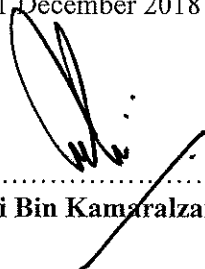


PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS
31 DECEMBER 2018

These financial statements and reports of the Company with
~~Qualified~~/Unqualified Auditors' Report for the financial year
ended 31 December 2018 were circulated on



.....
Suhaimi Bin Kamaralzaman

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

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PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and to own public water supply system for the purpose of providing treated water as well as providing management services. The principal activities of the subsidiaries, as listed in Note 7 to the financial statements, are the operation, maintenance, management and construction of water treatment facilities, and supply of treated water within Selangor and the Federal Territories of Kuala Lumpur and Putrajaya.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Loss for the financial year	<u>1,309,945</u>	<u>316,022</u>

DIVIDEND

No dividend has been paid, declared or proposed by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and paid-up ordinary share capital of the Company was increased from RM10,810,650,000 to RM12,737,936,000 by way of issuance of 1,927,286 new ordinary shares for the transfer of water assets valued at RM1,927,286,000 owned by the State Government of Selangor Darul Ehsan ("State Government") to the Company.

The newly issued shares rank pari passu in all respects with the existing ordinary shares of the Company. There were no other issues of shares during the financial year.

The Company did not issue any debentures during the financial year.

DIRECTORS

The Directors who have held office since the date of the last report are as follows:

Pengurusan Air Selangor Sdn. Bhd.

YAB Tuan Amirudin Bin Shari
YB Dato Mohd Amin Bin Ahmad Ahya
YB Dato' Nor Azmie Bin Diron
YBhg Dato' Teo Yen Hua
Suhaimi Bin Kamaralzaman

Subsidiaries of Pengurusan Air Selangor Sdn. Bhd.

Pursuant to Section 253 of Companies Act 2016 in Malaysia, the list of Directors of the subsidiaries during the financial year and up to the date of this report is as follows:

Suhaimi Bin Kamaralzaman
Abdul Karim Bin Endut (Alternate Director to Suhaimi Bin Kamaralzaman)
Abas Bin Abdullah
Kevin Lee Shih-Min
Zaheeda Banu Binti Mohamad Ariff

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in ordinary shares and options over ordinary shares in the Company and of its related corporations during the financial year ended 31 December 2018 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 in Malaysia were as follows:

	----- Number of ordinary shares -----			
	Balance as at 1.1.2018	Bought	Sold	Balance as at 31.12.2018
Shares in a related corporation, Kumpulan Perangsang Selangor Berhad				
<u>Direct interests:</u>				
Suhaimi Bin Kamaralzaman	10,000	769	-	10,769

None of the other Directors holding office at the end of the financial year held any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors have received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with 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 other than those remunerations received by certain Directors as directors/executives of its related corporations.

There were no arrangements during and at the end of the financial year, to which the Company is a party, which had the object of enabling the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

The details of Directors' remuneration are disclosed in Note 24 (c) to the financial statements.

INDEMNITY AND INSURANCE FOR DIRECTORS, OFFICERS AND AUDITORS

The Company maintains a corporate liability insurance for the Directors and officers of the Group throughout the financial year, which provides appropriate insurance cover for the Directors and officers of the Group. The amount of insurance premium paid by the Company for the financial year ended 31 December 2018 was RM81,098.

There were no indemnity given to or insurance effected for the auditors of the Group and of the Company during the financial year.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and had satisfied themselves that there are no known bad debts to be written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

**OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY
(continued)**

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

- (a) The Directors are not aware of any circumstances:
 - (i) which would necessitate the writing off of bad debts or render the amount of provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
 - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (b) In the opinion of the Directors:
 - (i) there has not arisen any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of operations of the Group and of the Company for the financial year in which this report is made; and
 - (ii) no contingent or other liability has become enforceable or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

- (a) There are no charge on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.
- (b) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.
- (c) The Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

ULTIMATE HOLDING CORPORATION

The Directors regard Menteri Besar Selangor (Pemerbadanan), a corporate body formed under Enactment No.3 of the Menteri Besar Selangor (Incorporation), Enactment 1994 as the ultimate holding corporation.

