PBA Holdings Bhd.

(Company No. 515119 - U)
(Incorporated in Malaysia)

and its subsidiaries

Financial statements for the year ended 31 December 2012

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
and its subsidiaries

Directors’ report for the year ended 31 December 2012

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 2012.

Principal activities

The Company is principally engaged in investment holding activities whilst the principal activities of the subsidiaries are stated in Note 4 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 for the year attributable to owners of the Company	28,975	15,076

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid :

i) A final tax exempt dividend of 1.75 sen per share, totalling RM5,797,000 in respect of the financial year ended 31 December 2011 on 13 July 2012; and

ii) A first interim single tier dividend of 1.75 sen per share, totalling RM5,797,000 in respect of the financial year ended 31 December 2012 on 4 January 2013.

A final single tier dividend of 2.00 sen per share, totalling RM6,625,000 for the financial year ended 31 December 2012 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 2013.

Directors of the Company

Directors who served since the date of the last report are :

Y.A.B. Tuan Lim Guan Eng - Chairman
Y.B. Dato' Mansor Bin Othman - Deputy Chairman
Y.B. Prof. Dr. P. Ramasamy A/L Palanisamy
Y.B. Dato' Abdul Malik Bin Abul Kassim
Y.B. Tuan Lim Hock Seng
Tuan Haji Mohamad Bin Sabu
Y.B. Dato' Farizan Bin Darus
Y.B. Dato' Mokhtar Bin Mohd Jait
Y.B. Dato' Faiza Binti Zulkifli
Y.Bhg. Dato' Syed Mohamad Bin Syed Murtaza
Y.Bhg. Dato' Chew Kong Seng
Tuan Ahmed Bin Chee
Puan Agatha Foo Tet Sin
Tuan Athi Isvar A/L Athi Nahappan

Directors' interests in shares

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows :

	Number of ordinary shares of RM0.50 each			
	Balance at 1.1.2012	**Bought**	**(Sold)**	**Balance at 31.12.2012**
Deemed interest				
Y.Bhg. Dato' Syed Mohamad Bin Syed Murtaza	13,567,900	-	-	13,567,900

None of the other Directors who held office at 31 December 2012 had any interest in the ordinary shares of the Company and of its related companies during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor 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 of the Company and its related corporations) by reason of a contract made by the Company or a related corporation with the 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.

Directors' benefits (continued)

There were no arrangements during and at the end of the financial year which had the object 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.

Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company and no debentures were issued during the financial year.

Option granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Other statutory information

Before the statements of financial position and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that :

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have 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, or

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

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

Other statutory information (continued)

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors :

……………………………………………..
Dato' Farizan Bin Darus

……………………………………………..
Dato' Mokhtar Bin Mohd Jait

Penang,

Date : 11 April 2013

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
and its subsidiaries

Consolidated statement of financial position as at 31 December 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Assets				
Property, plant and equipment	3	767,753	740,249	721,109
Investment in a jointly controlled entity	5	1,296	1,418	803
Other investments	6	20,528	25,157	24,606
Total non-current assets		789,577	766,824	746,518
Inventories	7	11,696	12,440	13,571
Trade and other receivables	8	36,854	36,474	40,109
Current tax assets		6,043	4,116	5,017
Cash and cash equivalents	9	75,269	78,081	66,425
Total current assets		129,862	131,111	125,122
Total assets		919,439	897,935	871,640

Consolidated statement of financial position as at 31 December 2012 (continued)

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Equity				
Share capital	10	165,635	165,635	165,635
Reserves	11	533,378	515,344	482,648
Total equity		699,013	680,979	648,283
Employee benefits	12	-	-	28,835
Loans and borrowings	13	6,615	-	65,236
Deferred income	14	6,385	-	-
Deferred liabilities	15	67,933	69,528	-
Deferred tax liabilities	16	220	6,500	11,000
Other non-current payables	17	14,560	22,365	-
Total non-current liabilities		95,713	98,393	105,071
Employee benefits	12	-	-	2,094
Loans and borrowings	13	-	-	6,552
Deferred liabilities	15	1,595	1,595	-
Trade and other payables	17	123,118	116,968	109,640
Total current liabilities		124,713	118,563	118,286
Total liabilities		220,426	216,956	223,357
Total equity and liabilities		919,439	897,935	871,640

The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
and its subsidiaries

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Continuing operations			
Revenue	18	244,560	236,328
Cost of sales		(177,204)	(166,212)
Gross profit		67,356	70,116
Other operating income		10,484	18,526
Administrative expenses		(56,373)	(48,781)
Operating profit	19	21,467	39,861
Interest income		2,099	2,314
Share of profit of a jointly controlled entity, net of tax		106	229
Profit before tax		23,672	42,404
Income tax expense	20	5,303	3,293
Profit for the year		28,975	45,697
Other comprehensive income/(expense), net of tax			
Foreign currency translation differences for foreign operation		(228)	386
Fair value of available-for-sale financial assets	30.2	883	(2,619)
Total other comprehensive income/(expense) for the year		655	(2,233)
Total comprehensive income for the year		29,630	43,464

Consolidated statement of comprehensive income (continued)

	Note	2012 RM'000	2011 RM'000
Profit for the year attributable to owners of the Company		28,975	45,697
Total comprehensive income for the year attributable to owners of the Company		29,630	43,464
Basic earnings per ordinary share (sen)	21	8.75	13.79

The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
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Consolidated statement of changes in equity for the year ended 31 December 2012

		← *Non-distributable*				→	*Distributable*	
	Note	**Share capital RM'000**	**Treasury shares RM'000**	**Share premium RM'000**	**Fair value reserve RM'000**	**Foreign currency translation reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2011		165,635	(4)	161,944	3,471	(252)	317,489	648,283
Fair value of available-for-sale financial assets		-	-	-	(2,619)	-	-	(2,619)
Foreign currency translation differences for foreign operation		-	-	-	-	386	-	386
Total other comprehensive income/(expense) for the year		-	-	-	(2,619)	386	-	(2,233)
Profit for the year		-	-	-	-	-	45,697	45,697
Total comprehensive income for the year		-	-	-	(2,619)	386	45,697	43,464
Distribution to owners of the Company - Dividends	22	-	-	-	-	-	(10,766)	(10,766)
Purchase of treasury shares		-	(2)	-	-	-	-	(2)
At 31 December 2011		165,635	(6)	161,944	852	134	352,420	680,979

Consolidated statement of changes in equity for the year ended 31 December 2012 (continued)

	Note	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Fair value reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total equity RM'000
			← *Non-distributable*			→	*Distributable*	
At 1 January 2012		165,635	(6)	161,944	852	134	352,420	680,979
Fair value of available-for-sale financial assets		-	-	-	883	-	-	883
Foreign currency translation differences for foreign operation		-	-	-	-	(228)	-	(228)
Total other comprehensive income/(expense) for the year		-	-	-	883	(228)	-	655
Profit for the year		-	-	-	-	-	28,975	28,975
Total comprehensive income for the year		-	-	-	883	(228)	28,975	29,630
Distribution to owners of the Company - Dividends	22	-	-	-	-	-	(11,594)	(11,594)
Purchase of treasury shares		-	(2)	-	-	-	-	(2)
At 31 December 2012		165,635	(8)	161,944	1,735	(94)	369,801	699,013

The share capital includes 1 Special Rights Redeemable Preference Share ("SRRPS") of RM0.50 each. Refer to Note 10 to the financial statements for details of the terms and rights attached to the SRRPS.

