

## **PBA HOLDINGS BHD. (515119-U)**

(Incorporated in Malaysia)

Summary of key matters discussed at the Nineteenth Annual General Meeting ("19<sup>th</sup> AGM") of PBA Holdings Bhd ("the Company" or "PBAHB") held at the Hotel Jen, Magazine Road, 10300 Georgetown, Pulau Pinang on Thursday, 30 May 2019 at 10.00 a.m.

### **Attendees:**

- 1) Members of the Board of Directors as per attendance list
- 2) Company Secretary
- 3) Representatives from Messrs. Grant Thornton, the external auditors
- 4) Shareholders / Proxies / Authorised Representatives / Invitees and others as per attendance list

### **AGENDA 1**

#### **AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 TOGETHER WITH THE REPORTS OF THE DIRECTORS AND AUDITORS THEREON**

The Company's Audited Financial Statements for the year ended 31 December 2018 together with the Reports of Directors and Auditors were tabled to the meeting.

YAB Chairman had presented the executive summary of the performance of PBA Group to ease the shareholders' understanding on the overall performance of PBA Group.

The Company had on 27 May 2019 received a letter from the Minority Shareholders Watch Group ("MSWG"), who had raised some questions on the Company's financial performance and Corporate Governance. The meeting noted the reply from the Company to MSWG's queries, which are summarised as follows: -

<b>Questions raised by the MSWG</b>		<b>Summary of the Company's reply</b>
1)	<p><b><u>Strategic and Financial Matters</u></b></p> <p>In the Chairman's Statement on page 21 of the PBAHB Annual Report 2018, it was disclosed that PBAHB had incorporated a 100% owned company, PBA Green Technology Sdn Bhd ("PBAGT") on 12.12.2018 to conduct business activities related to renewable energy generation, such as hydropower and solar power. PBAHB had identified 2 potential projects, namely a mini-hydro plant at the Air Itam Dam and solar power generation at the Bukit Dumbar reservoirs.</p> <p>What is the level of contribution expected to be generated from the two projects in the next 3 years (2019 - 2021)?</p> <p>What are the opportunities and challenges, if any, for the Company on moving into the renewable energy sector, in line with the Penang 2030 vision?</p>	<p>We have taken the first step to enter into the renewable energy industry by incorporating PBA Green Technology Sdn Bhd, or PBAGT on 12.12.2018.</p> <p>However, we are still in the exploratory stage insofar as the "green energy projects" are concerned. As such, we cannot comment or speculate on the "level of contribution" to be generated by PBAGT for the PBAHB Group at this point in time.</p> <p>Rest assured, we will make the necessary public disclosures on PBAGT and the proposed "green energy projects" at the right time. After all, PBAGT represents the Group's firm commitment to support the "green" and "smart" aspects of the Penang 2030 vision.</p>

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<b>Questions raised by the MSWG</b>	<b>Summary of the Company's reply</b>
<p>2) In the CEO's statement on page 29 of the PBAHB Annual Report 2018, the CEO shared that PBAPP plans to embark on a RM501 million investment involving 5 water supply projects for Penang between 2019 and 2021. These projects are:</p> <ul style="list-style-type: none"> <li>• The 3<sup>rd</sup> Butterworth-Penang Twin Submarine Pipeline Project,</li> <li>• Sungai Perak Raw Water Transfer Scheme (SPRWTS),</li> <li>• Upgrading all existing water treatment plants,</li> <li>• Laying new pipelines and pipeline replacement projects, and</li> <li>• Non-revenue water (NRW) management</li> </ul> <p>We note that in order to fund the investment, PBAPP is considering to apply for a water tariff review and has yet to submit the application. What is the current status of the application?</p> <p>What is the alternative plan to materialise the proposed investment given that the water tariff review is subject to Federal Government approval?</p>	<p>PBAPP has not submitted a water tariff review proposal yet because it is awaiting Federal Government approval for the proposed Tariff Setting Mechanism (TSM).</p> <p>Fundamentally, the TSM is a standardised national formula for all water operators to calculate rational and forward-looking water tariffs in all states.</p> <p>It compels water operators to set tariffs that cover operational expenditure (OPEX) for day-to-day business activities, as well as CAPEX for funding infrastructure upgrading and new infrastructure projects.</p> <p>Over and above the OPEX and CAPEX considerations, the TSM allows a water supply operator to earn a reasonable and regulated profit margin.</p> <p>The forward-looking CAPEX consideration is the TSM's most important attribute.</p> <p>In Penang, the State Government promotes a "no water rationing at all costs" policy. This policy is applicable today, and it will also be applicable in the future.</p> <p>Looking ahead, PBAPP plans to implement water supply development projects to guarantee water supply security for Penang towards 2050.</p> <p>Accordingly, PBAPP will await Federal Government approval for the TSM before formulating a rational water tariff review proposal that incorporates CAPEX provisions to fund its projects for the future.</p> <p>The Ministry of Water, Land and Natural Resources, or KATS, has indicated that the TSM will be tabled for Federal Government approval in 2019.</p> <p>If it is approved, and PBAPP uses the TSM to rationalise its water tariff review proposal, it should be highly likely that our proposal will be acceptable.</p>