AUDITORS

The auditors, BDO PLT (LLP0018825-LCA & AF 0206), have expressed their willingness to continue in office.

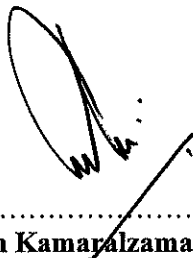
The details of Auditors' remuneration of the Company and its subsidiaries for the financial year ended 31 December 2018 are disclosed in Note 22 to the financial statements.

BDO PLT (LLP0018825-LCA & AF 0206) was registered on 2 January 2019 and with effect from that date, BDO (AF 0206), a conventional partnership was converted to a limited liability partnership.

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



.....
Dato' Nor Azmie Bin Diron
Director



.....
Suhaimi Bin Kamaralzaman
Director

Kuala Lumpur
22 April 2019

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 11 to 78 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the provisions of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board,



.....
Dato' Nor Azmie Bin Diron
Director



.....
Suhaimi Bin Kamaralzaman
Director

Kuala Lumpur
22 April 2019

STATUTORY DECLARATION

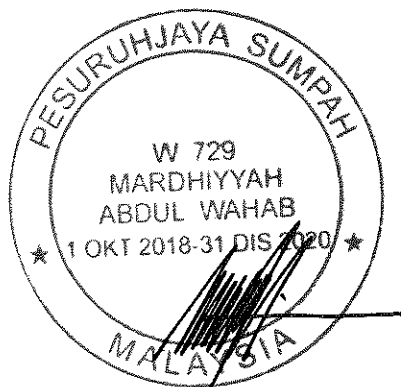
I, Suhaimi Bin Kamaralzaman, being the Director responsible for the financial management of Pengurusan Air Selangor Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 11 to 78 are, to the best of my knowledge and belief, correct and I make this solemn declaration 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 Kuala Lumpur
this 22 April 2019



Suhaimi Bin Kamaralzaman

Before me:



SUITE 9.03, TINGKAT 9
MENARA RAJA LAUT
NO. 288 JALAN RAJA LAUT
50350 KUALA LUMPUR

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
PENGURUSAN AIR SELANGOR SDN. BHD.
(Incorporated in Malaysia)**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pengurusan Air Selangor Sdn. Bhd., which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 78.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the financial statements which discloses the premise upon which the Group and the Company have prepared their financial statements by applying the going concern assumption, notwithstanding that the Group and the Company incurred net losses of RM1,309,945,000 and RM316,022,000 respectively during the financial year ended 31 December 2018 and as of that date, the current liabilities of the Group and of the Company exceeded their current assets by RM12,203,744,000 and RM428,294,000 respectively. Our opinion is not modified in respect of this matter.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
PENGURUSAN AIR SELANGOR SDN. BHD. (continued)
(Incorporated in Malaysia)**

Information Other than the Financial Statements and Auditor's Report Thereon

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

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
PENGURUSAN AIR SELANGOR SDN. BHD. (continued)
(Incorporated in Malaysia)**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
PENGURUSAN AIR SELANGOR SDN. BHD. (continued)
(Incorporated in Malaysia)**

Other Matters

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

BDO PLT

BDO PLT
LLP0018825-LCA & AF 0206
Chartered Accountants

Kuala Lumpur
22 April 2019

Rejeesh A/L Balasubramaniam

Rejeesh A/L Balasubramaniam
02895/08/2020 J
Chartered Accountant

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	15,316,983	13,610,901	12,296,130	10,505,448
Club membership	6	210	210	-	-
Investments in subsidiaries	7	-	-	-	-
		15,317,193	13,611,111	12,296,130	10,505,448
Current assets					
Inventories	8	2,223	8,762	-	-
Trade and other receivables	9	402,273	375,224	9,943	2,683
Current tax assets		90,001	86,517	634	-
Debt service reserve account	10	125,996	121,312	-	-
Cash and bank balances	11	1,323,630	1,587,512	204,983	177,060
		1,944,123	2,179,327	215,560	179,743
TOTAL ASSETS		17,261,316	15,790,438	12,511,690	10,685,191
EQUITY AND LIABILITIES					
Equity attributable to owner of the parent					
Share capital	12	12,737,936	10,810,650	12,737,936	10,810,650
Accumulated losses		(11,732,527)	(10,422,582)	(2,843,681)	(2,527,659)
TOTAL EQUITY		1,005,409	388,068	9,894,255	8,282,991