The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.
(Company No. 515119 - U)
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Consolidated statement of cash flows for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Cash flows from operating activities			
Profit before tax from continuing operations		23,672	42,404
Adjustments for :			
Depreciation of property, plant and equipment	3	48,189	49,660
Impairment of property, plant and equipment	19	2,266	-
Impairment of other investments	19	2,388	-
Amortisation of deferred liabilities	15	(1,595)	(665)
Gain on disposal of other investments	19	(1,084)	(2,498)
Gain on disposal of property, plant and equipment	19	(25)	(725)
Property, plant and equipment written off	19	128	23
Share of profit of jointly controlled entity		(106)	(229)
Dividend income	19	(722)	(619)
Interest income		(2,350)	(2,609)
Operating profit before working capital changes		70,761	84,742
Inventories		744	1,131
Trade and other receivables		(380)	3,635
Trade and other payables		(6,669)	(880)
Cash generated from operations		64,456	88,628
Income tax paid		(2,865)	(242)
Net cash from operating activities		61,591	88,386

Consolidated statement of cash flows for the year ended 31 December 2012 (continued)

	Note	2012 RM'000	2011 RM'000
Cash flows from investing activities			
Dividends received		683	555
Interest received		2,350	2,609
Proceeds from disposal of other investments		27,382	32,439
Proceeds from disposal of property, plant and equipment	A	44	2,023
Purchase of other investments		(23,174)	(33,111)
Purchase of property, plant and equipment		(78,889)	(70,477)
Net cash used in investing activities		(71,604)	(65,962)
Cash flows from financing activities			
Dividends paid		(5,797)	(10,766)
Government loans received		13,000	-
Purchase of treasury shares		(2)	(2)
Net cash from/(used in) financing activities		7,201	(10,768)
Net (decrease)/increase in cash and cash equivalents		(2,812)	11,656
Cash and cash equivalents at 1 January		78,081	66,425
Cash and cash equivalents at 31 December	B	75,269	78,081

NOTE

A. *Disposal of property, plant and equipment*

During the year, the Group disposed of property, plant and equipment for RM827,000 (2011 : RM2,379,000) of which RM44,000 (2011 : RM2,023,000) was received in cash and the balance of RM783,000 (2011 : RM356,000) was either set-off against the advance by BKSA or written off (See Note 3).

B. *Cash and cash equivalents*

Cash and cash equivalents included in the statements of cash flows comprise cash and cash equivalents as shown in the Note 9 to the financial statements.

The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.

(Company No. 515119 - U)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Assets				
Property, plant and equipment	3	26	31	37
Investments in subsidiaries	4	266,893	266,893	266,893
Total non-current assets		266,919	266,924	266,930
Trade and other receivables	8	115,120	103,598	99,277
Current tax assets		-	446	428
Cash and cash equivalents	9	7,184	9,071	9,091
Total current assets		122,304	113,115	108,796
Total assets		389,223	380,039	375,726
Equity				
Share capital	10	165,635	165,635	165,635
Reserves	11	217,549	214,069	209,634
Total equity		383,184	379,704	375,269
Employee benefits	12	-	-	240
Other non-current payables	17	75	128	-
Total non-current liabilities		75	128	240
Trade and other payables	17	5,964	207	217
Total current liabilities		5,964	207	217
Total liabilities		6,039	335	457
Total equity and liabilities		389,223	380,039	375,726

The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)

Statement of comprehensive income for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Continuing operations			
Revenue	18	16,762	16,806
Other operating income		16	38
Administrative expenses		(1,621)	(1,567)
Profit before tax	19	15,157	15,277
Income tax expense	20	(81)	(74)
Profit for the year representing total comprehensive income for the year attributable to owners of the Company		15,076	15,203

The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.

(Company No. 515119 - U)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2012

	Note	← Non-Distributable → Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Share option reserve RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 1 January 2011		165,635	(4)	161,944	868	46,826	375,269
Profit for the year representing total comprehensive income for the year		-	-	-	-	15,203	15,203
Distribution to owners of the Company - Dividends	22	-	-	-	-	(10,766)	(10,766)
Purchase of treasury shares		-	(2)	-	-	-	(2)
At 31 December 2011/1 January 2012		165,635	(6)	161,944	868	51,263	379,704
Profit for the year representing total comprehensive income for the year		-	-	-	-	15,076	15,076
Reclassification		-	-	-	(868)	868	-
Distribution to owners of the Company - Dividends	22	-	-	-	-	(11,594)	(11,594)
Purchase of treasury shares		-	(2)	-	-	-	(2)
At 31 December 2012		165,635	(8)	161,944	-	55,613	383,184

The share capital includes 1 Special Rights Redeemable Preference Share ("SRRPS") of RM0.50 each. Refer to Note 10 to the financial statements for details of the terms and rights attached to the SRRPS.
The notes on pages 18 to 77 are an integral part of these financial statements.

PBA Holdings Bhd.

(Company No. 515119 - U)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Cash flows from operating activities			
Profit before tax from continuing operations		15,157	15,277
Adjustments for :			
Depreciation of equipment	3	11	11
Equipment written off	19	3	-
Dividend income		(16,511)	(16,511)
Interest income		(251)	(295)
Operating loss before working capital changes		(1,591)	(1,518)
Trade and other receivables		4,989	12,190
Trade and other payables		(93)	(122)
Cash generated from operations		3,305	10,550
Income tax refunded/(paid)		365	(92)
Net cash from operating activities		3,670	10,458
Cash flows from investing activities			
Interest received		251	295
Purchase of equipment		(9)	(5)
Net cash from investing activities		242	290
Cash flows from financing activities			
Dividends paid		(5,797)	(10,766)
Purchase of treasury shares		(2)	(2)
Net cash used in financing activities		(5,799)	(10,768)
Net decrease in cash and cash equivalents		(1,887)	(20)
Cash and cash equivalents at 1 January		9,071	9,091
Cash and cash equivalents at 31 December	A	7,184	9,071

Statement of cash flows for the year ended 31 December 2012 (continued)

NOTE

A. *Cash and cash equivalents*

Cash and cash equivalents included in the statement of cash flows comprise cash and cash equivalents as shown in Note 9 to the financial statements.

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
and its subsidiaries

Notes to the financial statements

PBA Holdings Bhd. is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the registered office and principal place of business is as follows :

Level 32, Komtar
10000 Penang

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in a jointly controlled entity. The financial statements of the Company as at and for the financial year ended 31 December 2012 do not include other entities.