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	<b>Questions raised by the MSWG</b>	<b>Summary of the Company's reply</b>
3)	<p>We note from Note 8 of page 197 of the PBAHB Annual Report 2018 that "inventories – spare parts and consumables" had increased significantly by 60%, from RM6.71 million in the period year to RM10.74 million as at 31.12.2018.</p> <p>What contributed to the increase? How does this correspond to the current level of operations?</p>	<p>This refers to pipes and valves with a value of about RM4 million from stalled projects. However, these parts are re-useable, and will be utilised in projects scheduled for implementation over the next 3 years.</p>
	<p><b><u>Corporate Governance Matters</u></b></p>	
1)	<p>We note from page of 34 of the AR 2018 that the Board of Directors consist of 9 politicians and political appointees. This contradicts with the policy by the Federal Government which has made public of their policy of not allowing politicians and political appointees to be on the boards of Government-linked companies as part of the reforms introduced.</p> <p>MSWG has always advocated against politicians and political appointee on listed companies, be it government-linked companies or state-owned enterprises as politics and business should not be mixed to avoid conflict of interest situations.</p> <p>What is the Company's policy on this?</p>	<p>In accordance with Article 21(2) of the Constitution of the Company, the Special Shareholder shall have the right from time to time to appoint any Entitled Person to be Director (hereinafter referred to as "Government Appointed Directors"), so that there shall not be less than two (2) nor more than eleven (11) Government Appointed Directors at any time.</p> <p>YB Dato' Seri Farizan is the State Secretary of Penang and YB Dato' Sarul Bahiyah is the Penang State Financial Officer. They are the most senior government administrative officers in Penang. They are not elected politicians.</p> <p>We also have 6 other Independent Non-Executive Directors who are not politicians.</p> <p>Please note that PBAHB is a Penang State Government-linked company. The state government linkage is crucial because our 100% owned subsidiary, PBAPP, provides water supply services in Penang. Water supply is an essential daily service that affects the lives of 1.77 million people in Penang and all the businesses, big and small, that operate in Penang.</p> <p>As such, the composition of the PBAHB Board has to provide the necessary checks and balances.</p>

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		<p>All the elected politicians, including the Penang Chief Minister and Deputy Chief Ministers I and II, are appointed to the Board by virtue of their State positions. They are here to take on the responsibilities of representing, safeguarding and protecting the interests of the State and people of Penang.</p> <p>Meanwhile, the Independent Directors, with wide boardroom experience and expertise, act as caretakers of the interests of minority shareholders and their views carry significant weight in the Board's decision-making processes.</p>
	<p>Apart from the above questions, MSWG had also raised their concern on some other issues relating to the application of the Practices under the Malaysian Code on Corporate Governance ("MCCG") 2017 and as explained in the Annual Report 2018, the Company also clarified as follows: -</p> <p>a) <u>Practice 4.1 of MCCG:</u> <u>At least half of the board comprises independent directors</u></p> <ul style="list-style-type: none"><li>• As stated in the Annual Report 2018, the Board currently consists of 15 Board members, all holding non-executive positions, of whom 6 are Independent and Non-Executive Directors</li><li>• According to the Company's Constitution, the number of Directors shall not be less than two (2) nor (unless otherwise determined by the Company at the General Meeting) more than seventeen (17).</li><li>• The current Board complies with paragraph 15.02 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad which requires that at least two (2) Directors or one-third (1/3) of the Board of the Company, whichever is the higher, to be Independent Directors.</li><li>• As mentioned in the Corporate Governance Report 2018, the Board does not have any immediate plan to increase the number of the Independent Directors, in view of the fact that all the 15 Board members are holding Non-Executive positions.</li></ul> <p>b) <u>Practice 4.5 of MCCG:</u> <u>The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets.</u></p> <ul style="list-style-type: none"><li>• As disclosed in the Annual Report 2018: The Board, through the Nomination and Remuneration Committee ("NRC") assesses all candidates for proposed directorship in consideration of their knowledge, education, qualities, expertise, professionalism, integrity, time commitment, and potential contribution.</li></ul>	