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 (continued)

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
LIABILITIES					
Non-current liabilities					
Borrowings	13	1,779,565	1,778,959	1,779,555	1,778,202
Deferred tax liabilities	14	134,449	122,414	-	-
Government grant	16	194,026	118,304	194,026	118,304
		2,108,040	2,019,677	1,973,581	1,896,506
Current liabilities					
Borrowings	13	6,756,546	6,665,362	88,193	56,968
Trade and other payables	15	7,391,321	6,717,038	555,661	448,433
Current tax liabilities		-	293	-	293
		14,147,867	13,382,693	643,854	505,694
TOTAL LIABILITIES		<u>16,255,907</u>	<u>15,402,370</u>	<u>2,617,435</u>	<u>2,402,200</u>
TOTAL EQUITY AND LIABILITIES		<u>17,261,316</u>	<u>15,790,438</u>	<u>12,511,690</u>	<u>10,685,191</u>

The accompanying notes form an integral part of the financial statements

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue	19	1,851,609	1,780,576	31,423	23,988
Other income		165,173	199,024	6,534	56,399
Items of expense:					
Raw materials, consumables and maintenance expenses		(1,402,311)	(1,340,191)	(8,889)	(3,526)
Employee benefits expenses	20	(330,367)	(285,439)	(21,087)	(18,869)
Depreciation and amortisation expenses		(537,794)	(529,087)	(214,127)	(219,910)
Other expenses		(202,324)	(172,057)	(6,902)	(3,823)
		(456,014)	(347,174)	(213,048)	(165,741)
Finance costs	21	(830,748)	(747,676)	(101,701)	(140,570)
Loss before tax	22	(1,286,762)	(1,094,850)	(314,749)	(306,311)
Tax expense	23	(23,183)	(19,727)	(1,273)	(1,804)
Loss for the financial year		(1,309,945)	(1,114,577)	(316,022)	(308,115)
Other comprehensive income for the financial year, net of tax		-	-	-	-
Total comprehensive loss for the financial year		<u>(1,309,945)</u>	<u>(1,114,577)</u>	<u>(316,022)</u>	<u>(308,115)</u>

The accompanying notes form an integral part of the financial statements.

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Group	Note	Share capital RM'000	Share premium RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 1 January 2017		18,803	10,791,847	(9,308,005)	1,502,645
Loss for the financial year		-	-	(1,114,577)	(1,114,577)
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive loss		-	-	(1,114,577)	(1,114,577)
Transaction with owner					
Issuance of ordinary shares by way of bonus issue	12	10,791,847	(10,791,847)	-	-
Total transaction with owner		10,791,847	(10,791,847)	-	-
Balance as at 31 December 2017		10,810,650	-	(10,422,582)	388,068
Loss for the financial year		-	-	(1,309,945)	(1,309,945)
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive loss		-	-	(1,309,945)	(1,309,945)
Transaction with owner					
Issuance of ordinary shares	12	1,927,286	-	-	1,927,286
Total transaction with owner		1,927,286	-	-	1,927,286
Balance as at 31 December 2018		12,737,936	-	(11,732,527)	1,005,409

The accompanying notes form an integral part of the financial statements.

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Company	Note	Share capital RM'000	Share premium RM'000	Accumulated losses RM'000	Total RM'000
As at 1 January 2017		18,803	10,791,847	(2,219,544)	8,591,106
Loss for the financial year		-	-	(308,115)	(308,115)
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive loss		-	-	(308,115)	(308,115)
Transaction with owner					
Issuance of ordinary shares by way of bonus issue	12	10,791,847	(10,791,847)	-	-
Total transaction with owner		10,791,847	(10,791,847)	-	-
Balance as at 31 December 2017		10,810,650	-	(2,527,659)	8,282,991
Loss for the financial year		-	-	(316,022)	(316,022)
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive loss		-	-	(316,022)	(316,022)
Transaction with owner					
Issuance of ordinary shares	12	1,927,286	-	-	1,927,286
Total transaction with owner		1,927,286	-	-	1,927,286
Balance as at 31 December 2018		12,737,936	-	(2,843,681)	9,894,255

The accompanying notes form an integral part of the financial statements.