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

The Company is principally engaged in investment holding activities whilst the principal activities of the subsidiaries are stated in Note 4 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 11 April 2013.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia. These are the Group's and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, First-time adoption of Malaysian Financial Reporting Standards has been applied.

In the previous years, the financial statements of the Group and of the Company were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia. The transition to MFRSs has no financial impact to the financial statements of the Group and of the Company.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group and the Company :

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to MFRS 101, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interests in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (2011)
- MFRS 127, Separate Financial Statements (2011)
- MFRS 128, Investments in Associates and Joint Ventures (2011)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to MFRS 7, Financial Instruments : Disclosures - Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards - Government Loans
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132, Financial Instruments : Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements : Transition Guidance
- Amendments to MFRS 11, Joint Arrangements : Transition Guidance
- Amendments to MFRS 12, Disclosure of Interests in Other Entities : Transition Guidance

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, Consolidated Financial Statements : Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities : Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011) : Investment Entities
- Amendments to MFRS 132, Financial Instruments : Presentation - Offsetting Financial Assets and Financial Liabilities

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- Amendments to MFRS 7, Financial Instruments : Disclosures - Mandatory Effective Date of MFRS 9 and Transition Disclosures

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations :

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2012 and 1 January 2013, except for those indicated with "*" which are not applicable to the Group and the Company.

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

Material impacts of initial application of a standard, an amendment or an interpretation, which will be applied retrospectively, are discussed below :

Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)

The adoption of the amendments to MFRS 116 may result in a change in classification of spare parts that meet the definition of property, plant and equipment. Those spare parts shall be reclassified from inventories to property, plant and equipment. The Group is currently assessing the financial impact that may arise from the adoption of the above amendments to MFRS 116.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with Malaysian Financial Reporting Standards (MFRSs) 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 estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated 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. Control exists when the Company has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are 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.

(ii) Business combinations

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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations (continued)

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, 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 interests 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 (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either 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.

Acquisitions before 1 January 2011

As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the date of transition to MFRSs, i.e. 1 January 2011. Goodwill arising from acquisitions before 1 January 2011 has been carried forward from the previous FRS framework as at the date of transition.

(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 reserves.

(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 subsidiary. 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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Jointly-controlled entities

Jointly-controlled entities are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution (or included in a disposal group that is classified as held for sale or distribution). The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted joint ventures, after adjustments, if any, to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted joint venture, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the joint venture.

Investment in jointly controlled entities are stated in the Company's statement of financial position at cost less impairment losses, 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.

2. Significant accounting policies (continued)

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any 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 that 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. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

(b) Property, plant and equipment

(iii) Depreciation (continued)

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

	%
Leasehold land	1 - 2
Buildings and building improvements	2 - 33.33
Reservoirs	2
Plant and machinery	2 - 15
Motor vehicles	20
Equipment and furniture	10 - 33.33

Property, plant and equipment of a subsidiary 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.

(c) Leased assets

(i) Finance leases

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. 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.

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

(ii) Operating leases

Leases, where the Group or the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

2. Significant accounting policies (continued)

(c) Leased assets (continued)

(ii) Operating leases (continued)

Payments made under operating leases are recognised in the 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.

(d) Impairment

(i) Financial assets

All financial assets (except for investments in subsidiaries and jointly controlled entities) are assessed at each reporting date 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 assets 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 the 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.

2. Significant accounting policies (continued)

(d) Impairment (continued)

(i) Financial assets (continued)

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 goodwill, the recoverable amount is estimated each period at the same time.

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. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a *pro rata* basis.

2. Significant accounting policies (continued)

(d) Impairment (continued)

(ii) Other assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(e) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes 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, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(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.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

(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 (see Note 2(d)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as financial liabilities and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to :

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(v) 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 profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. 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.

(f) 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. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

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.

2. Significant accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of 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 liabilities unless the probability of outflow of economic benefits is remote.

(j) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not re-measured subsequently.

(i) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Special rights redeemable preference share capital

The Special rights redeemable preference share ("Special Share") 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 Special Share 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").

2. Significant accounting policies (continued)

(j) Equity instruments (continued)

(iii) Special rights redeemable preference share capital (continued)

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, 1965, require the Company to redeem the Special Share at par at any time. Other rights and restrictions attached to the Special Share are set out in Article 17 of the Company's Articles of Association.

(iv) 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 share premium account or distributable reserves, or both.

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, and the resulting surplus or deficit on the transaction is presented in share premium.

(k) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of 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 retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

(k) Foreign currency (continued)

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2011 which are treated as assets and liabilities of the Company. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR in equity.

(l) Revenue and other income

(i) Sale of water

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

2. Significant accounting policies (continued)

(l) Revenue and other income (continued)

(ii) Contribution for trunk mains

Contribution for trunk mains is recognised as income when invoiced and upon services being rendered.

(iii) Sales from training facilities and education business

Revenue is recognised when invoiced and upon services being rendered.

(iv) Sales from water bottling business

Revenue from the sale of water bottling business in the ordinary course of activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(v) 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.

(vi) 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.

(vii) 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.

2. Significant accounting policies (continued)

(l) Revenue and other income (continued)

(viii) Government grants

Government grants that compensate the Group for the cost of an asset are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(m) 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 expense 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 financial years.

Deferred tax is recognised, using the liability method, providing for temporary differences between the carrying amount of assets and liabilities in the statements of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences : the initial recognition of goodwill and the initial recognition of 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, being a tax incentive that is not a tax base of an asset is recognised as deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

2. Significant accounting policies (continued)

(n) 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 has 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 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 has no further payment obligations.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the end of the reporting period on highly quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or any settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognised all actuarial gains or losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

2. Significant accounting policies (continued)

(n) Employee benefits (continued)

(iii) Defined benefit plans (continued)

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(o) Operating segments

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 decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(p) 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. Property, plant and equipment

	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
Group								
Cost								
At 1 January 2011	25,298	78,900	55,010	623,458	12,976	36,789	148,951	981,382
Additions	-	109	-	4,152	641	1,241	64,334	70,477
Disposals/Written off	-	(1,765)	-	(88)	-	(668)	(356)	(2,877)
Reclassification	192	509	20,169	74,060	128	8,594	(103,652)	-
At 31 December 2011/ 1 January 2012	25,490	77,753	75,179	701,582	13,745	45,956	109,277	1,048,982
Additions	-	-	-	3,681	263	1,023	73,922	78,889
Disposals/Written off	-	-	-	(790)	-	(356)	(783)	(1,929)
Reclassification	383	281	608	94,063	-	5,250	(100,585)	-
At 31 December 2012	25,873	78,034	75,787	798,536	14,008	51,873	81,831	1,125,942

