PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
31 DECEMBER 2017

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PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

CORPORATE INFORMATION

Directors	YAB Tuan Lim Guan Eng (Non-Executive Chairman) YB Dato' Mohd Rashid Bin Hasnon (Non-Executive Deputy Chairman) YB Prof. Dr. P. Ramasamy A/L Palanisamy (Non-Executive Director) YB Dato' Seri Farizan Bin Darus (Non-Executive Director) YB Dato' Sarul Bahiyah Binti Abu (Non-Independent Non-Executive Director) YB Tuan Lim Hock Seng (Non-Executive Director) YB Dato' Abdul Malik Bin Abul Kassim (Non-Executive Director) YB Tuan Phee Boon Poh (Non-Executive Director) YB Tuan Chow Kon Yeow (Non-Independent Non-Executive Director) YBhg. Dato' Agatha Foo Tet Sin (Senior Independent Non-Executive Director) YBhg. Dato' Seri Nazir Ariff Bin Mushir Ariff (Independent Non-Executive Director) Puan Mary Geraldine Phipps (Independent Non-Executive Director) YBhg. Dato' Brian Tan Guan Hooi (Independent Non-Executive Director) YBhg. Dato' Syed Mohamad Bin Syed Murtaza (Independent Non-Executive Director) YBhg. Dato' Sr. Kuvenaraju A/L Pachappen (Independent Non-Executive Director)
Company Secretary	Thum Sook Fun

PBA HOLDINGS BHD.
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CORPORATE INFORMATION

Audit Committee	Puan Mary Geraldine Phipps (Chairman, Independent Non-Executive Director) YBhg. Dato' Agatha Foo Tet Sin (Member, Independent Non-Executive Director) YBhg. Dato' Seri Nazir Ariff Bin Mushir Ariff (Member, Independent Non-Executive Director) YBhg. Dato' Brian Tan Guan Hooi (Member, Independent Non-Executive Director) YB Dato' Sarul Bahiyah Binti Abu (Member, Non-Independent Non-Executive Director) YBhg. Dato' Syed Mohamad Bin Syed Murtaza (Member, Independent Non-Executive Director) YBhg. Dato' Sr. Kuvenaraju A/L Pachappen (Member, Independent Non-Executive Director)
Registered Office and Business Address	32nd Floor, Komtar 10000 Penang
Share Registrar	Securities Services (Holdings) Sdn. Bhd. Suite 18.05 MWE Plaza No. 8 Lebuh Farquhar 10200 Penang
Auditors	Grant Thornton Chartered Accountants
Principal Banker	Malayan Banking Berhad
Stock Exchange Listing	Main Market of Bursa Malaysia Securities Berhad

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended **31 December 2017**.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are as stated in Note 6 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

RESULTS

	GROUP RM'000	COMPANY RM'000
Profit after tax for the financial year	**37,280**	**16,671**

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company has declared the following dividends:

(i) a final single tier dividend of 2.25 sen per share amounting to RM7,448,000 in respect of the financial year ended 31 December 2016 paid on 21 July 2017; and

(ii) a first interim single tier dividend of 1.75 sen per share amounting to RM5,792,000 in respect of the financial year ended 31 December 2017 payable on 12 January 2018.

A final single tier dividend of 2.25 sen per share amounting to RM7,448,000 for the financial year ended 31 December 2017 was recommended by the Directors subject to the approval of shareholders at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

SHARE CAPITAL AND DEBENTURE

During the financial year, the Company did not issue any shares or debentures.

DIRECTORS

The directors who served since the date of the last report are as follows:

Directors of the Company:

YAB Tuan Lim Guan Eng
YB Dato' Mohd Rashid Bin Hasnon
YB Prof. Dr. P. Ramasamy A/L Palanisamy
YB Dato' Seri Farizan Bin Darus
YB Dato' Sarul Bahiyah Binti Abu
YB Tuan Lim Hock Seng
YB Dato' Abdul Malik Bin Abul Kassim
YB Tuan Phee Boon Poh
YB Tuan Chow Kon Yeow
YBhg. Dato' Agatha Foo Tet Sin
YBhg. Dato' Seri Nazir Ariff Bin Mushir Ariff
Puan Mary Geraldine Phipps
YBhg. Dato' Brian Tan Guan Hooi
YBhg. Dato' Syed Mohamad Bin Syed Murtaza
YBhg. Dato' Sr. Kuvenaraju A/L Pachappen

Directors of the subsidiaries:

YB Tuan Ng Wei Aik
YB Tuan Sim Tze Tzin
YB Tuan Sanisvara Nethaji Rayer A/L Rajaji (appointed on 2.5.17)
YB Tuan Yeoh Soon Hin (appointed on 2.5.17)
YB Tuan Teh Yee Cheu (resigned on 3.4.17)
Dato' Ir. Jaseni Bin Maidinsa
Mohammad Zulkifli Bin Abdul Hamid (appointed on 6.4.17)
Raffiq Raveendran Bin Abdullah (resigned on 6.4.17)

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, the interests of directors in office at the end of the financial year in shares in the Company during the financial year are as follows:

	Number of ordinary shares			
	Balance at 1.1.17	**Bought**	**Sold**	**Balance at 31.12.17**
Deemed Interest:				
YBhg. Dato' Syed Mohamad Bin Syed Murtaza	13,567,900	-	-	13,567,900

None of the other directors who held office at 31 December 2017 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with a director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than those related party transactions disclosed in the notes to the financial statements.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

Details of directors' remuneration of the Group and of the Company are set out in Note 19 to the financial statements.

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount of premium paid for the Directors' and Officers' Liability Insurance by the Group and by the Company are RM24,718 and RM17,321 respectively.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts, and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, and

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, and

(iii) that would render any amount stated in the financial statements of the Group and of the Company misleading, and

(iv) which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group and of the Company that has arisen since the end of the financial year which secures the liabilities of any other person, and

(ii) any contingent liability in respect of the Group and of the Company that has arisen since the end of the financial year.

In the opinion of directors:

(i) no contingent liability or other liability of the Group and of the Company has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due,

(ii) the results of operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, and

(iii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the current financial year in which this report is made.

AUDITORS

The auditors, **Grant Thornton**, have expressed their willingness to continue in office.

The auditors' remuneration of the Group and of the Company are set out in Note 19 to the financial statements.

There was no indemnity given to or insurance effected for the auditors of the Company.

Signed in accordance with a resolution of the directors:

....	....
Dato' Seri Farizan Bin Darus	**Dato' Sarul Bahiyah Binti Abu**

Penang,

Date: 16 April 2018

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

DIRECTORS' STATEMENT

In the opinion of the directors, the financial statements set out on pages 16 to 79 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at **31 December 2017** and of their financial performance and cash flows for the financial year then ended.

Signed in accordance with a resolution of the directors:

....	....
Dato' Seri Farizan Bin Darus	**Dato' Sarul Bahiyah Binti Abu**

Date: 16 April 2018

STATUTORY DECLARATION

I, **Dr. Mary Ann Harris**, the officer primarily responsible for the financial management of **PBA Holdings Bhd.** do solemnly and sincerely declare that the financial statements set out on pages 16 to 79 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the above named at Penang, this **16th**)
day of **April 2018**.)

....
Dr. Mary Ann Harris (MIA 9375)
(I/C No. 670612-07-5904)

Before me,

....
Goh Suan Bee (P125)
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **PBA Holdings Bhd.**, which comprise the statements of financial position as at **31 December 2017** of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 79.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at **31 December 2017** and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants *("By-Laws")* and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Independent Auditors' Report To The Members Of
PBA Holdings Bhd. (cont'd)
Company No. 515119-U
(Incorporated in Malaysia)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Property, plant and equipment ("PPE")	
(i) ***Recognition and impairment of PPE*** *(Note 4 to the financial statements)* The Group carries significant PPE which comprise mainly of plant and machinery. There are also significant additions to PPE during the financial year. There are a number of areas that could impact the carrying amount of PPE, these include: • the decision to capitalise the assets; • the selection of appropriate useful lives of the assets; • the timeliness of the transfer of assets from capital work-in-progress to their respective categories in PPE; and • the indication of impairment where assets are not recoverable at their carrying amount. As PPE represents a material amount to the Group, there is a risk that expenditure on PPE is inappropriately recognised against *MFRS 116 Property, Plant and Equipment* and that assets are not recoverable at their carrying amount.	Our audit procedures included, among others: • Obtaining an understanding of: - the Group's capitalisation process; - the Group's assessment on the useful lives of the assets; - how the Group identifies impairment indicators; and - how the Group makes the accounting estimates for impairment. • Review the management's efficiency in respect of the capitalisation of assets and the identification of potential indicators of impairment; • Examining on a sample basis, management's assessment as to whether the expenditure has met the recognition criteria in *MFRS 116*; • Testing the expenditure capitalised during the year on sampling basis to appropriate evidence amongst others, contracts, progress claims and payment authorisation.