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,859,533	1,788,340	24,833	69,598
Other income		72,498	156,669	-	-
Tax paid		(14,925)	(20,367)	(2,200)	(1,511)
Payments for operating expenses		<u>(1,572,856)</u>	<u>(1,269,827)</u>	<u>(38,940)</u>	<u>(72,705)</u>
Cash generated from/(used in) operations		344,250	654,815	(16,307)	(4,618)
Interest income received		<u>56,543</u>	<u>57,904</u>	<u>5,833</u>	<u>6,266</u>
Net cash from operating activities		400,793	712,719	(10,474)	1,648
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	5	(316,637)	(222,379)	(77,523)	(47,413)
Repayments from/(Advances to) a related company		-	-	23	(23)
Advances to immediate holding company, net		(621)	(4,312)	(621)	(4,313)
Advances from subsidiaries, net		-	-	98,899	103,749
Movements in deposits placed with licensed banks		421,226	(357,087)	(24,234)	(21,783)
Proceeds from disposal of property, plant and equipment		<u>1,161</u>	<u>2,566</u>	<u>-</u>	<u>-</u>
Net cash from/(used in) investing activities		<u>105,129</u>	<u>(581,212)</u>	<u>(3,456)</u>	<u>30,217</u>

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (continued)

		Group		Company	
	Note	2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown from government loan		100,000	55,000	100,000	55,000
Interest expense paid		(408,472)	(408,508)	(88,912)	(80,340)
(Repayment of)/Drawdown from borrowings		(26,977)	(47,094)	17,846	-
Repayment of obligations under finance leases		(13,129)	(12,421)	(11,315)	(18,858)
Net cash (used in)/from financing activities		<u>(348,578)</u>	<u>(413,023)</u>	<u>17,619</u>	<u>(44,198)</u>
Net increase/(decrease) in cash and cash equivalents		157,344	(281,516)	3,689	(12,333)
Cash and cash equivalents beginning of the financial year		<u>603,678</u>	<u>885,194</u>	<u>135,277</u>	<u>147,610</u>
Cash and cash equivalents at end of the financial year	11	<u><u>761,022</u></u>	<u><u>603,678</u></u>	<u><u>138,966</u></u>	<u><u>135,277</u></u>

The accompanying notes form an integral part of the financial statements

PENGURUSAN AIR SELANGOR SDN. BHD. (1082296 - U)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

1. CORPORATE INFORMATION

Pengurusan Air Selangor Sdn. Bhd. (“the Company”) is a private limited liability company, incorporated and domiciled in Malaysia.

The registered office and principal place of business of the Company is located at Level 4, Air Selangor Head Office, Jalan Pantai Baharu, 59200 Kuala Lumpur.

Kumpulan Darul Ehsan Berhad (“KDEB”), a company incorporated in Malaysia is the immediate holding company and Menteri Besar Selangor (Pemerbadanan), a corporate body formed under Enactment No.3 of the Menteri Besar Selangor (Incorporation), Enactment 1994 is the ultimate holding corporation.

The consolidated financial statements for the financial year ended 31 December 2018 comprise the Company and its subsidiaries. These financial statements are presented in Ringgit Malaysia (“RM”), which is also the functional currency of the Company. All the financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 22 April 2019.

2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and to own public water supply system for the purpose of providing treated water as well as providing management services. The principal activities of the subsidiaries, as listed in Note 7 to the financial statements, are the operation, maintenance, management and construction of water treatment facilities, and supply of treated water within Selangor and the Federal Territories of Kuala Lumpur and Putrajaya.

There have been no significant changes in the nature of these activities during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards (“IFRSs”) and the provisions of the Companies Act 2016 in Malaysia.

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and Amendments to MFRSs adopted during the financial year are disclosed in Note 27.1 to the financial statements.

The Group and the Company applied MFRS 15 *Revenue from Contracts with Customers* and MFRS 9 *Financial Instruments* for the first time during the current financial year, using the cumulative effect method as at 1 January 2018. Consequently, the comparative information were not restated and are not comparable to the financial information of the current financial year.

3. BASIS OF PREPARATION (continued)

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements and on the basis of accounting principal applicable to a going concern.