3. Property, plant and equipment (continued)

	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
Depreciation and impairment loss								
At 1 January 2011								
Accumulated depreciation	2,285	12,061	11,429	197,093	9,132	27,130	-	259,130
Accumulated impairment loss	1,143	-	-	-	-	-	-	1,143
	3,428	12,061	11,429	197,093	9,132	27,130	-	260,273
Depreciation for the year	209	1,974	1,499	35,151	1,444	9,383	-	49,660
Disposals/Written off	-	(476)	-	(66)	-	(658)	-	(1,200)
At 31 December 2011/ 1 January 2012								
Accumulated depreciation	2,494	13,559	12,928	232,178	10,576	35,855	-	307,590
Accumulated impairment loss	1,143	-	-	-	-	-	-	1,143
	3,637	13,559	12,928	232,178	10,576	35,855	-	308,733
Depreciation for the year	202	1,599	1,720	35,545	1,331	7,792	-	48,189
Impairment loss	276	-	-	1,990	-	-	-	2,266
Disposals/Written off	-	-	-	(695)	-	(304)	-	(999)
At 31 December 2012								
Accumulated depreciation	2,696	15,158	14,648	267,028	11,907	43,343	-	354,780
Accumulated impairment loss	1,419	-	-	1,990	-	-	-	3,409
	4,115	15,158	14,648	269,018	11,907	43,343	-	358,189

3. Property, plant and equipment (continued)

	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
Carrying amounts								
At 1 January 2011	21,870	66,839	43,581	426,365	3,844	9,659	148,951	721,109
At 31 December 2011/ 1 January 2012	21,853	64,194	62,251	469,404	3,169	10,101	109,277	740,249
At 31 December 2012	21,758	62,876	61,139	529,518	2,101	8,530	81,831	767,753

During the year, Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd., a subsidiary of the Company, transferred certain capital work-in-progress relating mainly to replacement of mains and water resource projects carried out on behalf of Badan Kawal Selia Air, Pulau Pinang ("BKSA") amounting to RM55,000 (31.12.2011 : RM265,000 and 1.1.2011: RM11,968,000) to BKSA's account and the remaining amount was written off.

3. Property, plant and equipment (continued)

Company	Equipment and furniture RM'000
Cost	
At 1 January 2011	111
Addition	5
At 31 December 2011/1 January 2012	116
Addition	9
Written off	(8)
At 31 December 2012	117
Accumulated depreciation	
At 1 January 2011	74
Depreciation for the year	11
At 31 December 2011/1 January 2012	85
Depreciation for the year	11
Written off	(5)
At 31 December 2012	91
Carrying amounts	
At 1 January 2011	37
At 31 December 2011/1 January 2012	31
At 31 December 2012	26

Included in the carrying amount of land are :

	Group		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Freehold land	5,343	4,960	4,960
Leasehold land with unexpired lease period of more than 50 years	16,415	16,893	16,910
	21,758	21,853	21,870

Certain freehold land and leasehold land of the Group with carrying amounts of RM186,000 (31.12.2011 : RM197,000 and 1.1.2011: RM197,000) and RM356,000 (31.12.2011 : RM650,000 and 1.1.2011: RM687,000) respectively are in the process of being registered under the name of a subsidiary.

4. Investments in subsidiaries - Company

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Unquoted shares, at cost	266,025	266,025	266,025
Share-based payments allocated to subsidiaries	868	868	868
	266,893	266,893	266,893

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

Name of subsidiary	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %	Principal activities
Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd.	100	100	100	Water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers.
Island Springwater Sdn. Bhd.	100	100	100	Providing water bottling services and to promote and sell water management software and energy know-how. The subsidiary has ceased operations during the financial year.
PBA Resources Sdn. Bhd.	100	100	100	Providing training facilities, education and other non-water related businesses.

5. Investment in a jointly controlled entity

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group			
Unquoted shares, at cost	*	*	*
Share of post acquisition reserves	1,296	1,418	803
	1,296	1,418	803

5. Investments in a jointly controlled entity (continued)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Company			
Unquoted shares, at cost	*	*	*

* RM99

Details of the jointly controlled entity which is incorporated in Federal Territory of Labuan, Malaysia are as follows :

Name of jointly controlled entity	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %	Principal activities
Pinang Water Limited	26	26	26	Constructing water infrastructure projects, water treatment, management and supply of treated water for government, industries, commercial and domestic consumers.

The Group's aggregate share of the non-current and current assets, non-current and current liabilities, income and expenses of the jointly controlled entity are as follows :

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Assets and liabilities			
Non-current assets	6,095	6,574	6,285
Current assets	1,427	1,086	784
Total assets	7,522	7,660	7,069
Non-current liabilities	(25)	(129)	(225)
Current liabilities	(6,201)	(6,113)	(6,041)
Total liabilities	(6,226)	(6,242)	(6,266)

	2012 RM'000	2011 RM'000
Results		
Revenue	1,153	799
Other income	8	137
Expenses, including finance costs and taxation	(1,055)	(707)

6. Other investments - Group

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current			
Available-for-sale financial assets			
Quoted investments in Malaysia	17,554	21,751	20,918
Loans and receivables			
Fixed deposits with licensed banks	40	126	1,327
Money market placement	2,934	3,280	2,361
	2,974	3,406	3,688
	20,528	25,157	24,606
Representing items :			
At cost/amortised cost	2,974	3,406	3,688
At fair value	17,554	21,751	20,918
	20,528	25,157	24,606
Market value of quoted investments	17,554	21,751	20,918

7. Inventories - Group

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At cost :			
Spare parts and consumables	11,121	11,929	12,998
Chemicals	575	503	565
Manufactured inventories	-	8	8
	11,696	12,440	13,571

The cost of inventories recognised as an expense during the financial year amounted to approximately RM8,895,000 (2011 : RM10,856,000).

8. Trade and other receivables

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group				
Trade				
Trade receivables		18,769	16,588	11,522
Non-trade				
Deposits		5,008	4,064	4,084
Prepayments		635	462	1,096
Other receivables		6,262	9,185	17,235
Amount due from jointly controlled entity	8.2	6,180	6,175	6,172
		18,085	19,886	28,587
		36,854	36,474	40,109
Company				
Non-trade				
Other receivables		114	162	143
Amount due from subsidiaries	8.1	108,826	97,261	92,962
Amount due from jointly controlled entity	8.2	6,180	6,175	6,172
		115,120	103,598	99,277

8.1 Amount due from subsidiaries

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

8.2 Amount due from jointly controlled entity

The non-trade amount due from jointly controlled entity comprises shareholders' advances and payments made on behalf. The amount is interest-free and repayable on demand.