Key Audit Matter	How our audit addressed the Key Audit Matter
Property, plant and equipment (cont'd) *(ii) **Valuation of PPE at fair value*** *(Note 4 to the financial statements)* *IC Interpretation 18 Transfers of Assets from Customers* requires that transferred assets (land and mains) are recognised as PPE in accordance with *MFRS 116* and are measured at their fair values. The corresponding amount is recognised as deferred income and amortised over their useful lives. There is a risk as the process to allocate the fair values to the transferred assets requires management's judgement.	Our audit procedures included, among others: • Obtaining an understanding of the Group's valuation process; • Evaluating the management's competency, objectivity and capabilities in carrying out the valuation; • Checking, on a sampling basis, the accuracy and relevance of the input data used for the mains; and • Checking, on a sampling basis, the value of the land against the relevant authority's documents and original title deeds.
Impairment of trade receivables *(Note 9.1 to the financial statements)* The Group has significant trade receivables as at 31 December 2017 and is subject to credit risk exposures. We focus on this area as the assessment of recoverability of trade receivables involved management judgement and estimation uncertainty in determining the probability of insolvency or significant financial difficulties of the debtors and default or significant delay in payments.	Our audit procedures included, among others: • Obtaining an understanding of: - the Group's control over the customers' collection process; - how the Group identifies and assesses the impairment of trade receivables; and - how the Group makes the accounting estimates for impairment. • Reviewing the consistency of the application of management's methodology for calculating the impairment from year to year. • Reviewing the aging of the trade receivables and testing the reliability thereof. • Reviewing subsequent collections of overdue amounts. • Evaluating the adequacy of the impairment estimated and provided in the financial statements.

There is no key audit matter to be communicated in respect of the audit of the financial statements of the Company.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Grant Thornton
No. AF: 0042
Chartered Accountants

John Lau Tiang Hua, DJN
No. 01107/03/2020 J
Chartered Accountant

Date: 16 April 2018

Penang

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	NOTE	**RM'000**	RM'000	**RM'000**	RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	**4**	**1,014,995**	971,193	**129**	180
Investment in a joint venture	**5**	**55**	1,386	**-**	-
Investment in subsidiaries	**6**	**-**	-	**266,793**	266,793
Other investments	**7**	**2,736**	2,409	**-**	-
		1,017,786	974,988	**266,922**	266,973
Current assets					
Inventories	**8**	**7,423**	8,770	**-**	-
Receivables, deposits and prepayments	**9**	**46,805**	46,562	**116,195**	113,985
Current tax assets		**5,235**	3,857	**-**	22
Cash and cash equivalents	**10**	**141,391**	95,028	**23,358**	22,163
		200,854	154,217	**139,553**	136,170
TOTAL ASSETS		**1,218,640**	1,129,205	**406,475**	403,143
EQUITY AND LIABILITIES					
Share capital	**11**	**327,579**	165,635	**327,579**	165,635
Reserves	**12**	**496,798**	634,538	**73,026**	231,542
Total equity		**824,377**	800,173	**400,605**	397,177
Non-current liabilities					
Loans and borrowings	**13**	**60,121**	40,632	**-**	**-**
Deferred income	**14**	**100,206**	75,681	**-**	**-**
Deferred liabilities	**15**	**59,958**	61,553	**-**	**-**
Deferred tax liabilities	**16**	**3,000**	-	**-**	**-**
		223,285	177,866	**-**	**-**
Current liabilities					
Deferred liabilities	**15**	**1,595**	1,595	**-**	-
Payables and accruals	**17**	**167,780**	148,571	**5,867**	5,966
Current tax liabilities		**3**	-	**3**	-
Loans and borrowings	**13**	**1,600**	1,000	**-**	-
		170,978	151,166	**5,870**	5,966
Total liabilities		**394,263**	329,032	**5,870**	5,966
TOTAL EQUITY AND LIABILITIES		**1,218,640**	1,129,205	**406,475**	403,143

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	NOTE	**RM'000**	RM'000	**RM'000**	RM'000
Revenue	**18**	**312,353**	326,698	**18,672**	23,629
Cost of sales		**(225,754)**	(226,291)	-	-
Gross profit		**86,599**	100,407	**18,672**	23,629
Other operating income		**25,136**	21,616	**100**	6
Administrative expenses		**(70,763)**	(72,166)	**(2,045)**	(2,000)
Operating profit	**19**	**40,972**	49,857	**16,727**	21,635
Share of (loss)/profit of equity-accounted joint venture, net of tax		**(36)**	4,791	**-**	-
Profit before tax		**40,936**	54,648	**16,727**	21,635
Tax (expense)/income	**20**	**(3,656)**	7,116	**(56)**	(63)
Profit for the financial year		**37,280**	61,764	**16,671**	21,572

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
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STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	NOTE	**RM'000**	RM'000	**RM'000**	RM'000
Profit for the financial year		**37,280**	61,764	**16,671**	21,572
Other comprehensive income/(loss), net of tax:					
Items that will be reclassified subsequently to profit or loss:					
Foreign currency translation differences for foreign operation		**73**	(2,757)	**-**	-
Fair value of available-for-sale financial assets		**94**	(182)	**-**	-
Total other comprehensive income/(loss) for the financial year		**167**	(2,939)	**-**	-
Total comprehensive income for the financial year		**37,447**	58,825	**16,671**	21,572
Profit for the financial year attributable to owners of the Company		**37,280**	61,764	**16,671**	21,572
Total comprehensive income for the financial year attributable to owners of the Company		**37,447**	58,825	**16,671**	21,572
Earnings per share (sen)	**21**				
- Basic		**11.26**	18.66	**-**	-
- Diluted		**-**	-	**-**	-

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		|---- Non-distributable				----|	Distributable	
	NOTE	Share Capital RM'000	Share Premium RM'000	Treasury Shares RM'000	Fair Value Reserve RM'000	Foreign Currency Translation Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
2017								
Balance at beginning		**165,635**	**161,944**	**(230)**	**20**	**142**	**472,662**	**800,173**
Foreign currency translation differences for foreign operation		**-**	**-**	**-**	**-**	**73**	**-**	**73**
Fair value of available-for-sale financial assets		**-**	**-**	**-**	**94**	**-**	**-**	**94**
Total other comprehensive income for the financial year		**-**	**-**	**-**	**94**	**73**	**-**	**167**
Profit for the financial year		**-**	**-**	**-**	**-**	**-**	**37,280**	**37,280**
Total comprehensive income for the financial year		**-**	**-**	**-**	**94**	**73**	**37,280**	**37,447**
Transactions with owners of the Company:								
Dividends	**22**	**-**	**-**	**-**	**-**	**-**	**(13,240)**	**(13,240)**
Purchase of treasury shares	**12.2**	**-**	**-**	**(3)**	**-**	**-**	**-**	**(3)**
Total transactions with owners of the Company		**-**	**-**	**(3)**	**-**	**-**	**(13,240)**	**(13,243)**
Transfer of share premium pursuant to the no-par value regime of the Companies Act 2016	**11.2**	**161,944**	**(161,944)**	**-**	**-**	**-**	**-**	**-**
Balance at end		**327,579**	**-**	**(233)**	**114**	**215**	**496,702**	**824,377**
2016								
Balance at beginning		165,635	161,944	(228)	202	2,899	423,311	753,763
Foreign currency translation differences for foreign operation		-	-	-	-	(2,757)	-	(2,757)
Fair value of available-for-sale financial assets		-	-	-	(182)	-	-	(182)
Total other comprehensive loss for the financial year		-	-	-	(182)	(2,757)	-	(2,939)
Profit for the financial year		-	-	-	-	-	61,764	61,764
Total comprehensive income for the financial year		-	-	-	(182)	(2,757)	61,764	58,825
Transactions with owners of the Company:								
Dividends	22	-	-	-	-	-	(12,413)	(12,413)
Purchase of treasury shares	12.2	-	-	(2)	-	-	-	(2)
Total transactions with owners of the Company		-	-	(2)	-	-	(12,413)	(12,415)
Balance at end		165,635	161,944	(230)	20	142	472,662	800,173

The share capital includes 1 Special Rights Redeemable Preference Share ("SRRPS") of RM0.50. Refer to Note 11.1 to the financial statements for details of the terms and rights attached to the SRRPS.

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		|---- Non-distributable ----|			Distributable	
	NOTE	**Share Capital RM'000**	**Share Premium RM'000**	**Treasury Shares RM'000**	**Retained Earnings RM'000**	**Total Equity RM'000**
2017						
Balance at beginning		**165,635**	**161,944**	**(230)**	**69,828**	**397,177**
Net profit, representing total comprehensive income for the financial year		**-**	**-**	**-**	**16,671**	**16,671**
Transactions with owners of the Company:						
Dividends	**22**	**-**	**-**	**-**	**(13,240)**	**(13,240)**
Purchase of treasury shares	**12.2**	**-**	**-**	**(3)**	**-**	**(3)**
Total transactions with owners of the Company		**-**	**-**	**(3)**	**(13,240)**	**(13,243)**
Transfer of share premium pursuant to the no-par value regime of the Companies Act 2016	**11.2**	**161,944**	**(161,944)**	**-**	**-**	**-**
Balance at end		**327,579**	**-**	**(233)**	**73,259**	**400,605**
2016						
Balance at beginning		165,635	161,944	(228)	60,669	388,020
Net profit, representing total comprehensive income for the financial year		-	-	-	21,572	21,572
Transactions with owners of the Company:						
Dividends	22	-	-	-	(12,413)	(12,413)
Purchase of treasury shares	12.2	-	-	(2)	-	(2)
Total transactions with owners of the Company		-	-	(2)	(12,413)	(12,415)
Balance at end		165,635	161,944	(230)	69,828	397,177

The share capital includes 1 Special Rights Redeemable Preference Share ("SRRPS") of RM0.50. Refer to Note 11.1 to the financial statements for details of the terms and rights attached to the SRRPS.