The Group and the Company incurred net losses of RM1,309,945,000 and RM316,022,000 respectively during the financial year ended 31 December 2018 and as of that date the current liabilities of the Group and of the Company exceeded their current assets by RM12,203,744,000 and RM428,294,000 respectively. These conditions indicate the existence of an uncertainty about the ability of the Group and of the Company to continue as going concerns. The ability of the Group and of the Company to continue operating as going concerns in the foreseeable future is therefore dependent on fulfilment of the Settlement Agreement with Pengurusan Aset Air Berhad ("PAAB") as disclosed in Note 4(c) to the financial statements, whereby in return borrowings amounting to RM6,667,628,000 (Note 13) shall be novated to PAAB and the waiver of amounts owing to Splash following the completion of restructuring of water services industry as disclosed in Note 4 and Note 15 to the financial statements.

In view of the foregoing, the Directors consider that it is appropriate to prepare the financial statements of the Group and of the Company on a going concern basis, and accordingly, the financial statements do not include any adjustment relating to the recoverability and classification of recorded assets amount, or to amounts or classification of liabilities that may be necessary, if the going concern basis of preparing the financial statements of the Group and of the Company is not appropriate.

4. RESTRUCTURING OF WATER SERVICES INDUSTRY

- (a) On 12 September 2014, the Company entered into a Master Agreement with the Government of Malaysia, State Government and PAAB, which binds the parties to terms and conditions and their respective obligations in restructuring the water services industry in Selangor and Federal Territories of Kuala Lumpur and Putrajaya (referred as "the Restructuring of the Water Services Industry"). This agreement is conditional upon the fulfilment and completion of conditions precedent by the respective parties.

As part of the Restructuring of the Water Services Industry, the Company had acquired three (3) concession companies, namely PNSB Water Sdn. Bhd., Syarikat Bekalan Air Selangor Sdn. Bhd. and Konsortium ABASS Sdn. Bhd. The Company had also acquired a company operating under a service license issued by Suruhanjaya Perkhidmatan Air Negara under the Water Services Industry Act 2006, namely Konsortium Air Selangor Sdn. Bhd.

On 9 August 2018, Syarikat Pengeluar Air Selangor Holdings Berhad ("Splash Holdings") had agreed and accepted the offer for the purchase of the entire issued and paid-up share capital of Syarikat Pengeluar Air Selangor Sdn. Bhd. ("Splash") and the 100% Redeemable Unsecured Loan Stocks issued by Splash to the Company.

The Company is currently in the process of completing the acquisition of Splash following the execution of a Share Purchase Agreement on 28 September 2018 between the Company and Splash Holdings.

4. RESTRUCTURING OF WATER SERVICES INDUSTRY (continued)

(a) Continued

All the related concession agreements by the concession companies would be terminated and the service license held by Konsortium Air Selangor Sdn. Bhd. will be surrendered following which the Company would supply and distribute treated water to consumers under the service license issued by Suruhanjaya Perkhidmatan Air Negara under the Water Services Industry Act 2006.

- (b) On 22 September 2014, the Company had entered into Assets Transfer Agreement with the State Government to transfer water assets currently owned by the State Government valued at RM14,920,000,000 to the Company. The total consideration for the transfer of water assets is the allotment and issuance of 14,919,999 ordinary shares of RM14,919,999,000 and 1 Special Share of RM1.00 in the Company to KDEB and Menteri Besar Selangor (Pemerbadanan) respectively.

In previous financial years, the State Government had transferred water assets valued at RM10,802,650,000 to the Company. The settlement for the transfer was made via the issuance of 10,802,650 ordinary shares of the Company amounting to RM10,802,650,000.

On 13 December 2018, the State Government had transferred long term leasehold land and water treatment plants valued at RM1,927,286,000 to the Company. The settlement for the transfer of long term leasehold land and water treatment plant was made via the issuance of 1,927,286 ordinary shares of the Company amounting to RM1,927,286,000.