9. Cash and cash equivalents

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group			
Cash and bank balances	2,671	5,468	5,525
Short-term deposits with licensed banks	72,598	72,613	60,900
	75,269	78,081	66,425
Company			
Cash and bank balances	184	171	191
Short-term deposits with licensed banks	7,000	8,900	8,900
	7,184	9,071	9,091

10. Share capital - Group/Company

	31.12.2012		31.12.2011		1.1.2011	
	Amount RM'000	Number of shares ('000)	Amount RM'000	Number of shares ('000)	Amount RM'000	Number of shares ('000)
Authorised :						
Special rights redeemable preference share ("SRRPS") of RM0.50 each	*	**	*	**	*	**
Ordinary shares of RM0.50 each	500,000	1,000,000	500,000	1,000,000	500,000	1,000,000
	500,000	1,000,000	500,000	1,000,000	500,000	1,000,000
Issued and fully paid :						
Special rights redeemable preference share ("SRRPS") of RM0.50 each	*	**	*	**	*	**
Ordinary shares of RM0.50 each	165,635	331,271	165,635	331,271	165,635	331,271
	165,635	331,271	165,635	331,271	165,635	331,271

* RM0.50
** 1 SRRPS

10. Share capital - Group/Company (continued)

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 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, 1965, require the Company to redeem the SRRPS at par at any time. Other rights and restrictions attached to the SRRPS are set out in Article 17 of the Company's Articles of Association.

11. Reserves

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group				
Distributable				
Retained earnings		369,801	352,420	317,489
Non-distributable				
Share premium		161,944	161,944	161,944
Treasury shares	11.2	(8)	(6)	(4)
Foreign currency translation reserve	11.4	(94)	134	(252)
Fair value reserve	11.5	1,735	852	3,471
		163,577	162,924	165,159
		533,378	515,344	482,648
Company				
Distributable				
Retained earnings		55,613	51,263	46,826
Non-distributable				
Share premium		161,944	161,944	161,944
Treasury shares	11.2	(8)	(6)	(4)
Share option reserve	11.3	-	868	868
		161,936	162,806	162,808
		217,549	214,069	209,634

11. Reserves (continued)

11.1 Section 108 tax credit

During the financial year, the Company made an irrevocable option to forego its Section 108 tax credit available and paid dividends to its shareholders under the single tier system.

11.2 Treasury shares

The shareholders of the Company in the Annual General Meeting held on 26 June 2012, approved the Company's plan to purchase up to 10% of its issued and paid-up share capital of ordinary shares with par value of RM0.50 each.

During the financial year ended 31 December 2012, 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	0.89	1	-	1
1,000	0.92	1	-	1

For the financial year ended 31 December 2011, 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 RM 0.96 per share.

The shares repurchased were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Of the total 331,270,401 issued and fully paid ordinary shares of RM0.50 each as at 31 December 2012, 8,000 (2011 : 6,000) ordinary shares are held as treasury shares by the Company. The number of outstanding ordinary shares in issue is therefore 331,262,401 (2011 : 331,264,401) ordinary shares of RM0.50 each.

11.3 Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options. When the option is exercised, the amount from the share option reserve is transferred to share premium. When the share options expire, the amount from the share option reserve is transferred to retained earnings.

11.4 Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the jointly controlled entity whose functional currency is other than RM.

11. Reserves (continued)

11.5 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. Employee benefits

The Group operated an unfunded defined benefit scheme ("the scheme") for all its employees in prior years. However, this scheme was terminated with effect from 1 January 2011 and was replaced with the Employees Provident Fund Top-Up Plan. Upon the termination of the scheme, the balance at 1 January 2011 was reclassified to other payables and accruals (Note 17). The amount is payable to the employees of the Group and the Company over a 5-year period. The outstanding balance of the unfunded defined benefit scheme as at 1 January 2011 was adjusted to reflect the actual amount to be paid by the Group. The effect of such adjustments amounting to RM8,819,000 is recognised in profit or loss in financial year 2011.

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group			
Present value of unfunded obligations	-	-	36,428
Unrecognised actuarial losses	-	-	(5,499)
Total employee benefits	-	-	30,929
Analysed as :			
Current	-	-	2,094
Non-current			
Within one year	-	-	1,727
Between one and five years	-	-	8,960
More than five years	-	-	18,148
	-	-	28,835
	-	-	30,929
Company			
Present value of unfunded obligations	-	-	131
Unrecognised actuarial losses	-	-	109
Total employee benefits	-	-	240

12. Employee benefits (continued)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Analysed as :			
Non-current			
Within one year	-	-	-
Between one and five years	-	-	-
More than five years	-	-	240
	-	-	240
	-	-	240

Movements in the present value of defined benefit obligations are as follows :

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
At 1 January	-	30,929	-	240
Amount reclassified to other payables and accruals	-	(30,929)	-	(240)
At 31 December	-	-	-	-

Principal actuarial assumptions used for the purpose of the actuarial valuation are as follows :

	31.12.2012 %	31.12.2011 %	1.1.2011 %
Discount rate	-	-	6.20
Future salary increase	-	-	5.00

13. Loans and borrowings, unsecured - Group

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Term loans :			
Non-current	6,615	-	65,236
Current	-	-	6,552
	6,615	-	71,788

13. Loans and borrowings, unsecured - Group (continued)

During the current financial year, a subsidiary obtained an unsecured and interest-free term loan from the State Government of Penang to finance Non-Revenue Water projects. The term loan is repayable over 20 years with effect from 14 September 2016.

The unsecured term loans outstanding at 1 January 2011 were obtained from the State Government of Penang to finance major water projects. Pursuant to migration of the Penang State Water Assets and the loans thereon to Pengurusan Aset Air Berhad ("PAAB") during financial year 2011, the subsidiary entered into Facility and Lease Agreements ("FLA") with PAAB to enable water supply services to be carried out on the land 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.

Pursuant to the above events, the outstanding balance of the term loans was converted into a lease incentive and the outstanding balance of the term loans was reclassified to deferred liabilities (Note 15).

14. Deferred income - Group

Deferred income represents the difference between the nominal value of the interest free term loan obtained from the State Government of Penang to finance Non-Revenue Water projects and the fair value of the loan measured on initial recognition. The deferred income is amortised over the useful life of the assets funded which ranged from 25 years to 50 years.

15. Deferred liabilities - Group

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current	67,933	69,528	-
Current	1,595	1,595	-
	69,528	71,123	-

Deferred liabilities represent lease incentives that are amortised over the lease period of 45 years with effect from 1 August 2011. During the financial year, RM1,595,000 (31.12.2011 : RM665,000) was amortised and applied against the lease expense attributable to the FLA as disclosed in Note 13 to the financial statements.

