

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/2017.

The 17th Annual General Meeting (AGM) of PBA Holdings Bhd (“the Company” or “PBAHB”) was held at the Matahari Ballroom, Hotel Equatorial Penang, Malaysia, from 2.00pm on Tuesday, 23/5/2017.

Attendees:

- 1) PBAHB Board of Directors (All Members)
- 2) Company Secretary
- 3) Representatives from Messrs. Grant Thornton (External Auditors)
- 4) Shareholders/Proxies/Authorised Representatives/Invitees and Others (as per the attendance list).

AGENDA 1

TO RECEIVE THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016, TOGETHER WITH THE REPORTS OF THE DIRECTORS AND AUDITORS THEREON

The Company’s Audited Financial Statements for the year ended 31/12/2016, together with the Reports of Directors and Auditors, were tabled.

It was noted that the Company had received a letter from the Minority Shareholders Watchdog Group (“MSWG”) on 18/5/2017, which had raised questions on the Company’s performance during the financial year under review. The following table lists the questions, as well as summaries of the answers provided by the Company, as read out by the Chairman, YAB Tuan Lim Guan Eng during the AGM:

MSWG Question	
A	Strategic and Financial Matters
1	Please explain the actions taken by the Company to address the state’s limited raw water reserves and the high level of domestic consumption.
PBAHB Answer	
	<ul style="list-style-type: none">• Perbadanan Bekalan Air Pulau Pinang Sdn Bhd, or “PBAPP” (the wholly owned subsidiary of PBAHB) implements both water supply management and water demand management strategies in Penang to address these challenges.• In 2014, 2015 and 2016, there were numerous incidences of water rationing in Perlis, Kedah, Perak, Putrajaya, Kuala Lumpur, Selangor, Negri Sembilan and Johor.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

- There was no water rationing in Penang. No rationing in Penang shows that PBAPP has been successful in managing water supply and water demand.
- In the period 2008 to 2016, PBAPP implemented a total of 262 water supply engineering projects for the benefit of Penang. The total value of these projects was about RM484 million.
- Nevertheless, our main concern today is the availability of raw water. Penang is a small state with a geographical footprint of only 1,048 sq. km. We are highly dependent on only one river, Sungai Muda, for more than 80% of Penang's raw water daily.
- The 2009 "Masterplan Study for Potable Water in Penang towards 2050" projected that Sungai Muda can only meet Kedah and Penang's raw water needs until 2020.
- As such, the most rational solution is to tap a second or alternative raw water resource. The masterplan study proposed the implementation of the Sungai Perak Raw Water Transfer Scheme, or SPRWTS to deliver raw water from Sungai Perak to Penang.
- Since 2009, we have been asking the Federal Government to implement the SPRWTS, to meet the raw water needs of North Perak and Penang until 2050. As recommended by the Federal Government, we have discussed the SPRWTS with Perak, but the Perak State Government is only interested in selling treated water. This seems to be impractical because Perak's domestic water tariffs for the first 35,000 litres per month is RM0.71 per 1,000 litres, while Penang's domestic tariff is only RM0.32 per 1,000 litres.
- In a letter dated 18/9/2013, the Minister of Energy, Green Technology and Water, or KeTTHA, stated that Penang should lower its per capita domestic consumption before asking for the SPRWTS.
- Penang's per capita domestic consumption was the highest in Malaysia at 286 litres per capita per day, or l/c/d, in 2016. In the period 2000 – 2010, per capita domestic consumption grew at a rate of 1.28% per annum, from 255 l/c/d to 291 l/c/d. Based on this growth trend, Penang's per capita domestic consumption could have been 315 l/c/d today.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