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	NOTE	GROUP 2017 RM'000	GROUP 2016 RM'000	COMPANY 2017 RM'000	COMPANY 2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		**40,936**	54,648	**16,727**	21,635
Adjustments for:					
Amortisation of deferred income		**(2,753)**	(4,677)	**-**	-
Amortisation of deferred liabilities		**(1,595)**	(1,595)	**-**	-
Deemed loss on deconsolidation of a subsidiary		**-**	113	**-**	-
Depreciation of property, plant and equipment		**56,267**	53,586	**59**	34
Dividend income		**(55)**	(45)	**(17,879)**	(23,261)
Gain on disposal of other investments		**(159)**	(78)	**-**	-
Gain on disposal of property, plant and equipment		**(95)**	-	**-**	-
Impairment loss on property, plant and equipment		**-**	646	**-**	-
Impairment loss on receivables		**1,482**	1,850	**-**	-
Interest income		**(1,710)**	(1,368)	**(793)**	(368)
Property, plant and equipment written off		**278**	834	**-**	-
Share of results of joint venture		**36**	(4,791)	**-**	-
Operating profit/(loss) before working capital changes		**92,632**	99,123	**(1,886)**	(1,960)
Inventories		**1,347**	(1,080)	**-**	-
Receivables		**(1,725)**	11,986	**(2,210)**	6,205
Payables		**19,209**	1,384	**(99)**	(85)
Cash generated from/(used in) operations		**111,463**	111,413	**(4,195)**	4,160
Income tax paid		**(2,072)**	(2,104)	**(70)**	(92)
Income tax refunded		**41**	2,009	**39**	-
Net cash from/(used in) operating activities		**109,432**	111,318	**(4,226)**	4,068
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash flows from deconsolidation of a subsidiary	A	**-**	(115)	**-**	-
Dividends received		**1,423**	6,795	**17,879**	23,261
Interest received		**1,710**	1,368	**793**	368
Proceeds from disposal of other investments		**1,601**	2,575	**-**	-
Proceeds from disposal of property, plant and equipment		**95**	-	**-**	-
Purchase of other investments		**(1,675)**	(2,649)	**-**	-
Purchase of property, plant and equipment	B	**(81,980)**	(92,589)	**(8)**	(141)
Net cash (used in)/from investing activities		**(78,826)**	(84,615)	**18,664**	23,488
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		**(13,240)**	(12,413)	**(13,240)**	(12,413)
Government loans received		**30,000**	30,000	**-**	-
Repayment of government loan		**(1,000)**	(1,000)	**-**	-
Purchase of treasury shares		**(3)**	(2)	**(3)**	(2)
Net cash from/(used in) financing activities		**15,757**	16,585	**(13,243)**	(12,415)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**46,363**	43,288	**1,195**	15,141

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	NOTE	**RM'000**	RM'000	**RM'000**	RM'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**46,363**	43,288	**1,195**	15,141
CASH AND CASH EQUIVALENTS AT BEGINNING		**95,028**	51,740	**22,163**	7,022
CASH AND CASH EQUIVALENTS AT END	C	**141,391**	95,028	**23,358**	22,163

NOTE

A. *Cash flows from deconsolidation of a subsidiary*

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Cash and bank balances	-	115	-	-
Payables	-	(2)	-	-
Net assets deconsolidated	-	113	-	-
Deemed loss on deconsolidation of investment in a subsidiary	-	(113)	-	-
Less: Cash and bank balances	-	(115)	-	-
Cash flows on deconsolidation of a subsidiary	-	(115)	-	-

B. *Purchase of property, plant and equipment*

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Total acquisition cost	**100,347**	101,749	**8**	141
Less: Assets transferred from customers	**(18,367)**	(9,160)	**-**	-
Total cash acquisition	**81,980**	92,589	**8**	141

C. *Cash and cash equivalents*

Cash and cash equivalents included in the statements of cash flows comprise cash and cash equivalents as shown in Note 10 to the financial statements.

The notes set out on pages 23 to 79 form an integral part of these financial statements.

PBA HOLDINGS BHD.
Company No. 515119-U
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2017

1. CORPORATE INFORMATION

General

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

The registered office and principal place of business is located at Level 32, Komtar, 10000 Penang.

The consolidated financial statements of the Company for the financial year ended 31 December 2017 comprise the Company and its subsidiaries (collectively referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in a joint venture. The financial statements of the Company for the financial year ended 31 December 2017 do not include other entities.

The controlling shareholder of the Company is the State Secretary, Penang.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 16 April 2018.

Principal Activities

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are stated in Note 6 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

2.2 Basis of Measurement

The financial statements of the Group and of the Company are prepared under the historical cost convention unless otherwise indicated in the summary of accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial market takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:

- Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 : Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
- Level 3 : Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

2.3 Functional and Presentation Currency

The financial statements are presented in Ringgit Malaysia ("RM") which is also the Company's functional currency. Unless otherwise indicated, the amounts in these financial statements have been rounded to the nearest thousand.

2.4 Adoption of Amendments/Improvements to MFRS

The accounting policies adopted by the Group and by the Company are consistent with those of the previous financial years except for the adoption of the following standards that are mandatory for the current financial year:

Effective for financial periods beginning on or after 1 January 2017

Amendments to MFRS 12 Disclosure of Interest in Other Entities (under Annual Improvements to MFRS Standards 2014-2016 Cycle)
Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiative
Amendments to MFRS 112 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

Initial application of the above standards did not have any material impact to the financial statements of the Group and of the Company except as mentioned below:

Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiatives

The Group and the Company have applied these amendments for the first time in the current financial year. The amendments require the Group and the Company to disclose a reconciliation between the opening and closing balances for liabilities arising from financing activities, including changes arising from both cash flows and non-cash changes, which is disclosed in Note 29.8 to the financial statements.

2.5 Standards Issued But Not Yet Effective

The Group and the Company have not applied the following standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group and for the Company:

Effective for annual periods beginning on or after 1 January 2018

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

Effective for annual periods beginning on or after 1 January 2019

MFRS 16 Leases
Amendments to MFRS 9 Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 128 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
Amendments to MFRS 119 Employee Benefits: Plan Amendment, Curtailment or Settlement
IC Int 23 Uncertainty over Income Tax Treatments
Annual Improvements to MFRS Standards 2015-2017 Cycle

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 or Contribution of Assets between an Investor and its Associate or Joint Venture

The existing *MFRS 4* and *Amendments to MFRS 4* will be withdrawn upon the adoption of the new *MFRS 17* which will take effect on or after 1 January 2021.

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

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments replaces *MFRS 139 Financial Instruments: Recognition and Measurement* and all previous versions of *MFRS 9*. *MFRS 9* brings together all three aspects of the accounting for financial instruments project: (i) classification and measurement, (ii) impairment and (iii) hedge accounting. *MFRS 9* is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. However, the directors deem the hedge accounting requirements under this standard to be irrelevant as the Group and the Company do not apply hedge accounting.

The Group and the Company plan to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group and the Company have performed a detailed impact assessment of aspects (i) and (ii). This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group and to the Company in 2018 when the Group and the Company will adopt *MFRS 9*. Overall, the Group and the Company expect no significant impact on the statements of financial position and equity. The Group and the Company will implement changes in classification of certain financial instruments.

(i) **Classification and measurement**

Financial assets

The Group expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale (AFS) with gains and losses recorded in other comprehensive income will, instead, be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss.

The Group and the Company assessed that all trade and other receivables, including intragroup balances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group and the Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under *MFRS 9*. Therefore, reclassification of these instruments is not required.

Financial liabilities

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

(ii) **Impairment**

MFRS 9 requires the Group and the Company to record Expected Credit Losses ("ECL") on all of its trade and other receivables including intragroup balances, either on a 12-month or lifetime basis. The Group and the Company expect to apply the simplified approach prescribed by *MFRS 9*, which requires a lifetime ECL to be recognised from initial recognition of the trade and other receivables which are financial assets. The expected impact from implementation of *MFRS 9* and the determination of ECL will have a relatively insignificant impact on the Group's and the Company's receivables and profit before tax as the current policy on impairment of receivables are considered reasonably consistent with *MFRS 9*.

MFRS 15 Revenue from Contracts with Customers

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

MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under *MFRS 15*, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled for transferring goods or services to a customer.

The Group and the Company have assessed the effects of applying the new standard on the Group's and the Company's financial statements and has identified the following areas that will be affected:

- Revenue relating to sale of water will be recognised when control of the service has transferred, being the point when water is supplied to consumers. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, the timing and amount of revenue recognised for the sale of water under *MFRS 15* is consistent with the Group's current practice. The Group does not expect any transition adjustments.

- Revenue from capital contribution funds are in relation to contributions by customers for connecting the external reticulation mains to the trunk mains. The revenue is recognised over time when the performance obligation is met, that is when final connection from the trunk mains to the external reticulation mains takes place. The Group expects a change in the revenue recognition but does not expect the change to be materially different from its current practice.

- The Group receives mains and land from customers ("transferred assets") with the purpose of providing consumers with ongoing access to water supply. The transferred assets are recognised at fair value as property, plant and equipment under *IC Int 18 Transfers of Assets from Customers* with a corresponding increase in deferred income. The Group has concluded that the adoption of *MFRS 15* will not have any effect on the accounting of the transferred assets except for the change in the presentation as required by *MFRS 15.* Amount that was presented as deferred income will now be presented as contract liabilities and further analysed into current and non-current portion while the amortisation of deferred income which was presented as other income will now be presented as revenue.

- Presentation of contract assets and contract liabilities in the statement of financial position – *MFRS 15* requires separate presentation of contract assets and contract liabilities in the statements of financial position. This will result in some reclassifications as of 1 January 2018 in relation to contract assets and contract liabilities.