16. Deferred tax liabilities - Group

	2012 RM'000	2011 RM'000
At 1 January	6,500	11,000
Recognised in profit or loss (Note 20)	(6,280)	(4,500)
At 31 December (presented after appropriate offsetting)	220	6,500

The movements in deferred tax liabilities and assets (prior to offsetting) during the financial year are as follows :

	At 1.1.2011 RM'000	Recognised in profit or loss (Note 20) RM'000	At 31.12.2011 RM'000	Recognised in profit or loss (Note 20) RM'000	At 31.12.2012 RM'000
Deferred tax liabilities					
Property, plant and equipment - capital allowance	91,773	5,960	97,733	6,058	103,791
Contributions for trunk mains	5,753	(27)	5,726	339	6,065
	97,526	5,933	103,459	6,397	109,856
Deferred tax assets					
Employee benefit plan	(7,607)	7,607	-	-	-
Unutilised reinvestment allowance	(74,724)	(13,723)	(88,447)	(14,123)	(102,570)
Unabsorbed capital allowance	(3,128)	3,128	-	(1,354)	(1,354)
Other items	(1,067)	(7,445)	(8,512)	2,800	(5,712)
	(86,526)	(10,433)	(96,959)	(12,677)	(109,636)

Deferred tax has not been recognised in respect of the following items :

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Unabsorbed capital allowance	2,067	2,041	1,567
Unutilised tax losses	1,155	1,082	612
Other temporary differences	(1,273)	(1,465)	(1,227)
	1,949	1,658	952

16. Deferred tax liabilities - Group (continued)

The unutilised tax losses, unabsorbed capital allowance and other temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

17. Trade and other payables

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Group				
Current				
Trade payables		2,791	3,273	3,386
Non-trade				
Other payables and accruals	17.1	42,647	43,062	38,488
Dividend payable		5,797	-	-
Refundable deposits	17.2	71,883	70,633	67,766
		120,327	113,695	106,254
		123,118	116,968	109,640
Non-current				
Other non-current payables	17.3	14,560	22,365	-
Company				
Current				
Other payables and accruals	17.1	167	207	217
Dividend payable		5,797	-	-
		5,964	207	217
Non-current				
Other non-current payables	17.3	75	128	-

17.1 Other payables and accruals

Included in other payables and accruals of the Group are advances received from BKSA for future water resource projects and progress payments to be made on BKSA's behalf amounting to RM451,000 (31.12.2011 : RM506,000 and 1.1.2011 : RM770,000).

17. Trade and other payables (continued)

17.2 Refundable deposits

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

17.3 Other non-current payables

Other non-current payables comprise of amount payable to employees of the Group and the Company pursuant to the termination of the unfunded defined benefit scheme (Note 12). The related current amount payable to employees of RM7,441,000 (31.12.2011 : RM11,284,000 and 1.1.2011 : RM Nil) is included under current other payables and accruals.

18. Revenue

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Gross dividend from a subsidiary	-	-	16,511	16,511
Interest income	251	295	251	295
Sale of water	232,570	225,812	-	-
Contribution for trunk mains	11,240	9,486	-	-
Sales from water bottling business	43	95	-	-
Sales from training facilities business	103	114	-	-
Sales from education business	353	526	-	-
	244,560	236,328	16,762	16,806

19. Operating profit

Operating profit is arrived at :

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
After charging :				
Adjustment pursuant to termination of retirement benefits plan	-	8,819	-	-

19. Operating profit (continued)

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
After charging (continued) :				
Auditors' remuneration				
Audit fees				
- KPMG Malaysia	122	112	16	13
Non-audit fees				
- KPMG Malaysia	16	18	11	9
- Local affiliate of KPMG Malaysia	30	56	3	3
Dams and mains lease charges	12,966	5,402	-	-
Directors' allowance				
- present Directors	420	403	246	235
- past Director	-	4	-	2
Impairment loss on :				
- trade and other receivables	1,489	534	-	-
- property, plant and equipment	2,266	-	-	-
- other investments	2,388	-	-	-
Inventories written off	301	98	-	-
Property, plant and equipment				
- depreciation (Note 3)	48,189	49,660	11	11
- written off	128	23	3	-
Raw water intake charges	8,095	10,899	-	-
Rental of equipment	97	-	-	-
Rental of premises	1,021	620	-	-
Water supply licence fee	2,326	1,309	-	-
and after crediting :				
Adjustment pursuant to termination of retirement benefits plan	-	-	-	27
Bad debts recovered	3	2	-	-
Gain on disposal of other investments	1,084	2,498	-	-
Gain on disposal of property, plant and equipment	25	725	-	-
Gross dividend received from investments quoted in Malaysia	722	619	-	-
Income from miscellaneous jobs	2,714	2,654	-	-
Income from reconnection fees and final connection charges	2,921	2,932	-	-
Rental income				
- buildings	683	777	-	-
- meters and plant and machinery	764	750	-	-

20. Income tax expense

Recognised in profit or loss

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Income tax expense on continuing operations	(5,303)	(3,293)	81	74

Major components of tax expense include :

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Income tax expense				
Current year	854	1,319	74	69
Prior year	123	(112)	7	5
	977	1,207	81	74
Deferred tax expense				
Current year	(6,932)	(4,995)	-	-
Prior year	652	495	-	-
	(6,280)	(4,500)	-	-
Total tax expense	(5,303)	(3,293)	81	74

Reconciliation of effective tax expense

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Profit for the year	28,975	45,697	15,076	15,203
Total tax expense	(5,303)	(3,293)	81	74
Profit excluding tax	23,672	42,404	15,157	15,277

20. Income tax expense (continued)

Reconciliation of effective tax expense (continued)

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Income tax calculated using Malaysian tax rate of 25% (2011 : 25%)	5,918	10,601	3,789	3,819
Income not subject to tax	(456)	(779)	(4,128)	(4,128)
Non-deductible expenses	2,375	1,049	413	378
Deferred tax assets not recognised	71	177	-	-
Deferred tax recognised in respect of unutilised reinvestment allowance	(14,123)	(13,723)	-	-
Effect of tax incentive	-	(984)	-	-
Other items	137	(17)	-	-
Under provision in prior year	775	383	7	5
Total tax expense	(5,303)	(3,293)	81	74

21. Earnings per ordinary share - Group

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 :

	2012 RM'000	**2011 RM'000**
Profit for the year attributable to owners of the Company	28,975	45,697
Weighted average number of ordinary shares in issue	331,264	331,266
Basic earnings per ordinary share (sen)	8.75	13.79

	2012 ('000)	**2011 ('000)**
Issued ordinary shares at 1 January	331,271	331,271
Effect of treasury shares held	(7)	(5)
Weighted average number of ordinary shares in issue	331,264	331,266

22. Dividends - Group/Company

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2012			
Final 2011 tax exempt dividend	1.75	5,797	13 July 2012
Interim 2012 single tier dividend	1.75	5,797	4 January 2013
	3.50	11,594	
2011			
Final 2010 tax exempt dividend	1.50	4,969	15 July 2011
Interim 2011 tax exempt dividend	1.75	5,797	23 December 2011
	3.25	10,766	

	2012 RM	2011 RM
Gross dividends per ordinary share (sen)	3.75	3.50

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

The Directors recommended a final single tier dividend of 2.00 sen per share, amounting to RM6,625,000 for the financial year ended 31 December 2012 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 2013.

23. Operating lease arrangements - Group

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 financial self-sustainability amongst the water operators in the water service industry, a subsidiary has henceforth entered into Facility and Lease Agreements with Pengurusan Aset Air Berhad (PAAB) to enable water supply services to be carried out on the land 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.

23. Operating lease arrangements - Group (continued)

Non-cancellable operating lease rentals are payable as follows :

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-cancellable operating lease rentals :			
Within one year	14,561	14,561	8,446
Between one to five years	58,244	58,244	26,746
More than five years	561,815	576,376	30,500
	634,620	649,181	65,692

The lease payments recognised in profit or loss during the financial year are disclosed in Note 19 to the financial statements.