- Fortunately, in 2010, PBAPP introduced the first water conservation surcharge, or WCS, in Malaysia for domestic consumption above 35,000 litres per month. The 2010 WCS was 24 sen per 1,000 litres. In 2013, the WCS was revised to 48 sen per 1,000 litres.
- The WCS worked to cap Penang's per capita domestic consumption to 286 l/c/d in 2016. However, we need to reduce domestic water consumption further, due to the following issues:
 1. The completion of the Mengkuang Dam Expansion Project has been delayed by the Federal Government; and it is projected that the dam may only be fully commissioned by July 2019.
 2. The SPRWTS has also been delayed by the Federal Government. Please note that this project is expected to take at least 7 years to complete.
 3. Kedah is continuing to license logging activities in Ulu Muda, the water catchment area for Sungai Muda. Logging is jeopardising the quality and quantity of water available from Sungai Muda. Without Federal Government intervention and compensation, Kedah will not stop logging Ulu Muda.
 4. The Super El Niño phenomenon in 2016 has shown us the danger of water rationing due to climate change.
 5. PBAPP's domestic water subsidy for Penang amounted to RM91 million in 2016. This RM91 million could have been used to implement more water supply projects in Penang to reinforce our assurance of "no water rationing". If nothing is done, this figure will exceed 100 million ringgit in 2017.
- As such, PBAPP has applied to SPAN to review the WCS to RM1.00 per 1,000 litres for domestic consumption above 35,000 litres per month. This is a water demand management initiative to convince high volume domestic consumers to conserve water.
- We have set a target to reduce domestic water consumption by 10% in 2017. The target is to reduce our per capita consumption from 286 l/c/d in 2016 to 257 l/c/d in 2017. This 10% reduction in domestic consumption will help to ensure "no rationing" in Penang until 2020.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

- So, “raising the value of water” to encourage water conservation is our first water demand management strategy.
- The second strategy is “water awareness and education”. We have been using various public platforms, including “World Water Day” events; press conferences by the Penang State Government and PBAPP; and press releases to share information about water issues in Penang. We want to get more people involved in water conservation.
- On every available communications platform, including today’s AGM, we share and publicise the latest information and updates about water supply with you.
- In February 2017, PBAPP launched ‘myPBA’, the first water industry mobile app to enable online access and payment of water bills in Malaysia via connected smart phones and tablets. ‘myPBA’ also serves as a handy platform for PBAPP to promote water saving tips and provide information on water issues that affect Penang.
- Water saving tips and water supply information is also posted and updated regularly on www.pba.com.my and www.pbahb.com.my, the websites for PBAPP and PBAHB.
- We support water education activities for schoolchildren. We participate in national and international conferences. We attend meetings chaired by KeTTHA and SPAN. We openly and actively share information and knowledge to sustain continuous good water supply in our state, in the Northern Corridor Economic Region, and in Malaysia.
- PBAPP’s third water demand management strategy is the promotion of “water saving devices”, or WSDs.
- WSDs include tap equipment, showers, toilet fittings, urinal fittings, washing machines and dishwashers that ‘automatically’ save water. WSDs are promoted in Australia, Hong Kong, New Zealand, the United Kingdom and the USA. Upon installation, WSDs may reduce water consumption by up to 70%.
- PBAPP has distributed free water saving thimbles at World Water Day 2017 and to all Penang State Assemblymen. When installed into taps, these thimbles will automatically reduce water consumption.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

- PBAPP is also requesting the Penang State Government to change building by-laws to require mandatory installation of WSDs in all new development projects.
- In conclusion: PBAPP is asking for the SPRWTS to address Penang's raw water needs until 2050. At the same time, we are implementing water demand management strategies to reduce Penang's per capita domestic consumption to mitigate the risks of a water crisis.
- However, please note that the implementation of the SPRWTS and logging in Ulu Muda are NCER issues that are beyond our control. Only the Federal Government can address these issues. The Federal Government must play its role and fulfill its obligations to Penang.

MSWG Question

A Strategic and Financial Matters

2 Please explain the measures taken by the Company to educate consumers to use less water as the state recorded the highest usage in Malaysia, ie. 36.8% above the national average.