MFRS 16 Leases

The scope of *MFRS 16* includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

MFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under *MFRS 117*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (e.g., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (e.g., the lease liability) and an asset representing the right to use the underlying asset during the lease term (e.g., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under *MFRS 117*. Lessors will continue to classify all leases using the same classification principle in *MFRS 117* and distinguish between two types of leases: operating and finance leases.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Group and the Company are currently assessing the financial impact of adopting *MFRS 16*.

2.6 Significant Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.6.1 Judgements made in applying accounting policies

There are no significant areas of critical judgement in applying accounting policies that have any significant effect on the amount recognised in the financial statements.

2.6.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) **Useful lives of depreciable assets**

Plant and machinery are depreciated on a straight line basis over their estimated useful lives. Management estimates the useful lives of the plant and machinery to be 10 to 50 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and residual values of the plant and machinery. Therefore, future depreciation charges could be revised.

(ii) **Impairment of plant and equipment**

The Group performs an impairment review as and when there are impairment indicators to ensure that the carrying value of the plant and equipment does not exceed its recoverable amount. The recoverable amount represents the present value of the estimated future cash flows expected to arise from operations. Therefore, in arriving at the recoverable amount, management exercises judgement in estimating the future cash flows, growth rate and discount rate.

(iii) **Inventories**

The management reviews for slow-moving and obsolete inventories. This review requires judgements and estimates. Possible changes in these estimates could result in revision to the valuation of inventories.

(iv) **Impairment of investment securities**

The Group reviews its investment securities and assesses at each financial year end whether there is any objective evidence that the investment is impaired. If there are indicators or objective evidence, the investment securities are subject to impairment review.

The impairment review comprises the following judgement made by management.

(a) Determination of whether its investment security is impaired following certain indicators such as, amongst others prolonged decline in fair value, significant financial difficulties of the issuers or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors.

(b) Determination of "significant" and "prolonged" requires judgement and management evaluation on various factors, such as historical fair value movement and the significant reduction in fair value.

(v) **Impairment of loans and receivables**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience of assets with similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group and by the Company are consistent with those adopted in the previous financial years unless otherwise indicated below.

3.1 Subsidiaries and Basis of Consolidation

(i) **Subsidiaries**

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investment in subsidiaries is measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

Upon disposal of investment in a subsidiary, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

(ii) **Business combination**

Business combinations are accounted for using the acquisition method from the acquisition date which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interest in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount at fair value of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised in profit or loss.

For each business combination, the Group elects whether to recognise non-controlling interest in the acquiree at fair value, or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) **Acquisitions of non-controlling interests**

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserve.

(iv) **Loss of control**

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) **Joint arrangements**

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group has rights to the assets and obligations for the liabilities relating to an arrangement. The Group accounts for its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with other investors, in relation to the joint operation.

- A joint arrangement is classified as "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

Investment in joint venture is stated at cost less impairment losses in the Company's statement of financial position, unless the investment is classified as held for sale or distribution.

(vi) **Non-controlling interests**

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vii) **Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted joint venture are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 **Property, Plant and Equipment**

(i) **Recognition and measurement**

Items of property, plant and equipment are measured at cost except for assets transferred from customers (see Note 3.3) which are stated at fair value, less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other operating income" and "administrative expenses" respectively in profit or loss.

(ii) **Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) **Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated as it has an infinite life. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The depreciation rates for the current and comparative periods are as follows:

Leasehold land	Amortised over its lease period
Buildings and building improvements	2%
Reservoirs	2%
Plant and machinery	2% - 10%
Motor vehicles	20%
Equipment and furniture	10% - 33.33%

Property, plant and equipment which were acquired from Badan Kawal Selia Air (BKSA) upon its corporatisation on 1 March 1999 are depreciated over their remaining useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

3.3 Customers' Contributions

The Group receives contributions from its customers, items of property, plant and equipment ("transferred assets") that are used to connect those customers to a network and provide them with ongoing access to water supply. On initial recognition, *IC Interpretation 18 Transfers of Assets from Customers* requires that such transferred assets are recognised as property, plant and equipment in accordance with *MFRS 116 Property, Plant and Equipment* and are measured at their fair values, whilst the corresponding amount as deferred income and amortised over a period not longer than the useful lives of the transferred assets.

The transferred assets consist of mains, freehold and leasehold land. The depreciation of mains and leasehold land and the amortisation of deferred income are recognised over the estimated useful lives of the transferred assets, ranging from 50 years to 99 years. Freehold land is not depreciated as it has an infinite life and income is recognised immediately in profit or loss in the year of the transfer.

3.4 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or asset or the arrangement conveys a right to use the asset, even if that right is not explicitly specific in an arrangement.

Finance leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership, which include hire purchase arrangement, are classified as finance lease.

Minimum lease payments made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

Operating leases

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

3.5 Financial Instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statements of financial position when, and only when, the Group or the Company become a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issuance of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

(a) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the end of the reporting period which are classified as non-current.

(b) **Available-for-sale financial assets**

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

All financial assets are subject to review for impairment.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

Financial liabilities are classified as current liabilities, except for those having maturity dates later than 12 months after the end of the reporting period which are classified as non-current.

(iii) **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(iv) **Derecognition**

A financial asset or part of it is derecognised, when and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, the obligation specified in the contract is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.6 Impairment

(i) Financial assets

All financial assets (except for investments in subsidiaries and joint venture) are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) **Other assets**

The carrying amounts of other assets except for inventories are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset of cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is measured based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3.8 Cash and Cash Equivalents

Cash comprises cash in hand, cash at bank and demand deposits. Cash equivalents are short term and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, against which bank overdraft balances, if any, are deducted.

3.9 Provisions

Provisions are recognised when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

3.10 Contingencies

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is not recognised in the statements of financial position and is disclosed as a contingent asset or contingent liability, unless the probability of inflow or outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

3.11 Equity Instruments

(i) Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

(ii) Share issuance costs

Prior to the Companies Act 2016 which came into operation on 31 January 2017, incremental external costs directly attributable to the issuance of new shares are deducted against the share premium account. Effective 31 January 2017 and subsequent periods, incremental external costs directly attributable to the issuance of new shares are deducted against equity.

(iii) Dividends

Dividends on ordinary shares are accounted for in shareholder's equity as an appropriation of retained earnings and recognised as a liability in the period in which they are declared.

(iv) Special rights redeemable preference share

The special rights redeemable preference share ("SRRPS") would enable the State Government of Penang through the State Secretary, Penang to ensure that certain major decisions affecting the operations of the Company are consistent with the State Government of Penang's policies. The SRRPS can only be held by the State Secretary, Penang or its successor, or the Chief Minister or any person acting on behalf of the State Government of Penang ("Special Shareholder").

The Special Shareholder is not entitled to any dividend or to participate in the capital distribution upon the dissolution of the Company but shall rank for repayment in priority to the ordinary shares. The Special Shareholder, may subject to the provisions of the Companies Act 2016, requires the Company to redeem the SRRPS at any time. Other rights and restrictions attached to the SRRPS are set out in Article 21 of the Company's Constitution.

(v) Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statements of changes in equity.

Where treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the distributable reserves.

Where treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

3.12 **Foreign Currency**

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities measured at historical cost in a foreign currency at the end of the reporting period are translated to the functional currency at the exchange rate at the date of the transaction except for those measured at fair value shall be translated at the exchange rate at the date when the fair value was determined.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in other comprehensive income. Exchange differences arising from such non-monetary items are recognised directly in other comprehensive income.

3.13 **Revenue and Other Income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and to the Company and when the revenue can be reliably measured on the following basis:

(i) **Sale of water**

Revenue from water supplied to consumers are recognised when invoiced and upon services being rendered.

(ii) **Capital contribution funds**

Capital contribution funds for trunk mains are recognised as income when invoiced and upon services being rendered.

(iii) **Sales from education business**

Revenue is recognised upon the services being rendered or performed.

(iv) **Dividend income**

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(v) **Rental income**

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(vi) **Interest income**

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

3.14 **Income Tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for temporary differences arising from the initial recognition of goodwill and assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available to set-off against the unutilised tax incentives.

3.15 Goods and Services Tax

Goods and Services Tax ("GST") is a consumption tax based on the value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate of 6%. Input tax that a company pays on business purchases is offset against output tax.

Revenue, expenses and assets are recognised net of GST except:

- where the GST incurred in a purchase of asset or service is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with GST inclusive.

The net GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

3.16 Employee Benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group and the Company have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) **State plans**

The Group's and the Company's contributions to the statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations.