Leases as lessor

A subsidiary leased 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 :

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Less than one year	320	200	200
Between one and five years	1,330	880	840
More than 5 years	43,638	38,100	38,340
	45,288	39,180	39,380

24. Employee benefits expense

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Wages and salaries	51,232	42,032	346	316
Social security costs	546	530	3	3
Post-employment benefits :				
- defined contribution plan	8,193	6,847	62	63
- adjustment pursuant to termination of defined benefit plan	-	8,819	-	(27)
Other staff related expenses	5,574	5,261	36	46
	65,545	63,489	447	401

25. Related party

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. Key management personnel includes all the Directors of the Group, and certain members of senior management of the Group.

The Group has related party relationship with its controlling shareholder, subsidiaries, a jointly controlled entity and key management personnel.

Significant related party transactions

The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Note 8.

Transactions with a jointly controlled entity

	Group/Company	
	2012	**2011**
	RM'000	**RM'000**
Reimbursement of expenses	4	3

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly. The key management personnel includes the Directors of the Company, and certain members of senior management of the Group and of the Company. The key management personnel compensation are as follows :

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors :				
- Allowances	420	407	246	237

25. Related party (continued)

Key management personnel (continued)

	Group		Company	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Other key management personnel :				
- short-term employee benefits	2,717	2,490	65	164
- defined contribution plan	460	440	9	26
- adjustment pursuant to termination of defined benefit plan	-	580	-	-
- estimated monetary value of benefits-in-kind	77	94	2	9
	3,254	3,604	76	199
	3,674	4,011	322	436

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 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 2012, management estimates that the aggregate amount of PBAPP's significant transactions with other government-related entities approximate 2% (2011: 2%) of the Group's revenue and 3% (2011: 4%) of the Group's total expenses.

26. Capital commitments - Group

	31.12.2012 RM'000	**31.12.2011 RM'000**	**1.1.2011 RM'000**
Contracted but not provided for	118,000	107,000	64,000
Authorised but not contracted for	44,000	134,000	247,000

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 a 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, a subsidiary was granted Individual Service License and Facility License by SPAN pursuant to Section 9 of the WSIA 2006. The licence shall be effective from 1 June 2011 until 31 May 2014 and the licence fee payable is calculated at 1% of the revenue from the sale of water by the subsidiary.

28. Contingent liabilities - Company (unsecured)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Corporate guarantee given to a bank in respect of credit facilities granted to a jointly controlled entity	25	129	225

The Company has also undertaken to provide continuing financial support to certain subsidiaries to enable them to meet their financial obligations as and when they fall due.

29. Segmental information

The Group only has 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 monthly basis.

Accordingly, information by operating segment on the Group's operations as required by FRS 8 is not presented.

Geographical segment

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

30. Financial instruments

30.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows :

(a) Loans and receivables (L&R);
(b) Available-for-sale financial assets (AFS); and
(c) Financial liabilities measured at amortised cost (FL).

Financial assets	**Carrying amount RM'000**	**L&R RM'000**	**AFS RM'000**
31.12.2012			
Group			
Other investments	20,528	2,974	17,554
Trade and other receivables (excluding prepayment)	36,219	36,219	-
Cash and cash equivalents	75,269	75,269	-
	132,016	114,462	17,554
Company			
Trade and other receivables (excluding prepayment)	115,120	115,120	-
Cash and cash equivalents	7,184	7,184	-
	122,304	122,304	-
31.12.2011			
Group			
Other investments	25,157	3,406	21,751
Trade and other receivables (excluding prepayment)	36,012	36,012	-
Cash and cash equivalents	78,081	78,081	-
	139,250	117,499	21,751
Company			
Trade and other receivables (excluding prepayment)	103,598	103,598	-
Cash and cash equivalents	9,071	9,071	-
	112,669	112,669	-

30. Financial instruments (continued)

30.1 Categories of financial instruments (continued)

Financial assets	Carrying amount RM'000	L&R RM'000	AFS RM'000
1.1.2011			
Group			
Other investments	24,606	3,688	20,918
Trade and other receivables (excluding prepayment)	39,013	39,013	-
Cash and cash equivalents	66,425	66,425	-
	130,044	109,126	20,918
Company			
Trade and other receivables (excluding prepayment)	99,277	99,277	-
Cash and cash equivalents	9,091	9,091	-
	108,368	108,368	-

Financial liabilities	Carrying amount RM'000	FL RM'000
31.12.2012		
Group		
Loans and borrowings (including deferred income)	13,000	13,000
Trade and other payables	137,678	137,678
	150,678	150,678
Company		
Trade and other payables	6,039	6,039

30. Financial instruments (continued)

30.1 Categories of financial instruments (continued)

	Carrying amount RM’000	FL RM’000
Financial liabilities		
31.12.2011		
Group		
Trade and other payables	139,333	139,333
Company		
Trade and other payables	335	335
1.1.2011		
Group		
Loans and borrowings	71,788	71,788
Trade and other payables	109,640	109,640
	181,428	181,428
Company		
Trade and other payables	217	217

30.2 Net gains and losses arising from financial instruments

	2012 RM’000	2011 RM’000
Net gains/(losses) on :		
Available-for-sale financial assets		
- recognised in other comprehensive income	209	(2,619)
- reclassified from equity to profit or loss	674	-
	883	(2,619)
- impairment loss on other investments	(2,388)	-
Loans and receivables	(1,489)	(534)
	(2,994)	(3,153)

30. Financial instruments (continued)

30.3 Financial risk management

The Group has exposure to the following risks from its use of financial instruments :

- Credit risk
- Liquidity risk
- Market risk

30.4 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 from customers and investment securities. The Company's exposure to credit risk arises principally from loans and advances to subsidiaries and a jointly controlled entity and financial guarantees given to a bank for credit facilities granted to a jointly controlled entity.

Receivables

Risk management objectives, policies and processes for managing the risk

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 consumers and notices sent out to consumers 7 days after due date for settlement of debt. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures. The risk associated with the short term and fixed deposits placed with licensed banks is managed by placing such deposits with licensed banks with good credit rating.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statements 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 and the risk is also mitigated by the deposits collected from customers.

Receivables amounting to RM29,753,000 (31.12.2011 : RM26,164,000 and 1.1.2011: RM20,610,000) are secured by deposits collected from customers.

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.