PBAHB Answer

- The Greater Ulu Muda forests cover an area of 162,931 hectares in Kedah, and is the most important water catchment area in the Northern Corridor Economic Region, or NCER.
- Perlis and Kedah are also dependent on Ulu Muda as a water catchment. As such, the Ulu Muda logging issue should be regarded as a NCER issue, based on the following factors:
 1. The estimated combined population of Perlis, Kedah and Penang is 4.08 million people. Our lives and livelihoods, as well as the daily operations of thousands of companies, including all the multinational manufacturing corporations in the Kulim High Tech Park and Penang's industrial areas, are reliant on Ulu Muda.
 2. Together, Perlis, Kedah and Penang contributed to about 10.4% of the Malaysian GDP of RM1.013 trillion in 2014.
 3. Irrigation for about 100,000 hectares of agricultural and padi land in Perlis and Kedah are also reliant on Ulu Muda.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

4. Meanwhile, the Northern Corridor Implementation Authority (NCIA) is reportedly targeting RM7.4 billion in private investments this year and creating 7,400 jobs.

- Despite public outcry and newspaper exposés in 2016 and 2017, Kedah continues to license logging in Ulu Muda. Kedah reportedly earned RM230.34 million from approving the logging of 46,264 hectares of forests in the period 2009 - 2014. Obviously, Kedah is not going to stop logging and voluntarily lose millions of ringgit in state income.
- The Federal Government is the only authority that can direct Kedah to ban logging in Ulu Muda completely. The Federal Government must step in to protect the interests of 3 NCER states. It should tell Kedah to stop logging now, and gazette Ulu Muda as a “NCER Water Catchment Area”.
- In return, the Federal Government should compensate Kedah for its potential losses from forestry premiums. This is only fair because Kedah needs funds for state development as well as to conserve Ulu Muda as a “NCER Water Catchment Area”.

MSWG Question

A	Strategic and Financial Matters
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3	The State’s NRW (water loss) of 21.5% in 2016 was lower than the national average of 35.5%. How was the Company able to achieve this ratio and would the Board be able to bring the ratio lower?
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PBAHB Answer

- NRW or non-revenue water, is primarily caused by burst or leaking pipes, inaccurate water meters and water theft.
- In 2016, PBAPP replaced 30.1km of outdated pipes that were prone to bursting or leaking. PBAPP also replaced 33,900 water meters that were more than 10 years old at various premises throughout the State of Penang in 2016 to ensure accurate measurements of water consumption.
- We have installed pressure relief valves and conducted pressure management procedures in areas with the highest incidences of pipe bursts. We are targeting 20.0% NRW this year.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

MSWG Question	
A	Strategic and Financial Matters
4	Please explain the measures taken by the Company to educate consumers to use less water as the state recorded the highest usage in Malaysia, i.e. 36.8% above the national average.
PBAHB Answer	
<ul style="list-style-type: none">• As per our answer to Question No. 1, “water awareness and education” is one of PBAPP’s three key water demand management strategies. In fact, PBAPP is the industry leader in “water awareness and education” in Malaysia. No other water supply operator is as open or proactive as PBAPP in focusing public and Federal Government attention on water issues. We constantly publicise and promote the following on mass media, online and social media platforms:<ol style="list-style-type: none">1. Water issues such as the status of Penang’s dams; logging in Ulu Muda; the SPRWTS; the MDEP; and the need for the Federal Government to manage raw water resources at NCER-level;2. Sustainable water supply management, including the WCS and the need to reduce domestic consumption by 10% in 2017;3. Water-saving tips for domestic consumers;4. Water saving devices; and5. The “Aquasave” programme that recognises and rewards organisations in Penang that implement innovative water saving projects.• We also support programmes such as “World Water Day” in Penang and projects to teach school children to save water at home. We work with the Penang Green Council to promote and implement the “Aquasave” programme and “Green Office” premises. Even today, at this AGM, we are promoting water awareness and conservation.	
MSWG Question	
A	Strategic and Financial Matters
5	On 26th April 2016, Pinang Water Limited (PWL) entered into an agreement to dispose of its entire equity interest in Yichun Pinang Water Company Limited for a consideration of 55 million renminbi. What is the reason for the disposal and what was the financial impact to the Group’s result?