- (c) On 8 September 2015, the Company had entered into a Settlement Agreement with PAAB for the purposes of setting out the terms of settlement of government loan granted by Federal Government and State Government, term loan facilities granted by Bank Pembangunan (M) Berhad and conventional and Islamic debt securities issued owing by Konsortium Abass Sdn. Bhd., Syarikat Bekalan Air Selangor Sdn. Bhd. and PNSB Water Sdn. Bhd., which are direct and indirect subsidiaries of the Company. As at the end of the reporting period, these agreements are conditional upon the fulfilment and completion of conditions precedent by the respective parties.
- (d) On 8 September 2015, the Company had entered into a Facility Agreement, Lease Agreement and Right to Use Agreement with PAAB for the lease and the right to use, occupy and operate the water supply service assets to enable the Company to carry out the water supply services in the State of Selangor Darul Ehsan, Federal Territories of Kuala Lumpur and Putrajaya. As at the end of the reporting period, these agreements are conditional upon the fulfilment and completion of conditions precedent by the respective parties.

5. PROPERTY, PLANT AND EQUIPMENT

Group	Balance as at 1.1.2018 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Depreciation charges for the financial year RM'000	Reclassifications RM'000	Balance as at 31.12.2018 RM'000
Carrying amount							
Freehold land	1,657	-	-	-	-	-	1,657
Long term leasehold land and water treatment plant	1,594,762	1,927,286	-	-	(38,588)	-	3,483,460
Water assets	11,829,463	61,837	-	(46)	(472,378)	57,118	11,475,994
Computer and office equipment, furniture and fittings	19,297	37,470	(1)	-	(18,347)	48,551	86,970
Motor vehicles	10,265	21,531	-	-	(6,048)	-	25,748
Renovation	5,360	6,237	-	-	(2,433)	-	9,164
Construction-in-progress	150,097	189,562	-	-	-	(105,669)	233,990
	13,610,901	2,243,923	(1)	(46)	(537,794)	-	15,316,983

	At 31.12.2018		
	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Freehold land	1,657	-	1,657
Long term leasehold land and water treatment plant	3,596,223	(112,763)	3,483,460
Water assets	12,856,490	(1,380,496)	11,475,994
Computer and office equipment, furniture and fittings	129,763	(42,793)	86,970
Motor vehicles	43,272	(17,524)	25,748
Renovation	15,125	(5,961)	9,164
Construction-in-progress	233,990	-	233,990
	16,876,520	(1,559,537)	15,316,983

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Balance as at 1.1.2017 RM'000	Additions RM'000	Disposals RM'000	Written off RM'000	Depreciation charges for the financial year RM'000	Reclassifications RM'000	Balance as at 31.12.2017 RM'000
Carrying amount							
Freehold land	1,657	-	-	-	-	-	1,657
Long term leasehold land and water treatment plant	1,631,849	-	-	-	(37,087)	-	1,594,762
Water assets	12,056,091	43,647	(1,962)	(1,090)	(476,213)	208,990	11,829,463
Computer and office equipment, furniture and fittings	17,093	12,211	(180)	(2)	(10,081)	256	19,297
Motor vehicles	8,188	6,187	(52)	-	(4,058)	-	10,265
Renovation	5,092	1,922	-	(6)	(1,648)	-	5,360
Construction-in-progress	200,931	158,412	-	-	-	(209,246)	150,097
	<u>13,920,901</u>	<u>222,379</u>	<u>(2,194)</u>	<u>(1,098)</u>	<u>(529,087)</u>	<u>-</u>	<u>13,610,901</u>

	----- At 31.12.2017 -----		
	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Freehold land	1,657	-	1,657
Long term leasehold land and water treatment plant	1,668,937	(74,175)	1,594,762
Water assets	12,737,580	(908,117)	11,829,463
Computer and office equipment, furniture and fittings	55,451	(36,154)	19,297
Motor vehicles	21,853	(11,588)	10,265
Renovation	8,888	(3,528)	5,360
Construction-in-progress	150,097	-	150,097
	<u>14,644,463</u>	<u>(1,033,562)</u>	<u>13,610,901</u>

5. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Balance as at 1.1.2018 RM'000	Additions RM'000	Reclassifications RM'000	Depreciation charges for the financial year RM'000	Balance as at 31.12.2018 RM'000
Carrying amount					
Long term leasehold land and water treatment plant	1,594,762	1,927,286	-	(38,588)	3,483,460
Water assets	8,862,845	-	-	(168,080)	8,694,765
Office equipment, furniture and fittings	433	1,204	48,401	(7,227)	42,811
Motor vehicles	-	2,060	-	(232)	1,828
Construction-in-progress	47,408	74,259	(48,401)	-	73,266
	10,505,448	2,004,809	-	(214,127)	12,296,130