30. Financial instruments (continued)

30.4 Credit risk (continued)

Receivables (continued)

Impairment losses

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

The ageing of trade receivables as at the end of the reporting period was :

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
31.12.2012			
Not past due	9,927	-	9,927
Past due 15 - 60 days	1,968	-	1,968
Past due 61 - 365 days	6,072	(22)	6,050
Past due more than 365 days	11,786	(10,962)	824
	29,753	(10,984)	18,769
31.12.2011			
Not past due	7,425	-	7,425
Past due 15 - 60 days	1,848	-	1,848
Past due 61 - 365 days	5,993	(14)	5,979
Past due more than 365 days	10,898	(9,562)	1,336
	26,164	(9,576)	16,588
1.1.2011			
Not past due	2,608	-	2,608
Past due 15 - 60 days	3,681	-	3,681
Past due 61 - 365 days	5,268	(35)	5,233
Past due more than 365 days	9,053	(9,053)	-
	20,610	(9,088)	11,522

30. Financial instruments (continued)

30.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

The movements in the allowance for impairment losses of trade receivables during the year were :

	2012 RM'000	2011 RM'000
Group		
At 1 January	9,576	9,088
Impairment loss recognised	1,552	651
Impairment loss reversed	(125)	(142)
Impairment loss written off	(19)	(21)
At 31 December	10,984	9,576

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.

Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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 amounts in the statements of financial position.

The investments and other financial assets are unsecured.

30. Financial instruments (continued)

30.4 Credit risk (continued)

Investments and other financial assets (continued)

Impairment losses

The Group recognised an impairment loss of RM2,388,000 (31.12.2011: RM Nil and 1.1.2011: RM Nil) in respect of the Group's other investments. The movements in the allowance for impairment loss during the financial year were:

	2012 RM'000	2011 RM'000
Group		
At 1 January	-	-
Impairment loss recognised	2,388	-
At 31 December	2,388	-

Inter company balances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured advances to subsidiaries and a jointly controlled entity. The Company monitors the results of the subsidiaries and jointly controlled entity regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statements of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the subsidiaries and jointly controlled entity 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.

30. Financial instruments (continued)

30.4 Credit risk (continued)

Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to a bank in respect of credit facilities granted to a jointly controlled entity. The Company monitors on an ongoing basis the results of the jointly controlled entity and repayment made by the jointly controlled entities.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounted to RM25,000 (31.12.2011 : RM129,000 and 1.1.2011 : RM225,000) representing the outstanding banking facilities of a jointly controlled entity as at the end of the reporting period.

As at the end of the reporting period, there was no indication that the jointly controlled entity would default on repayment.

The financial guarantees have not been recognized since the fair value on initial recognition was not material.

30.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as 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 and bank facilities 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.

30. Financial instruments (continued)

30.5 Liquidity risk (continued)

Maturity analysis

The table below summaries 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 interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Non-derivative financial liabilities							
Group							
31.12.2012							
Loans and borrowings (including deferred income)	13,000	-	13,000	-	-	1,300	11,700
Trade and other payables	137,678	-	137,678	123,118	7,280	7,280	-
	150,678		150,678	123,118	7,280	8,580	11,700
31.12.2011							
Trade and other payables	139,333	-	139,333	116,968	7,633	14,732	-
1.1.2011							
Loans and borrowings	71,788	-	71,788	6,552	6,552	19,656	39,028
Trade and other payables	109,640	-	109,640	109,640	-	-	-
	181,428		181,428	116,192	6,552	19,656	39,028

30. Financial instruments (continued)

30.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	More than 5 years RM'000
Non-derivative financial liabilities							
Company							
31.12.2012							
Trade and other payables	6,039	-	6,039	5,964	37	38	-
31.12.2011							
Trade and other payables	335	-	335	207	43	85	-
1.1.2011							
Trade and other payables	217	-	217	217	-	-	-

30. Financial instruments (continued)

30.6 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.

30.6.1 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.

30.6.2 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 mostly placed in short-term and fixed deposits with licensed banks.

Risk management objectives, policies and processes for managing the risk

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 the short-term deposits placed with licensed banks.

30.6.3 Other price risk

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

Risk management objectives, policies and processes for managing the risk

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.

Equity price risk sensitivity analysis

The management is of the view that the results of the Group is not sensitive towards 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.

30. Financial instruments (continued)

30.7 Fair values of financial instruments

Recognised financial instruments

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 :

	31.12.2012		31.12.2011		1.1.2011	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial assets						
Quoted shares	17,554	17,554	21,751	21,751	20,918	20,918
Fixed deposits with licensed bank	40	40	126	126	1,327	1,327
Money market placement	2,934	2,934	3,280	3,280	2,361	2,361
Financial liabilities						
Other non-current payables	22,001	24,630	33,649	28,412	-	-
Loans and borrowings (including deferred income)	13,000	6,615	-	-	71,788	#

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.

30. Financial instruments (continued)

30.7 Fair value of financial instruments (continued)

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, 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.

Loans and borrowings

It was not practicable to estimate the fair value of the interest-free term loans which were obtained from the State Government of Penang due to the lack of comparability of information on discount rate and repayment terms.

30.7.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows :

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
31.12.2012				
Investment in quoted shares	17,554	-	-	17,554
31.12.2011				
Investment in quoted shares	21,751	-	-	21,751
1.1.2011				
Investment in quoted shares	20,918	-	-	20,918

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.

32. Explanation of transition to MFRSs

As stated in Note 1(a), these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in Note 2 have been applied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

The transition to MFRSs does not have any material financial impact to the financial statements of the Group and the Company.

33. Supplementary information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows :

	Group		**Company**	
	2012 RM'000	**2011 RM'000**	**2012 RM'000**	**2011 RM'000**
Total retained earnings :				
- Realised	314,851	303,856	55,613	51,263
- Unrealised	(220)	(6,500)	-	-
	314,631	297,356	55,613	51,263
Share of retained earnings of jointly controlled entity				
- Realised	1,390	1,284	-	-
	316,021	298,640	55,613	51,263
Add : Consolidation adjustments	53,780	53,780	-	-
Total retained earnings at 31 December	369,801	352,420	55,613	51,263

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
and its subsidiaries

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 5 to 76 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 33 on page 77 to the financial statements has been compiled in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors :

……………………………………………..
Dato' Farizan Bin Darus

……………………………………………..
Dato' Mokhtar Bin Mohd Jait

Penang,

Date : 11 April 2013

PBA Holdings Bhd.
(Company No. 515119 - U)
(Incorporated in Malaysia)
and its subsidiaries

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Joyce Lee Suan Imm**, 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 5 to 77 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 abovenamed at Georgetown in the State of Penang on 11 April 2013.

…………………………………….
Joyce Lee Suan Imm

Before me :

GOH SUAN BEE (No. P 125)
Pesuruhjaya Sumpah
(Commissioner for Oaths)
Penang

Independent auditors' report to the members of PBA Holdings Bhd.

(Company No. 515119 - U)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of PBA Holdings Bhd., which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 76.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal controls as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Company No. 515119 - U

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the act.

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 33 on page 77 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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Other Matters

As stated in Note 1 to the financial statements, PBA Holdings Berhad adopted Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS") on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2011 and related disclosures. We were not engaged to report on the comparative information that is prepared in accordance with MFRS and IFRS, and hence it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
AF 0758
Chartered Accountants

Ooi Kok Seng
2432/05/13 (J)
Chartered Accountant

Date : 11 April 2013
Penang, Malaysia