3.17 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

Other borrowing costs are expensed as expenses in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

3.18 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make the decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

3.19 Earnings Per Ordinary Share

The Group presents basic earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

3.20 Related Parties

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) Has control or joint control over the Group;
- (ii) Has significant influence over the Group; or
- (iii) Is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity.
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
- (vii) A person identified in (a)(i) above has significant influence over the Group or is a member of the key management personnel of the ultimate holding company or the Group.
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

4. **PROPERTY, PLANT AND EQUIPMENT**

GROUP

	At fair value		At cost							
2017	**Land RM'000**	**Plant and machinery RM'000**	**Land RM'000**	**Buildings and building improvements RM'000**	**Reservoirs RM'000**	**Plant and machinery RM'000**	**Motor vehicles RM'000**	**Equipment and furniture RM'000**	**Capital work-in-progress RM'000**	**Total RM'000**
Cost										
Balance at beginning	11,125	46,840	44,800	81,473	106,858	1,112,355	15,672	71,806	45,578	1,536,507
Additions	1,640	16,727	-	-	-	6,672	-	17	75,291	100,347
Disposals	-	-	-	-	-	-	-	(446)	-	(446)
Written off	-	-	-	(5,344)	-	(10,417)	(163)	(992)	-	(16,916)
Reclassification	-	-	3,373	1,506	11,464	45,714	927	12,620	(75,604)	-
Balance at end	12,765	63,567	48,173	77,635	118,322	1,154,324	16,436	83,005	45,265	1,619,492
Accumulated depreciation										
Balance at beginning	16	2,891	3,576	22,036	22,672	427,352	13,759	61,720	-	554,022
Current charge	4	1,109	266	1,560	2,384	44,200	971	5,773	-	56,267
Disposals	-	-	-	-	-	-	-	(446)	-	(446)
Written off	-	-	-	(1,586)	-	(5,790)	(162)	(972)	-	(8,510)
Balance at end	20	4,000	3,842	22,010	25,056	465,762	14,568	66,075	-	601,333
Accumulated impairment loss										
Balance at beginning	-	-	1,419	3,768	-	6,105	-	-	-	11,292
Written off	-	-	-	(3,768)	-	(4,360)	-	-	-	(8,128)
Balance at end	-	-	1,419	-	-	1,745	-	-	-	3,164
Carrying amount	12,745	59,567	42,912	55,625	93,266	686,817	1,868	16,930	45,265	1,014,995

	At fair value		At cost							
	Land RM'000	Plant and machinery RM'000	Land RM'000	Buildings and building improvements RM'000	Reservoirs RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Equipment and furniture RM'000	Capital work-in-progress RM'000	Total RM'000
2016										
Cost										
Balance at beginning	7,327	41,478	37,205	80,214	96,683	998,293	15,480	65,779	96,465	1,438,924
Additions	3,798	5,362	1,256	1,105	199	48,242	1,392	3,692	36,703	101,749
Disposal	-	-	-	-	-	-	-	(2)	-	(2)
Written off	-	-	-	(9)	-	(2,605)	(1,200)	(350)	-	(4,164)
Reclassification	-	-	6,339	163	9,976	68,425	-	2,687	(87,590)	-
Balance at end	11,125	46,840	44,800	81,473	106,858	1,112,355	15,672	71,806	45,578	1,536,507
Accumulated depreciation										
Balance at beginning	12	2,016	3,324	20,515	20,354	387,215	14,074	56,258	-	503,768
Current charge	4	875	252	1,530	2,318	41,961	885	5,761	-	53,586
Disposal	-	-	-	-	-	-	-	(2)	-	(2)
Written off	-	-	-	(9)	-	(1,824)	(1,200)	(297)	-	(3,330)
Balance at end	16	2,891	3,576	22,036	22,672	427,352	13,759	61,720	-	554,022
Accumulated impairment loss										
Balance at beginning	-	-	1,419	3,768	-	5,459	-	-	-	10,646
Current charge	-	-	-	-	-	646	-	-	-	646
Balance at end	-	-	1,419	3,768	-	6,105	-	-	-	11,292
Carrying amount	11,109	43,949	39,805	55,669	84,186	678,898	1,913	10,086	45,578	971,193

(i) Included in the carrying amount of land are:

	GROUP	
	2017	2016
	RM'000	RM'000
Freehold land	**30,771**	29,131
Leasehold land	**24,886**	21,783
	55,657	50,914

(ii) Certain freehold land and leasehold land of the Group with carrying amounts of **RM186,000** (2016: RM186,000) and **RM25,000** (2016: RM26,000) respectively are in the process of being registered under the name of a subsidiary.

COMPANY

	Equipment and furniture	
	2017	2016
	RM'000	RM'000
At cost		
Balance at beginning	**347**	209
Additions	**8**	141
Written off	**(2)**	(3)
Balance at end	**353**	347
Accumulated depreciation		
Balance at beginning	**167**	136
Current charge	**59**	34
Written off	**(2)**	(3)
Balance at end	**224**	167
Carrying amount	**129**	180

5. INVESTMENT IN A JOINT VENTURE

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
At cost:				
Unquoted shares	*	*	*	*
Share of post-acquisition reserve	**55**	1,386	**-**	-
	55	1,386	*	*

* RM99

Details of the joint venture which was incorporated in the Federal Territory of Labuan, Malaysia are as follows:

Name of entity	Effective equity interest 2017 %	Effective equity interest 2016 %	Principal activity
Pinang Water Limited ("PWL")	**26**	26	Dormant.

The following shows the summarised financial information of PWL and a reconciliation of the summarised financial information to the carrying amount of the Group's interest in PWL, which is accounted for using the equity method.

	GROUP 2017 RM'000	GROUP 2016 RM'000
Summarised financial information		
As at 31 December		
Assets and liabilities		
Total assets, representing current assets comprising cash and cash equivalents	**243**	5,362
Current liabilities, representing total liabilities	**(32)**	(31)
Year ended 31 December		
Results		
(Loss)/Profit for the financial year	**(139)**	18,425
Other comprehensive loss	**-**	(10,604)
Total comprehensive (loss)/income	**(139)**	7,821
Included in the total comprehensive (loss)/income are:		
Revenue	**-**	5,075
Depreciation and amortisation	**-**	(758)
Gain on disposal of a subsidiary	-	18,146
Interest income	**4**	512
Interest expense	**-**	(132)
Income tax expense	**(20)**	(45)
Reconciliation of net assets to carrying amount as at 31 December		
Carrying amount - Group's share of net assets	**55**	1,386

	GROUP	
	2017	2016
	RM'000	RM'000
Group's share of results for the financial year ended 31 December		
Group's share of (loss)/profit	**(36)**	4,791
Group's share of other comprehensive loss	**-**	(2,757)
Group's share of total comprehensive (loss)/income	**(36)**	2,034
Other information		
Dividends received by the Group	**1,368**	6,750

Contingent liabilities and capital commitments

The joint venture has no contingent liabilities or capital commitments as at the end of the reporting period.

6. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2017	2016
	RM'000	RM'000
Unquoted shares, at cost	**265,925**	265,925
Share-based payments allocated to subsidiaries	**868**	868
	266,793	266,793

The movement of accumulated impairment loss during the financial year is as follows:

	COMPANY	
	2017	2016
	RM'000	RM'000
Balance at beginning	**-**	100
Written off	**-**	(100)
Balance at end	**-**	-

The details of the subsidiaries, all of which were incorporated in Malaysia, are as follows:

Name of entity	Effective equity interest 2017 %	2016 %	Principal activities
Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd.	**100**	100	Water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers.
PBA Resources Sdn. Bhd.	**100**	100	Providing training facilities, education and other non-water related businesses.

7. **OTHER INVESTMENTS**

These investments are managed by an external fund management company in accordance with the terms of the Investment Management Mandate. As at the end of the reporting period, the funds were invested as follows:

	GROUP 2017 RM'000	2016 RM'000
Available-for-sale financial assets		
Quoted investments in Malaysia	**1,876**	1,778
Loans and receivables		
Money market placement	**860**	631
	2,736	2,409
Representing items:		
At fair value	**1,876**	1,778
At amortised cost	**860**	631
	2,736	2,409
Market value of quoted investments	**1,876**	1,778

8. INVENTORIES

	GROUP	
	2017	2016
	RM'000	RM'000
Spare parts and consumables	**6,713**	8,135
Chemicals	**710**	635
	7,423	8,770
Recognised in profit or loss:		
Inventories recognised as cost of sales	**11,994**	12,097
Reversal of write-down	**-**	(621)

9. RECEIVABLES, DEPOSITS AND PREPAYMENTS

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Trade					
Trade receivables	9.1	**39,273**	38,410	**-**	-
Less: Allowance for impairment	9.1	**(9,422)**	(9,443)	**-**	-
		29,851	28,967	-	-
Non-trade					
Other receivables		**6,887**	6,490	**173**	254
Less: Allowance for impairment	9.2	**(1,817)**	(2,291)	**-**	-
		5,070	4,199	**173**	254
GST claimable		**740**	495	**-**	-
Deposits		**9,417**	11,337	**-**	-
Prepayments		**1,727**	1,564	**-**	-
Amount due from subsidiaries	9.3	**-**	-	**116,022**	113,731
		16,954	17,595	**116,195**	113,985
		46,805	46,562	**116,195**	113,985

9.1 Trade receivables

The Group's credit policy provides trade receivables with a **30 days** (2016: 30 days) credit period. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The movement of allowance for impairment is as follows:

	GROUP	
	2017	2016
	RM'000	RM'000
Balance at beginning	**9,443**	9,117
Current year	**2,121**	1,338
Recovered	**(1,283)**	(743)
Reversed	**(687)**	-
Written off	**(172)**	(269)
Balance at end	**9,422**	9,443

9.2 **Other receivables**

The movement of allowance for impairment is as follows:

	GROUP	
	2017	2016
	RM'000	RM'000
Balance at beginning	**2,291**	1,972
Current year	**48**	512
Recovered	**(484)**	(188)
Written off	**(38)**	(5)
Balance at end	**1,817**	2,291

9.3 **Amount due from subsidiaries**

The amount due from subsidiaries is non-trade related, unsecured, non-interest bearing and is repayable on demand.

10. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Cash and bank balances	**20,422**	27,016	**96**	540
Short term deposits with licensed banks	**6,000**	10,000	**2,000**	5,000
Short term funds with licensed financial institutions	**114,969**	58,012	**21,262**	16,623
	141,391	95,028	**23,358**	22,163

11. SHARE CAPITAL

		2017		2016	
	Note	Number of shares ('000)	Amount RM'000	Number of shares ('000)	Amount RM'000
Issued and fully paid					
Special rights redeemable preference share ("SRRPS")	11.1	*	**	*	**
Ordinary shares					
Balance at beginning		331,271	165,635	331,271	165,635
Transfer of share premium pursuant to no-par value regime of the Companies Act 2016	11.2	-	161,944	-	-
Balance at end		331,271	327,579	331,271	165,635
		331,271	327,579	331,271	165,635

* 1 SRRPS
** RM0.50

11.1 Special rights redeemable preference share ("SRRPS")

The SRRPS would enable the State Government of Penang through the State Secretary, Penang to ensure that certain major decisions affecting the operations of the Company are consistent with the State Government of Penang's policies. The SRRPS can only be held by the State Secretary, Penang or its successor, or the Chief Minister or any person acting on behalf of the State Government of Penang ("Special Shareholder").

The Special Shareholder is not entitled to any dividend or participate in the capital distribution upon the dissolution of the Company but shall rank for repayment in priority to the ordinary shares. The Special Shareholder may, subject to the provisions of the Companies Act 2016 require the Company to redeem the SRRPS at any time. Other rights and restrictions attached to the SRRPS are set out in Article 21 of the Company's Constitution.

11.2 **Ordinary shares**

The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account of RM161,944,000 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use the amount standing to the credit of its share premium account for purposes as set out in Section 618(3) of the Act. There is no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

12. RESERVES

		GROUP		COMPANY	
		2017	2016	**2017**	2016
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Distributable					
Retained earnings	12.1	**496,702**	472,662	**73,259**	69,828
Non-distributable					
Share premium		**-**	161,944	**-**	161,944
Treasury shares	12.2	**(233)**	(230)	**(233)**	(230)
Fair value reserve	12.3	**114**	20	**-**	-
Foreign currency translation reserve	12.4	**215**	142	**-**	-
		96	161,876	**(233)**	161,714
		496,798	634,538	**73,026**	231,542

12.1 **Retained earnings**

The franking of dividends of the Company is under the single tier system and therefore there is no restriction on the Company to distribute dividends subject to the availability of retained earnings.

12.2 **Treasury shares**

The shareholders of the Company in the Annual General Meeting held on 23 May 2017, approved the Company's plan to purchase up to 10% of its issued and paid-up share capital of ordinary shares.

During the financial year ended 31 December 2017, the Company repurchased 2,000 of its issued and paid-up ordinary shares from the open market.

Number of shares	**Purchase price RM**	**Consideration RM'000**	**Transaction cost RM'000**	**Total consideration RM'000**
1,000	1.29	2	-	2
1,000	1.22	1	-	1

For the financial year ended 31 December 2017, the Company repurchased 2,000 of its issued and paid-up ordinary shares from the open market. The average price paid for the shares repurchased was RM1.26 per share.

The shares repurchased were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

Of the total 331,270,401 issued and paid-up ordinary shares as at 31 December 2017, **269,900** (2016: 267,900) ordinary shares are held as treasury shares by the Company. The number of outstanding ordinary shares in issue is therefore **331,000,501** (2016: 331,002,501) ordinary shares.

12.3 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

12.4 Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of financial statements of the joint venture whose functional currency is other than RM.

13. LOANS AND BORROWINGS, UNSECURED

		GROUP	
		2017	2016
	Note	**RM'000**	RM'000
Loans from Federal Government via the State Government of Penang	13.1		
Nominal value of loans		**43,000**	44,000
Less: Deemed interest recognised as deferred income		**(18,117)**	(19,165)
Add: Amortised interest		**1,330**	1,366
Less: Repayment		**(1,000)**	(1,000)
Balance carried forward		**25,213**	25,201

	Note	GROUP 2017 RM'000	2016 RM'000
Balance brought forward		**25,213**	25,201
Loan from State Government of Penang	13.2		
Nominal value of loan		**60,000**	30,000
Less: Deemed interest recognised as deferred income		**(27,433)**	(14,827)
Add: Amortised interest		**3,941**	1,258
		36,508	16,431
		61,721	41,632
Analysed as:			
Non-current		**60,121**	40,632
Current		**1,600**	1,000
		61,721	41,632

13.1 A subsidiary of the Company had on 16 January 2012 and 24 October 2014 obtained term loans of RM20 million and RM24 million respectively from the Federal Government via the State Government of Penang to finance Non-Revenue water projects. The term loans are unsecured, interest free and repayable as follows:

- RM20 million - repayable over 20 years with effect from 11 September 2016; and
- RM24 million - repayable over 20 years with effect from 10 December 2018.

13.2 A subsidiary has obtained a term loan of RM80 million on 1 June 2016 from the State Government of Penang to finance its capital expenditure projects in relation to the replacements of pipelines, water meters, upgrading of the water treatment plants and water reservoirs. The term loan is unsecured and is repayable over 10 years with effect from 26 June 2020. However, on 10 January 2018, the State Government of Penang has revised the repayment terms to change the commencement of repayment to 3 May 2020. Interest will be charged at 4% per annum upon commencement of repayment of the term loan.

The loan drawdown during the financial year amounted to **RM30,000,000** (2016: RM30,000,000).

13.3 On 6 November 2017, the State Government has agreed to give a subsidiary another loan amounting to RM60 million to finance the subsidiary's capital expenditure projects. The loan is unsecured and interest will be charged at 4% per annum and is repayable over 20 years. As at 31 December 2017, the loan is still pending the approval from Suruhanjaya Perkhidmatan Air Negara.

14. DEFERRED INCOME

	Note	GROUP 2017 RM'000	2016 RM'000
Term loans	14.1		
Balance at beginning		**31,368**	19,165
Transfer from loans and borrowings		**14,182**	14,827
Less: Amortisation		**(5,271)**	(2,624)
Balance at end		**40,279**	31,368
Transfer of assets from customers	14.2		
Balance at beginning		**44,313**	39,830
Additions during the year		**18,367**	9,160
Less: Amortisation		**(2,753)**	(4,677)
Balance at end		**59,927**	44,313
		100,206	75,681

Deferred income is in respect of the following:

14.1 The difference between the nominal value of the term loans obtained as mentioned in Note 13.1 and 13.2 and the fair value of the loans measured on initial recognition. The deferred income is amortised over the period from the initial loan drawdown date up to the maturity date of the loans.

14.2 The fair values of assets transferred from customers which consist of mains and land upon initial recognition. Subsequent to initial recognition, the deferred income is amortised over the useful lives of these assets as disclosed in Note 3.3.

15. DEFERRED LIABILITIES

	GROUP 2017 RM'000	2016 RM'000
Non-current	**59,958**	61,553
Current	**1,595**	1,595
	61,553	63,148

Pursuant to migration of the Penang State Water Assets and the loans to Pengurusan Aset Air Berhad (PAAB) in the financial year 2011, a subsidiary 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. Further details of the operating lease are disclosed in Note 23 to the financial statements.

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. During the financial year, **RM1,595,000** (2016: RM1,595,000) was amortised and applied against the lease expense attributable to the FLA.

16. DEFERRED TAX LIABILITIES

	GROUP	
	2017	2016
	RM'000	RM'000
Balance at beginning	**-**	5,490
Recognised in profit or loss (Note 20)		
- Current year	**1,495**	(7,860)
- Under provision in prior year	**1,505**	2,370
Balance at end	**3,000**	-

The deferred tax liabilities are in respect of the following:

	GROUP	
	2017	2016
	RM'000	RM'000
- Property, plant and equipment	**137,723**	-
- Capital contribution funds	**8,338**	-
- Unutilised reinvestment allowance	**(142,665)**	-
- Other items	**(396)**	-
	3,000	-

17. PAYABLES AND ACCRUALS

		GROUP		**COMPANY**	
		2017	2016	**2017**	2016
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Trade					
Trade payables		**4,636**	5,421	**-**	-
Non-trade					
Other payables and accruals		**48,827**	45,627	**74**	173
Dividend payable		**5,793**	5,793	**5,793**	5,793
Accrued flood discounts	17.1	**13,163**	-	**-**	-
Refundable deposits	17.2	**95,361**	91,730	**-**	-
		163,144	143,150	**5,867**	5,966
		167,780	148,571	**5,867**	5,966

17.1 **Accrued flood discounts**

Accrued flood discounts are water bill discounts given by a subsidiary to the consumers for current year's water consumption in line with the subsidiary's "Pulau Pinang Bangkit" initiative. The discounts will appear on bills dated January to March 2018.

17.2 **Refundable deposits**

Refundable deposits comprise mainly water supply deposits, reticulation mains deposits, security deposits and pipe maintenance deposits received from customers.