	At 31.12.2018		
	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Long term leasehold land and water treatment plant	3,596,224	(112,764)	3,483,460
Water assets	9,133,712	(438,947)	8,694,765
Office equipment, furniture and fittings	50,348	(7,537)	42,811
Motor vehicles	2,060	(232)	1,828
Construction-in-progress	73,266	-	73,266
	12,855,610	(559,480)	12,296,130

Company	Balance as at 1.1.2017 RM'000	Additions RM'000	Written off RM'000	Depreciation charges for the financial year RM'000	Balance as at 31.12.2017 RM'000
Carrying amount					
Long term leasehold land and water treatment plant	1,631,850	-	-	(37,088)	1,594,762
Water assets	9,045,519	-	-	(182,674)	8,862,845
Office equipment, furniture and fittings	577	5	(1)	(148)	433
Construction-in-progress	-	47,408	-	-	47,408
	10,677,946	47,413	(1)	(219,910)	10,505,448

	At 31.12.2017		
	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Long term leasehold land and water treatment plant	1,668,938	(74,176)	1,594,762
Water assets	9,133,712	(270,867)	8,862,845
Office equipment, furniture and fittings	744	(311)	433
Construction-in-progress	47,408	-	47,408
	10,850,802	(345,354)	10,505,448

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) All items of property, plant and equipment are initially measured at cost. After initial recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated to write down the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The estimated useful lives represent common life expectancies applied to the Group. The principal depreciation periods are as follows:

Long term leasehold land and water treatment plant	45 years
Water assets	5 - 50 years
Computer and office equipment, furniture and fittings	3 - 5 years
Motor vehicles	5 years
Renovation	3 - 10 years

Water assets represent water treatment plants, reservoir, distribution pipes, valve and etc. for purpose to supply and distribution of treated water to consumers.

Freehold land has unlimited useful life and is not depreciated. Construction-in-progress represents renovation-in-progress and pipe replacement-in-progress, which are stated at cost. Construction-in-progress are not depreciated until such time when the assets are available for use.

- (b) The Group has assessed and classified land use rights for the long term leasehold land of the Group as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term. Consequently, the Group has classified the unamortised upfront payment for land use rights as finance leases in accordance with MFRS 117 *Leases*.
- (c) As at the end of the reporting period, certain property, plant and equipment have been charged as security for borrowings granted to the Group as disclosed in Note 13 to the financial statements.
- (d) The carrying amounts of the property, plant and equipment of the Group and of the Company under hire purchase or finance lease arrangement at the end of the reporting period are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Long term leasehold land and water treatment plants	1,556,174	1,594,762	1,556,174	1,594,762
Motor vehicles	721	2,626	-	-
	<u>1,556,895</u>	<u>1,597,388</u>	<u>1,556,174</u>	<u>1,594,762</u>

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- (d) The carrying amounts of the property, plant and equipment of the Group and of the Company under hire purchase or finance lease arrangement at the end of the reporting period are as follows (continued):

As part of the Restructuring of the Water Service Industry, the Company had entered into Facility Agreement, Lease Agreement, Right to Use Agreement and Settlement Agreement with PAAB as disclosed in Note 4(c) and Note 4(d) to the financial statements. In the previous financial years, the long term leasehold land were sold to PAAB for a cash consideration amounting to RM1,668,938,000 and subsequently the Company leaseback the long term leasehold land from PAAB. Details of the hire purchase and lease arrangements are disclosed in Note 13 to the financial statements.

- (e) During the financial year, the Group and the Company made the following cash payments to purchase property, plant and equipment:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Purchases of property, plant and equipment	2,243,923	222,379	2,004,809	47,413
Settlement by way of issuance of ordinary shares	(1,927,286)	-	(1,927,286)	-
Cash payments on purchases of property, plant and equipment	<u>316,637</u>	<u>222,379</u>	<u>77,523</u>	<u>47,413</u>

6. CLUB MEMBERSHIP

Club membership stated at fair value through profit or loss represents transferable corporate membership in a country club.

