysian - current year	(209)	7	1,231	1,552
(Over)/Under provision in prior year	-	(34)	731	15
	<u>(209)</u>	<u>(27)</u>	<u>1,962</u>	<u>1,567</u>
<b>Deferred Tax</b>				
Origination and reversal of temporary differences	4,000	138,000	1,000	138,000
Income tax expense				
continuing operations	<u>3,791</u>	<u>137,973</u>	<u>2,962</u>	<u>139,567</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:

	<b>31 December 2019</b> <b>RM'000</b>
Profit before taxation	28,115
Taxation at Malaysian statutory tax rate of 24%	6,748
Income not subject to tax	(5,902)
Expenses not deductible for tax purposes	1,385
Under provision of tax in prior year	731
Tax income for the year	(2,962)

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 31 December 2019, it is anticipated that only RM10.0 million out of the RM609 million (31 December 2018 : RM28.6 million out of RM614 million) available will be utilised to set-off against future taxable profits in the next six 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 1<sup>st</sup> term loan agreement and RM24 million from the 2<sup>nd</sup> 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. On 26 November 2019, the principal subsidiary of the Company had made a payment of RM40 million to the State Government for partial settlement of the RM80 million loan.

## Notes to the Condensed Consolidated Interim Financial Statements

	At 31 December 2019 RM'000	At 31 December 2018 RM'000
<b>Unsecured</b>		
<b>i) Loan from Federal Government via the State Government of Penang</b>		
Nominal value of loans	40,400	42,000
Less: Deemed interest recognised as government grant	(15,401)	(16,787)
Add: Amortised interest	1,375	1,387
Less: Repayment	(2,200)	(1,600)
	24,174	25,000
<b>ii) Loan from State Government of Penang</b>		
Nominal value of loans	80,000	80,000
Less: Deemed interest recognised as government grant	(4,307)	(33,056)
Add: Amortised interest	1,181	5,498
Less: Repayment	(40,000)	-
	36,874	52,442
<b>Total loans and borrowings</b>	<b>61,048</b>	<b>77,442</b>
Analysed as:		
Non-current	54,848	75,242
Current	6,200	2,200
	61,048	77,442

**21. Deferred income**

	At 31 December 2019 RM'000	At 31 December 2018 RM'000
<b>Government grant</b>		
Balance at beginning	42,958	40,279
Transfer from loans and borrowings	-	9,564
Less : Amortisation	(25,806)	(6,885)
Balance at end	17,152	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 31 December 2019 RM'000	At 31 December 2018 RM'000
<b>Capital Contribution Funds</b>		
Balance at beginning	20,964	20,964
Additions	23,488	-
Less : Amortisation	(14,359)	-
Balance at end	<u>30,093</u>	<u>20,964</u>
<b>Transfer of assets from customers</b>		
Balance at beginning	69,501	59,927
Additions	18,470	15,031
Less : Amortisation	(1,345)	(5,457)
Balance at end	<u>86,626</u>	<u>69,501</u>
<b>Total Contract liabilities</b>	<b>116,719</b>	<b>90,465</b>
Analysed as:		
Non-current	84,759	67,985
Current	31,960	22,480
	<u>116,719</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 31 December 2019 RM'000	At 31 December 2018 RM'000
Non-current	56,766	58,361
Current	1,595	1,595
Total deferred liabilities	<u>58,361</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 31 December 2019 RM'000	At 31 December 2018 RM'000
<b>Lease liabilities</b>		
Balance at beginning	-	-
Effects of adopting MFRS 16	234,916	-
Balance at beginning, restated	234,916	-
Add : Interest expense	13,342	-
Less: Payments	(16,662)	-
Balance at end	231,596	-
Analysed as:		
Non-current	228,406	-
Current	3,190	-
	231,596	-

**25. Material litigation**

As at 28 February 2019, there was no material litigation against the Group.

**26. Dividends**

The Board of Directors recommend a final single tier dividend of 1.75 sen per share amounting to RM5,792,000 for the financial year ended 31 December 2019 subject to the approval of shareholders at the forthcoming Annual General Meeting (31 December 2018 – final single tier dividend of 1.75 sen per share amounting to RM5,792,000).

## Notes to the Condensed Consolidated Interim Financial Statements

**27. Earnings per ordinary share**

	<b>Three months ended 31 December 2019 Continuing operations RM'000</b>	<b>Three months ended 31 December 2018 Continuing operations RM'000</b>	<b>Current year to-date 31 December 2019 Continuing operations RM'000</b>	<b>Current year to-date 31 December 2018 Continuing operations RM'000</b>
Profit for the year	(12,406)	(141,229)	25,153	(103,430)
	<b>Three months ended 31 December 2019 '000 Shares</b>	<b>Three months ended 31 December 2018 '000 Shares</b>	<b>Current year to-date 31 December 2019 '000 Shares</b>	<b>Current year to-date 31 December 2018 '000 Shares</b>
Issued ordinary shares at 1 January	331,271	331,271	331,271	331,271
Effect of share buyback	(273)	(271)	(273)	(271)
Weighted average number of ordinary shares	330,998	331,000	330,998	331,000
	<b>Three months ended 31 December 2019 Continuing operations Sen</b>	<b>Three months ended 31 December 2018 Continuing operations Sen</b>	<b>Current year to-date 31 December 2019 Continuing operations Sen</b>	<b>Current year to-date 31 December 2018 Continuing operations Sen</b>
Earnings per share	(3.75)	(42.67)	7.60	(31.25)

## 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 31 December 2019 RM'000	Year to-date 31 December 2019 RM'000
a) Interest Income	(1,210)	(4,840)
b) Other Operating Income	(3,373)	(17,200)
c) Interest expense	20	52
d) Depreciation and amortization	20,666	69,967
e) Expected credit loss on receivables	(1,149)	(3,403)