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

PBAHB Answer

- The disposal of PWL's entire equity interest in its China subsidiary was completed on 11/8/2016. As a 26% joint venture partner, PBAHB's share of the profit and gain from the disposal was RM4.8 million, and this has been accounted for in PBAHB's 2016 financial performance.
- The main reason for the disposal is that the 3 joint-venture partners of Yichun Pinang Water Company Limited were offered a good deal by the buyer. All partners agreed to the disposal for this reason. Moreover, it is imperative for PBAHB and PBAPP to focus primarily in sustainable water supply management in Penang, in view of the current raw water scenario in the NCER.

MSWG Question

A Strategic and Financial Matters

6 How effective were the dry weather control engineering protocols implemented in Penang and how was this carried out?

PBAHB Answer

- PBAPP's dry weather control engineering protocols include:
 1. Ensuring that Penang's dams are full by the end of each year in preparation for the dry season in the first three months of the following year.
 2. Optimising Penang's dam reserves by pacing and moderating storage drawdowns during dry seasons.
 3. Increasing extraction of water from Sungai Muda for treatment at the Sungai Dua Water Treatment Plant.
 4. Increasing the output of the Sungai Dua Water Treatment Plant to produce more treated water daily.
 5. Pumping water from the Sungai Dua Water Treatment Plant at higher pressures to reach all areas on the mainland, and to the South-West district of Penang Island.
 6. Expediting pipe replacement works for asbestos cement (AC) pipes which have exceeded their design life.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

7. Monitoring the levels of Sungai Muda, Penang's primary source of raw water, 24/7, as well as the capacities of the Muda Dam and Beris Dam in Kedah daily.

- These dry weather control engineering protocols have been successful in ensuring no water rationing in Penang, especially in 2014, 2015 and 2016.

MSWG Question

B Corporate Governance Matters

1 We noted 9 out of the 15 Non-Executive Directors are active politicians. There is growing recognition globally that serving politicians and public sector officers are discouraged from serving in the Board of public listed companies on the ground of time commitment and conflict of interest as well as dominating issues. We hope the Board would affect a governance policy on this matter.

PBAHB Answer

- Firstly, we would like to point out that only 7 of the 15 Non-Executive Directors are politicians. YB Dato' Seri Farizan is the State Secretary of Penang and YB Puan Sarul Bahiyah is the Penang State Financial Officer. They are the most senior government administrative officers in Penang. They are not elected politicians.
- We also have 6 other Independent Non-Executive Directors who are not politicians.
- As such, please note that the majority of directors in PBA Holdings Bhd, or PBAHB, are not politicians.
- Secondly, as pointed out in every AGM since 2008, PBAHB is a Penang State Government-linked company. The state government linkage is crucial because our 100% owned subsidiary, PBAPP, provides water supply services in Penang.
- Water supply is an essential daily service that affects the lives of 1.72 million people and all the businesses, big and small, that operate in Penang.
- The composition of the PBAHB Board provides the necessary checks and balances.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