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	<p>Boardroom diversity is also considered, on grounds of gender, skills, experience, age, cultural background, and other factors. For the position of Independent Non-Executive Director, abilities to discharge specific responsibilities / functions are also expected.</p> <ul style="list-style-type: none"><li>• In terms of disclosure on “gender diversity policy”, Bursa Malaysia Securities Berhad has clarified the following through their FAQ, as published in its website:</li></ul> <p>Paragraph 15.08A(3) of the Main Market Listing Requirement does not explicitly require the Company to disclose the targets and measures taken to meet the targets in relation to its gender diversity policy when the Company provides its statement on the activities of its nominating committee pursuant to paragraph 15.08A(3) of the Main Market Listing Requirements.</p> <p>However, a listed issuer is encouraged to disclose the targets and measures taken to meet the targets in relation to its gender diversity policy as recommended in the MCCG.</p> <ul style="list-style-type: none"><li>• At present, the PBAHB Board has not set any specific targets on gender diversity for the Company. From the Board’s viewpoint, gender is only one element of diversity. Experience, background, knowledge, skills and insight are equally important and relevant criteria in selecting new Board members.</li><li>• That said, kindly note that the Company currently has 5 women sitting on the Board and Senior Management positions; and has achieved 20% women’s participation on the Board.</li></ul>
c)	<p><u>Practice 4.7:</u> <u>The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.</u></p> <ul style="list-style-type: none"><li>• Our Chairman of the Nomination and Remuneration Committee (NRC) is YB Prof. Dr. P. Ramasamy a/l Palanisamy, who is a Non-Independent and Non-Executive Director of the Company.</li><li>• He chairs the NRC on the grounds that he also serves as the Chairman of the Establishment Committee of PBAHB’s primary subsidiary, PBAPP, and he is familiar with the staffing issues in the Group.</li><li>• Therefore, the Board is satisfied with the composition of the NRC and is confident that this Committee discharges its functions efficiently and effectively with respect to the nomination and remuneration matters.</li></ul>
d)	<p><u>Practice 7.2:</u> <u>The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000</u></p> <ul style="list-style-type: none"><li>• As disclosed in the Annual Report 2018, the Company considered information of the remuneration of the Senior Management</li></ul>

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	<p>personnel to be “sensitive” and “proprietary”, in view of the competitive nature of the human resource market and to support the Company’s efforts in retaining executive talents.</p> <p>Nevertheless, an aggregate amount of remuneration or compensation of the Key Management personnel was disclosed under Note 26 of the Audited Financial Statements for the FY2018 as alternative practice which is in compliance with the Paragraph 3.2A (b) of the Practice Note 9 under the Main Market Listing Requirements</p> <ul style="list-style-type: none"> <li>• In achieving the intended outcome, the Company has also highlighted that the remuneration packages for Senior Management personnel are subject to review and approval by the Board. The performance of the Senior Management personnel are also evaluated based on the Key Performance Indicators as set by the Board of Directors, on a yearly basis.</li> </ul>
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In addition to the above, the other shareholders also raised some questions during the meeting and below is the key pertinent points: -

	<b>Key matter raised by the shareholders</b>	<b>Response from the Board/ Management</b>
1)	If the Company can no longer recognise the unabsorbed Reinvestment Allowance (RA) due to the Finance Act 2018 has restricted RA claims to 7 years, what will be the tax impact to the Company?	The subsidiary company, Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP) has to recognize the final tax liability of RM137.60 million in 2018. However, this was only a “tax liability on paper”. In reality, the tax due from PBAHB to Inland Revenue Board (IRB) was only RM1.55 million.
2)	Increase the payment channels to ease the customers to pay the water bills.	The customers are encouraged to pay the water bills at PBA Customer Service Counters and other channels would be via myPBA app or PayLink/Kiosk, Jompay or Happy Mart or Pos office. If the customers opted to pay at Pos Office, the Pos Office will charge a service fee on top of the amount of water bill.
3)	Operation issues highlighted in the meeting such as: - i) Underground leaking; ii) Late payment charges; iii) Mode of communicate with the water consumers; iv) Replacement of old water pipes.	The Company would investigate further on the issues as highlighted in the meeting. The Company is in the midst of updating the database of the water consumers in order to operate more efficiently.
4)	Proposal to the Company to declare higher dividend rate in tandem with the performance of the Company.	The Company needs to ensure sufficient cash flow to support its capital expenditures while taking care of the interest of the public and other