18. REVENUE

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Gross dividend from a subsidiary	**-**	-	**16,511**	16,511
Gross dividend from a joint venture	**-**	-	**1,368**	6,750
Interest income	**793**	368	**793**	368
Sale of water	**295,458**	314,362	**-**	-
Capital contribution funds	**16,024**	11,676	**-**	-
Sales from education business	**78**	292	**-**	-
	312,353	326,698	**18,672**	23,629

19. OPERATING PROFIT

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
After charging:				
Auditors' remuneration				
- Grant Thornton				
- audit fees	**153**	133	**30**	20
- non-audit fees	**5**	5	**5**	5
- Local affiliate of Grant Thornton				
- non-audit fees	**-**	38	**-**	4
Dams and mains lease charges	**12,966**	12,966	**-**	-
Deemed loss on deconsolidation of a subsidiary	-	113	**-**	-
Directors' allowance				
- present Directors	**370**	338	**207**	191
- past Directors	**2**	34	**-**	9

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Impairment loss on:				
- trade and other receivables (net)	**(285)**	919	**-**	-
- property, plant and equipment	**-**	646	**-**	-
Property, plant and equipment:				
- depreciation (Note 4)	**56,267**	53,586	**59**	34
- written off	**278**	834	**-**	-
Raw water intake charges	**20,463**	20,438	**-**	-
Rental expenses	**2,058**	1,932	**15**	23
Water supply licence fee	**3,222**	3,336	**-**	-
And after crediting:				
Bad debts recovered	**25**	10	**-**	-
Gain on disposal of				
- other investments	**159**	78	-	-
- property, plant and equipment	**95**	-	**-**	-
Gross dividends received from investments quoted in Malaysia	**55**	45	**-**	-
Income from miscellaneous jobs	**139**	79	**-**	-
Income from reconnection, final connection and warning notice charges	**4,847**	4,488	**-**	-
Interest income	**1,710**	1,368	**792**	368
Realised gain on foreign exchange	**-**	5	**-**	5
Recognition of customers' contribution	**2,753**	4,677	**-**	-
Rental income	**1,610**	1,601	**-**	-

20. TAX (EXPENSE)/INCOME

Recognised in profit or loss:

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Current tax				
Current year	**(660)**	(60)	**(60)**	(60)
Over/(Under) provision in prior year	**4**	1,686	**4**	(3)
Balance carried forward	**(656)**	1,626	**(56)**	(63)

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Balance brought forward	**(656)**	1,626	**(56)**	(63)
Deferred tax				
Current year	**(1,495)**	7,860	**-**	-
Under provision in prior year	**(1,505)**	(2,370)	**-**	-
	(3,000)	5,490	**-**	-
	(3,656)	7,116	**(56)**	(63)

The reconciliation of tax (expense)/income of the Group and of the Company are as follows:

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Profit before tax	**40,936**	54,648	**16,727**	21,635
Income tax at Malaysian statutory tax rate of 24%	**(9,824)**	(13,115)	**(4,014)**	(5,192)
Income not subject to tax	**1,400**	2,712	**4,444**	5,583
Non-deductible expenses	**(2,978)**	(2,956)	**(483)**	(454)
Current year reinvestment allowance	**9,213**	30,414	-	-
Utilisation of unabsorbed tax losses	**42**	64	-	-
Deferred tax not recognised	**(8)**	(9,319)	**(7)**	3
(Under)/Over provision in prior year	**(1,501)**	(684)	**4**	(3)
	(3,656)	7,116	**(56)**	(63)

The Group and the Company have not recognised the following deferred tax (assets)/liabilities arising from:

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Property, plant and equipment	**15**	127,848	**13**	20
Capital contribution funds	**-**	7,711	**-**	-
Unabsorbed capital allowances	**-**	(132)	**-**	-
Unabsorbed tax losses	**(60)**	(101)	**-**	-
Unabsorbed reinvestment allowance	**-**	(133,452)	**-**	-
Other items	**-**	(447)	**-**	-
	(45)	1,427	**13**	20

The potential deferred tax assets of the Group were not recognised in the financial statements as it was anticipated that the tax effects of such deferral will not reverse in the foreseeable future.

The amount and future availability of unabsorbed capital allowances, tax losses and reinvestment allowance at the end of the reporting period are as follows:

	GROUP	
	2017	2016
	RM'000	RM'000
Unabsorbed capital allowances	**-**	552
Unabsorbed tax losses	**248**	423
Unabsorbed reinvestment allowance	**594,438**	556,050

These unabsorbed capital allowances, tax losses and reinvestment allowance are available to be carried forward for set off against future assessable income of its subsidiaries.

21. EARNINGS PER SHARE

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year as follows:

	GROUP	
	2017	2016
	RM'000	RM'000
Profit for the year attributable to owners of the Company	**37,280**	61,764
Weighted average number of ordinary shares in issue	**331,001**	331,003
Basic earnings per ordinary share (sen)	**11.26**	18.66
Issued ordinary shares at beginning	**331,271**	331,271
Effect of treasury shares held	**(270)**	(268)
Weighted average number of ordinary shares in issue	**331,001**	331,003

There is no diluted earnings per share as the Company does not have any convertible financial instruments as at the end of the reporting period.

22. DIVIDENDS

	Sen per share (net of tax)	**Total amount RM'000**	**Date of payment**
2017			
Final 2016 single tier dividend	**2.25**	**7,448**	**21 July 2017**
Interim 2017 single tier dividend	**1.75**	**5,792**	**12 January 2018**
	4.00	**13,240**	
2016			
Final 2015 single tier dividend	2.00	6,620	22 July 2016
Interim 2016 single tier dividend	1.75	5,793	13 January 2017
	3.75	12,413	

	2017	2016
	RM	RM
Gross dividends per ordinary share (sen)	**4.00**	3.75

The gross dividends per ordinary share as disclosed above takes into account the total interim and final dividend for the financial year.

A final single tier dividend of 2.25 sen per share amounting to RM7,448,000 for the financial year ended 31 December 2017 was recommended by the Directors subject to the approval of shareholders at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2018.

23. OPERATING LEASE ARRANGEMENTS

Leases as lessee

Pursuant to the Water Services Industry Act 2006 (Act 655) with the objective amongst others to establish a regulatory environment that facilitates self-sustainability amongst the water operators in the water service industry, a subsidiary has henceforth entered into Facility and Lease Agreements with PAAB to enable water supply services to be carried out on the lands leased from PAAB. The lease amounted to RM14.56 million per annum for a period of 45 years effective 1 August 2011. These Facility and Lease Agreements supersede the operating lease agreements previously entered into with BKSA.

Non-cancellable operating lease rentals are payable as follows:

	GROUP	
	2017	2016
	RM'000	RM'000
Within one year	**14,561**	14,561
Between one year to five years	**58,244**	58,244
More than five years	**489,009**	503,571
	561,814	576,376

The net lease payments, recognised in profit or loss during the financial year is disclosed in Note 19 to the financial statements as:

	GROUP	
	2017	2016
	RM'000	RM'000
Operating lease rentals	**14,561**	14,561
Lease incentives (Note 15)	**(1,595)**	(1,595)
Dams and mains lease charges	**12,966**	12,966

Leases as lessor

A subsidiary leased part of its freehold land to third parties for a period ranging from 30 to 60 years with rent increment of 20% every five years. The future minimum lease payments under the non-cancellable lease are as follows:

	GROUP	
	2017	2016
	RM'000	RM'000
Within one year	**360**	360
Between one year to five years	**1,562**	1,490
More than five years	**42,006**	42,438
	43,928	44,288

24. EMPLOYEE BENEFITS EXPENSE

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Wages and salaries	**61,085**	58,375	**701**	640
Social security costs	**789**	721	**4**	4
Defined contribution plan	**9,848**	9,588	**105**	90
Other staff related expenses	**9,393**	10,254	**36**	58
	81,115	78,938	**846**	792

25. RELATED PARTY DISCLOSURES

Identity of related parties

The Group has related party relationship with its controlling shareholders, subsidiaries, joint venture and key management personnel.

Key management personnel

The key management personnel compensations are as follows:

	GROUP		COMPANY	
	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Directors:				
- allowances	**372**	372	**207**	200
Other key management personnel:				
- short-term employee benefits	**4,070**	4,065	**352**	352
- defined contribution plan	**710**	737	**40**	40
- estimated monetary value of benefits-in-kind	**70**	69	**7**	4
	4,850	4,871	**399**	396
	5,222	5,243	**606**	596

Government related entities

A subsidiary, Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd. ("PBAPP"), transacts with entities directly or indirectly controlled by the State Government of Penang through its state government authorities, agencies, affiliations and other organisations, collectively referred to as government-related entities. The transactions with these government-related entities include but are not limited to the sale of water, rendering and receiving of services, leasing of assets, and use of public utilities.

These transactions are conducted in the ordinary course of PBAPP's business. PBAPP has established policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

For the financial year ended 31 December 2017, management estimates that the aggregate amount of PBAPP's significant transactions with other government-related entities approximate **2%** (2016: 2%) of the Group's revenue and **10%** (2016: 8%) of the Group's total expenses.

26. CAPITAL COMMITMENTS

	GROUP	
	2017	2016
	RM'000	RM'000
Contracted but not provided for	**50,700**	33,000
Authorised but not contracted for	**159,000**	250,000

27. OPERATING LICENCE FOR WATER SUPPLY SERVICE OPERATIONS

Amendments to the Federal Constitution were made to transfer the jurisdiction of water supply services from the State List to the Concurrent List. These amendments were gazetted on 10 February 2005 and they enable the Federal Government to regulate water supply services while the State Government regulates the raw water resources.

New acts were subsequently enacted, namely the Water Services Industry Act 2006 (Act 655)(WSIA 2006) and the Suruhanjaya Perkhidmatan Air Negara Act 2006 (Act 654)(SPAN 2006). The WSIA 2006, which came into force on 1 January 2011, provides for the regulation of water supply services and sewerage services and the establishment of licensing and regulatory framework to promote the national policy objectives for the water supply services and sewerage services industries. The SPAN 2006, which was approved by Parliament in June 2006 and came into force on 1 February 2007, provides for the establishment of the regulatory body called Suruhanjaya Perkhidmatan Air Negara (SPAN) to carry out the provisions of WSIA 2006.

On 2 June 2011, its subsidiary was granted an Individual Service Licence and Facility Licence by SPAN pursuant to Section 9 of the WSIA 2006. The licence is renewable every three years and will expire on 31 December 2019. The licence fees payable is calculated at 1% of the subsidiary's gross turnover, which is interpreted as revenue derived from the principal activities of the subsidiary and is inclusive of other water related income.