<ul style="list-style-type: none">• All the elected politicians, including the Penang Chief Minister and Deputy Chief Ministers I and II, are appointed to the Board by virtue of their State positions. They are here to take on the responsibilities of representing, safeguarding and protecting the interests of the State and people of Penang.• Meanwhile, the Independent Directors, with wide boardroom experience and expertise, act as caretakers of the interests of minority shareholders and their views carry significant weight in the Board's decision-making processes.• Thirdly, please note that this Board of Directors has ensured that dividends are paid to shareholders for the 9th consecutive year since 2008. Moreover, there has been no water rationing in Penang, and we recorded a good financial result for 2016.	
MSWG Question	
B	Corporate Governance Matters
2	YB Dato' Haji Abdul Malik bin Abdul Kassim attended only 3 out of the 5 Board meetings during the financial year. What was the reason for him not being able to attend these meetings held during the financial year despite that each board meeting is scheduled three months in advance so that directors are able to plan ahead their respective meeting schedule?
PBAHB Answer	
<ul style="list-style-type: none">• YB Dato' Haji Abdul Malik was unable to attend two Board Meetings in 2016 because he was abroad to carry out his official duties on behalf of the Penang State Government. Nevertheless, he fulfilled the meeting attendance requirement in 2016, as imposed by Bursa Securities, and continues to perform his duties as a Non-Executive Director.	
MSWG Question	
B	Corporate Governance Matters
3	Under Resolution 7, the re-election of YBhg. Dato' Syed Mohamad bin Syed Murtaza is tabled for the shareholders' approval. It was reported that YBhg. Dato' Syed Mohamad bin Syed Murtaza was remanded by MACC for investigations. What was the Board's role in ensuring that all its directors undergo an evaluation exercise before recommending for re-election? What was the outcome of such evaluation exercise conducted, if any?

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

PBAHB Answer

- The Board has been made aware of YBhg. Dato' Syed's remand by the MACC to facilitate and assist investigations under Section 23 of the MACC Act 2009 through media reports published on 30/3/2017. Accordingly, PBAHB has issued a relevant announcement to Bursa Securities dated 31/3/2017. We have highlighted the fact that our Company has no details of the nature of the MACC investigation; and that the said investigation is not related to PBAHB.
- As disclosed in the Annual Report and for the purpose of determining the eligibility of the Directors to stand for re-election at this AGM, the Nomination and Remuneration Committee, or NRC, has considered the following:-
 1. Evaluation on the effectiveness of individual Directors, the Board as a whole, and all Board Committees; and
 2. As for Independent Non-Executive Directors: the level of independence demonstrated and their ability to act in the best interest of the company.
- Based on the foregoing, there is no compelling reason for the NRC not to recommend the re-election of Dato' Syed as an Independent Non-Executive Director. Please note that Dato' Syed was remanded to facilitate and assist in a MACC investigation that does not involve our company.
- The NRC also considered the following factors :-
 - i. Dato' Syed is not performing any executive role in the Company and is not involved in the daily operations of our Group.
 - ii. Dato' Syed has demonstrated his independence as Independent Non-Executive Director.
 - iii. Despite the MACC investigation, Dato Syed continues to fulfill his duties as an Independent Non-Executive Director. To date, he has attended all the Board Meetings, as well as the meetings of the Board Committees in which he serves.
 - iv. Dato' Syed is eligible to seek re-election under Article 112, and has consented to continue serving the Company if he is re-elected by the shareholders at this AGM.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

- Upon recommendation from the NRC, the Board therefore presented the motions in relation to the re-election of all the retiring Directors at this AGM, for the shareholders' review and consideration.

MSWG Question

B Corporate Governance Matters

- 4 Under Resolution 10, the Company seeks shareholders' approval for payment of Director's benefits to the Non-Executive Directors up to an amount of RM550,000 from 31st January 2017 until the next AGM of the Company. Could the Board provide the breakdown of the benefits paid to the directors?**