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		stakeholders. Notwithstanding that, the Company would endeavour to review and consider higher dividend subject to the satisfactory performance of the Group.
5)	Increase of Company's expenses from 2017 to 2018	There were 4 key components caused the increased of the costs of sales and administrative expenses in 2018: - a) Employees benefits expense increased by 16.04%; b) Energy costs increased by 11.56%; c) Chemical costs increased by 5.48%; and d) Maintenance costs increased by 32%.

There being no other question, the Meeting accepted the audited financial statements for the financial year ended 31 December 2018, together with the Reports of the Directors and Auditors thereon as presented.

**AGENDA 2**

**PAYMENT OF A FINAL SINGLE TIER DIVIDEND OF 1.75 SEN PER SHARE IN RESPECT OF THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

The Ordinary Resolution No. 1 in relation to the payment of a final single tier dividend of 1.75 sen per share for the financial year ended 31 December 2018 on 19 July 2019 was approved by the shareholders.

**AGENDA 3:**

**RE-ELECTION OF DIRECTORS, WHO ARE RETIRING IN ACCORDANCE WITH ARTICLES 114 AND 112 OF THE COMPANY'S CONSTITUTION**

In accordance to with the following articles of the Constitution of the Company, the following Directors were subject to retirement at the 19<sup>th</sup> AGM:

Article 114

- i) YB Tuan Chow Kon Yeow, under Resolution 2;
- ii) YB Dato' Seri Farizan bin Darus, under Resolution 3; and
- iii) YBhg. Dato' Brian Tan Guan Hooi, under Resolution 4.

Article 112

- i) YB Dato' Ir. Haji Ahmad Zaki Yuddin bin Abd Rahman, under Resolution 5;
- ii) YB Tuan Zairil Khir Johari, under Resolution 6;
- iii) YB Dr. Afif bin Bahardin, under Resolution 7;
- iv) YB Tuan Khaliq Mehtab bin Mohd Ishaq, under Resolution 8; and
- v) YB Tuan Muhammad Faiz bin Fadzil, under Resolution 9.

All the abovementioned Ordinary Resolution Nos. 2 to 9 as set out in the Notice of this AGM were approved by the shareholders.

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**AGENDA 4**

**RE-APPOINTMENT OF MESSRS GRANT THORNTON AS AUDITORS OF THE COMPANY UNTIL THE CONCLUSION OF THE NEXT AGM AND TO AUTHORISE THE DIRECTORS TO FIX THEIR REMUNERATION**

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The Ordinary Resolution No. 10 in relation to the re-appointment of Messrs. Grant Thornton as Auditors of the Company on a remuneration to be determined by the Directors was approved by the shareholders.

**AGENDA 5**

**AS SPECIAL BUSINESS, TO PASS THE FOLLOWING RESOLUTIONS: -**

- 5.1 PAYMENT OF BENEFITS PAYABLE TO DIRECTORS UNDER SECTION 230(1)(b) OF THE COMPANIES ACT, 2016 (UNDER ORDINARY RESOLUTION NO. 11)**
  - 5.2 PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES OF UP TO 10% OF ITS ISSUED AND PAID-UP ORDINARY SHARE CAPITAL (UNDER ORDINARY RESOLUTION NO. 12)**
  - 5.3 MANDATE FOR YBHG. DATO' AGATHA FOO TET SIN WHO HAS SERVED AS INDEPENDENT NON-EXECUTIVE DIRECTOR OF THE COMPANY FOR A CUMULATIVE TERM OF MORE THAN NINE (9) YEARS, TO CONTINUE TO ACT AS INDEPENDENT NON-EXECUTIVE DIRECTOR OF THE COMPANY (UNDER ORDINARY RESOLUTION NO. 13)**
  - 5.4 PROPOSED ADOPTION OF THE NEW CONTITUTION OF THE COMPANY (UNDER SPECIAL RESOLUTION)**
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All the above Resolution Nos. 11 to 14 as set out in the Notice of this AGM were approved by the shareholders.

There being no further queries from the shareholders, the meeting concluded at 12.20 p.m. with a vote of thanks to the Chair.