28. SEGMENTAL INFORMATION

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.

Geographical segment

Geographical segment information has not been prepared as the Group's operations are confined to Penang, Malaysia.

29. FINANCIAL INSTRUMENTS

29.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as available-for-sale financial assets ("AFS"), loans and receivables ("L&R") and financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	AFS RM'000	L&R RM'000	FL RM'000
GROUP				
2017				
Financial assets				
Other investments	**2,736**	**1,876**	**860**	**-**
Receivables and deposits	**44,338**	**-**	**44,338**	**-**
Cash and cash equivalents	**141,391**	**-**	**141,391**	**-**
	188,465	**1,876**	**186,589**	**-**

	Carrying amount RM'000	AFS RM'000	L&R RM'000	FL RM'000
Financial liabilities				
Loans and borrowings	**61,721**	**-**	**-**	**61,721**
Payables and accruals	**154,619**	**-**	**-**	**154,619**
	216,340	**-**	**-**	**216,340**
2016				
Financial assets				
Other investments	2,409	1,778	631	-
Receivables and deposits	44,503	-	44,503	-
Cash and cash equivalents	95,028	-	95,028	-
	141,940	1,778	140,162	-
Financial liabilities				
Loans and borrowings	41,632	-	-	41,632
Payables and accruals	148,571	-	-	148,571
	190,203	-	-	190,203
COMPANY				
2017				
Financial assets				
Receivables	**116,195**	**-**	**116,195**	**-**
Cash and cash equivalents	**23,358**	**-**	**23,358**	**-**
	139,553	**-**	**139,553**	**-**
Financial liabilities				
Payables and accruals	**5,867**	**-**	**-**	**5,867**
2016				
Financial assets				
Receivables	113,985	-	113,985	-
Cash and cash equivalents	22,163	-	22,163	-
	136,148	-	136,148	-
Financial liabilities				
Payables and accruals	5,966	-	-	5,966

29.2 **Net gains and losses arising from financial instruments**

	GROUP	
	2017	2016
	RM'000	RM'000
Net gains/(losses) on:		
Available-for-sale financial assets		
- recognised in other comprehensive income	**94**	(182)
Loans and receivables	**285**	(919)
	379	(1,101)

29.3 **Financial risk management**

The Group and the Company are exposed to a variety of financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

29.4 **Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables and investment securities. The Company's exposure to credit risk arises principally from advances to subsidiaries.

29.4.1 **Receivables**

The risk of counterparties defaulting is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via deposits received from customers and notices sent out to customers 7 days after due date for settlement of debt. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amount in the consolidated statement of financial position.

Management has taken reasonable steps to ensure that trade receivables that are neither past due nor impaired are stated at their realisable values. The Group uses ageing analysis to monitor the credit quality of the trade receivables.

The disclosure of the exposure of credit risk for trade receivables as at the end of the reporting period by geographic region is not disclosed as the Group's operations are confined to the Penang State.

The Group maintains an ageing analysis in respect of trade receivables only.

The ageing of the Group's trade receivables as at the end of the reporting period is as follows:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	**10,836**	**-**	**10,836**
Past due 15 - 60 days	**3,815**	**-**	**3,815**
Past due 61 - 365 days	**8,853**	**(3)**	**8,850**
Past due more than 365 days	**15,769**	**(9,419)**	**6,350**
	39,273	**(9,422)**	**29,851**
2016			
Not past due	10,676	-	10,676
Past due 15 - 60 days	3,842	-	3,842
Past due 61 - 365 days	8,960	(3)	8,957
Past due more than 365 days	14,932	(9,440)	5,492
	38,410	(9,443)	28,967

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

29.4.2 **Investments and other financial assets**

Investments are allowed only in liquid securities and only with counterparties that have good credit rating. These investments are managed by an external fund management company in accordance with the terms of the Investment Management Mandate.

As at the end of the reporting period, the Group has only invested in domestic securities. The maximum exposure to credit risk is represented by the carrying amount in the statement of financial position.

In view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligations.

The investments and other financial assets are unsecured.

29.4.3 **Inter company balances**

The Company provides unsecured advances to its subsidiaries. The Company monitors the results of its subsidiaries.

As at the end of the reporting period, the maximum exposure to credit risk is represented by its carrying amount in the Company's statement of financial position.

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of these advances. Nevertheless, these advances are not regarded as overdue and are repayable on demand.

29.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they fall due. The Group's exposure to liquidity risk arises principally from its various payables and loans and borrowings.

The Group maintains a level of cash and cash equivalents deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	**Contractual cash flows RM'000**	**Within 1 year RM'000**	**1 - 2 years RM'000**	**2 - 5 years RM'000**	**More than 5 years RM'000**
GROUP						
2017						
Non-derivative financial liabilities						
Loans and borrowings	**61,721**	**115,200**	**1,600**	**2,200**	**31,080**	**80,320**
Payables and accruals	**154,619**	**154,619**	**154,619**	**-**	**-**	**-**
	216,340	**269,819**	**156,219**	**2,200**	**31,080**	**80,320**
2016						
Non-derivative financial liabilities						
Loans and borrowings	41,632	79,987	1,000	2,200	13,997	62,790
Payables and accruals	148,571	148,571	148,571	-	-	-
	190,203	228,558	149,571	2,200	13,997	62,790

COMPANY	Carrying amount RM'000	Contractual cash flows RM'000	Within 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
2017						
Non-derivative financial liabilities						
Payables and accruals	**5,867**	**5,867**	**5,867**	**-**	**-**	**-**
2016						
Non-derivative financial liabilities						
Payables and accruals	5,966	5,966	5,966	-	-	-

29.6 **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Group's financial position or cash flows.

29.6.1 **Currency risk**

The Group is not significantly exposed to foreign currency risk as transactions denominated in a currency other than the functional currency of the Group entities is not material.

29.6.2 **Interest rate risk**

Cash flows interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's and the Company's income and interest-earning financial assets are mainly short term in nature and have been placed in short-term deposits with licensed banks.

The Group's and the Company's exposure to interest rate risk is not material as the Group and the Company do not have any significant interest bearing financial liabilities and interest-earning financial assets other than short-term deposits placed with licensed banks.

29.6.3 Other price risk

Equity price risk arises from the Group's investments in equity securities.

Management of the Group monitors the equity investments on a portfolio basis. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Risk Management Committee of the Group.

The management is of the view that the results of the Group is not sensitive towards the changes in equity price risk as there are no equity investments being designated as fair value through profit or loss. Changes in equity price risk for equity investments designated as available-for-sale is not significant to the total equity of the Group.

29.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables approximate their fair values due to the relatively short term nature of these financial instruments.

The fair values of the other financial assets and financial liabilities, together with their carrying amounts shown in the statements of financial position are as follows:

	2017		2016	
	Carrying amount RM'000	**Fair value RM'000**	Carrying amount RM'000	Fair value RM'000
GROUP				
Financial assets				
Quoted shares	**1,876**	**1,876**	1,778	1,778
Money market placement	**860**	**860**	631	631
Financial liabilities				
Loans and borrowings	**61,721**	**61,721**	41,632	41,632

The following summarises the methods used in determining the fair value of financial instruments reflected in the above table.

Investment in quoted shares and debt securities

The fair values of financial assets that are quoted in an active market are determined by reference to their quoted closing bid price at the end of the reporting period.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purpose, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

29.8 **Reconciliation of liabilities arising from financing activities**

The movement of financial liabilities arising from financial activities during the financial year is as follows:

	2016 RM'000	Cash flows RM'000	Others RM'000	2017 RM'000
GROUP				
Loans and borrowings	**41,632**	**29,000**	**(8,911) ***	**61,721**

* Consists of the difference between the nominal value and fair value of the term loans upon drawdown of the term loans, net of current year amortisation.

Pursuant to the transition provisions of the A*mendments to MFRS 107 Statement of Cash Flows*, the Group has not disclosed comparative information for the prior period.

30. FAIR VALUE MEASUREMENT

30.1 Financial assets that are measured at fair value

The carrying amount of the Group's and the Company's financial assets (other than investments in quoted equity instruments) and financial liabilities as at the end of the reporting period approximate their fair values due to their short term nature.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
GROUP					
2017					
Financial assets					
Investment in quoted shares	**1,876**	**-**	**-**	**1,876**	**1,876**
2016					
Financial assets					
Investment in quoted shares	1,778	-	-	1,778	1,778

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 during the financial year.

30.2 Non-financial assets that are measured at fair value

The following table shows the levels within the hierarchy of non-financial assets measured at fair value as at the end of the reporting period:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
GROUP					
2017					
Land	-	-	**12,745**	**12,745**	**12,745**
Plant and machinery	-	-	**59,567**	**59,567**	**59,567**
	-	-	**72,312**	**72,312**	**72,312**
2016					
Land	-	-	11,109	11,109	11,109
Plant and machinery	-	-	43,949	43,949	43,949
	-	-	55,058	55,058	55,058

Level 3 fair value

Level 3 fair values of the land are derived from market price obtained from the relevant authorities, whilst fair values of the mains are generally derived based on management's valuation by reference to suppliers' quotations for similar items.

31. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the financial year.

There were no external capital requirements and/or covenants imposed on the Group as at the end of the reporting period.

32. MATERIAL LITIGATION

On 9 February 2015, a subsidiary of the Company appointed Prominent Multimedia Sdn. Bhd. ("PMSB") via a contract to implement a project known as Integrated Revenue Management System. PMSB failed to complete the implementation within the timeframe agreed in the contract and consequently, the subsidiary terminated the contract with PMSB.

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