PBAHB Answer

- Firstly, please allow me to clarify that the remuneration packages for the Board of Directors have NOT changed since 25/5/2000. With regard to benefits due to the Directors:
 1. The Non-Executive Chairman receives a fixed monthly allowance of RM3,500. He also receives a meeting allowance of RM300 per meeting.
 2. The Non-Executive Deputy Chairman receives a fixed monthly allowance of RM2,000 per month. He also receives a meeting allowance of RM300 per meeting.
 3. The Independent Non-Executive Directors receive fixed monthly allowances of RM1,500 per month each. Their meeting allowance is RM300 per meeting.
 4. The Non-Executive Directors receives fixed monthly allowances of RM1,500 per month each. Their meeting allowance is RM300 per meeting.
- The RM550,000 mentioned in Resolution 10 will cover the following for a period of 16 months:
 - i. Fixed monthly allowances for 15 Directors of PBAHB and 10 Directors of PBAPP. The total number of director positions is 25.
 - ii. Meeting allowances for 25 directorships.
 - iii. Benefits in kind for 25 directorships.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

- Please note that we are tabling this resolution to comply with Section 230 (1)(b) of the Companies Act 2016. It requires disclosure of the 'total package' for directors.
- Please also note that the RM550,000 covers a period of 16 months, and not 12 months. It is for a period of 16 months because Section 230 (1)(b) is applicable from 31/1/2017. This resolution will last until our next AGM in May 2018.
- To clarify again: The remuneration packages for the directors have not changed since 25/5/2000. We are not seeking to increase Directors' remunerations today.

The AGM then approved the receipt of the Audited Financial Statements for the financial year ended 31 December 2016, together with the Reports of the Directors and Auditors thereon.

AGENDA 2

TO APPROVE THE PAYMENT OF A FINAL SINGLE TIER DIVIDEND OF 2.25 SEN PER SHARE IN RESPECT OF THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (RESOLUTION 1).

Resolution 1 was approved by the shareholders.

AGENDA 3

TO RE-ELECT THE FOLLOWING DIRECTORS WHO ARE RETIRING IN ACCORDANCE TO THE COMPANY'S CONSTITUTION :-

ARTICLE 114

- | | |
|---|----------------|
| a. YAB TUAN LIM GUAN ENG | (RESOLUTION 2) |
| b. YB DATO' MOHD RASHID BIN HASNON | (RESOLUTION 3) |
| c. YB PROF. DR. P. RAMASAMY
A/L PALANISAMY | (RESOLUTION 4) |
| d. YBHG. DATO' SERI NAZIR ARIFF
BIN MUSHIR ARIFF | (RESOLUTION 5) |

Resolutions 2, 3, 4 and 5 were approved by the shareholders.

PBA HOLDINGS BHD (515119-U)

(Incorporated in Malaysia)

Summary of Key Matters discussed during the 17th AGM on 23/5/ 2017.

ARTICLE 112

- a. YB PUAN SARUL BAHYAH BINTI ABU (RESOLUTION 6)
- b. YBhg. DATO' SYED MOHAMAD
BIN SYED MURTAZA (RESOLUTION 7)
- c. Ybhg. DATO' SR. KUVENARAJU
A/L PACHAPPEN (RESOLUTION 8)

Resolutions 6, 7 and 8 were approved by the shareholders.

AGENDA 4

TO RE-APPOINT MESSRS GRANT THORNTON AS AUDITORS OF THE COMPANY UNTIL THE CONCLUSION OF THE NEXT AGM AND TO AUTHORISE THE DIRECTORS TO FIX THEIR REMUNERATION (RESOLUTION 9).

Resolution 9 was approved by the shareholders.

AGENDA 5

AS SPECIAL BUSINESS, TO PASS THE FOLLOWING RESOLUTIONS:

- 5.1. PAYMENT OF BENEFITS PAYABLE TO DIRECTORS UNDER SECTION 230(1)(b) OF THE COMPANIES ACT, 2016 (RESOLUTION 10)
- 5.2. PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES OF UP TO 10% OF ITS ISSUED AND PAID-UP ORDINARY SHARE CAPITAL ("PROPOSED RENEWAL OF SHARE BUY-BACK MANDATE") (RESOLUTION 11)

Resolution 10 and 11 were approved by the shareholders.

There being no further queries from the shareholders, the AGM concluded at 4.05pm, with a vote of thank you to the Chair.