7. INVESTMENTS IN SUBSIDIARIES

	Company	
	2018	2017
	RM'000	RM'000
At cost		
Unquoted shares	1,946,330	1,946,330
Cumulative Convertible Redeemable Preference Shares	<u>4,800</u>	<u>4,800</u>
	1,951,130	1,951,130
Less: Accumulated impairment losses	<u>(1,951,130)</u>	<u>(1,951,130)</u>
	<u>-</u>	<u>-</u>

7. INVESTMENTS IN SUBSIDIARIES (continued)

- (a) Investments in subsidiaries, which are eliminated on consolidation, are stated in the separate financial statements of the Company at cost less impairment losses.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

- (b) The details of the subsidiaries, all of which are incorporated in Malaysia, are as follows:

Name of company	Effective interest in equity		Principal activities
	2018	2017	
PNSB Water Sdn. Bhd. ("PNSB")	100%	100%	Operation, maintenance, management, construction, rehabilitation and refurbishment of water treatment facilities
Syarikat Bekalan Air Selangor Sdn. Bhd. ("Syabas")	100%	100%	Supply and distribution of treated water within Selangor and the Federal Territories of Kuala Lumpur and Putrajaya and other related services
Titisan Modal (M) Sdn. Bhd. ("TMSB")	100%	100%	Investment holding
Konsortium Air Selangor Sdn. Bhd. ("KASB")	100%	100%	Operation and maintenance of the Sungai Labu Water Treatment Plant
Subsidiary of Syabas			
Perbadanan Urus Air Selangor Berhad ("PUAS")	100%	100%	Dormant
Subsidiaries of TMSB			
Konsortium Abass Sdn. Bhd. ("ABASS")	100%	100%	Operation, maintenance, construction and commissioning of water treatment plant and facilities, sale of treated water and undertake contract works relating to the water industry activities
Rangkai Aman Sdn. Bhd.	100%	100%	Investment holding

8. INVENTORIES

	Group	
	2018	2017
	RM'000	RM'000
At cost		
Water treatment chemicals	-	5,945
Spare parts and equipment	<u>2,223</u>	<u>2,817</u>
	<u>2,223</u>	<u>8,762</u>

- (a) Cost of inventories is determined using the weighted average basis. Cost comprises all costs of purchase, cost of conversion plus other costs incurred in bringing the inventories to their present location and condition.
- (b) During the financial year, inventories of the Group recognised as cost of sales amounted to RM41,615,000 (2017: RM33,402,000).

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Trade receivables				
Third parties	247,733	241,791	-	-
Amount owing by State Government	46,020	30,511	-	-
	293,753	272,302	-	-
Less: Impairment losses				
- Third parties	<u>(19,105)</u>	<u>(11,181)</u>	-	-
Total trade receivables	274,648	261,121	-	-

9. TRADE AND OTHER RECEIVABLES (continued)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Other receivables				
Amount owing by holding company	58	-	-	-
Amounts owing by subsidiaries	-	-	-	9
Amount owing by a related company	14	23	-	23
Amounts owing by collection agencies	3,105	1,165	-	-
Advances to staff	4,158	6,712	11	-
Interest receivable	4,560	9,201	666	384
Other receivables	93,147	75,661	3,050	243
Deposits	20,430	12,774	4,498	79
	125,472	105,536	8,225	738
Less: Impairment losses				
- Other receivable	(1,936)	-	-	-
Total other receivables, net	123,536	105,536	8,225	738
Total receivables	398,184	366,657	8,225	738
Prepayments				
Goods and services tax ("GST") receivables	2,695	8,081	1,654	1,857
Prepayments	1,394	486	64	88
	402,273	375,224	9,943	2,683

- (a) Trade and other receivables, excluding prepayments and GST receivables are classified as financial assets measured at amortised cost.
- (b) Trade receivables are non-interest bearing and the normal credit terms of trade receivables granted by the Group ranged from 30 to 90 days (2017: 30 to 90 days). They are recognised at their original invoices amounts, which represent their fair values on initial recognition.
- (c) Amount owing by the State Government represents amount owing on the quantum of free water usage granted by State Government to certain water account holders.
- (d) Amounts owing by holding company, subsidiaries and a related company represent non-trade transactions which are unsecured, interest-free and repayable within next twelve (12) months in cash and cash equivalents.
- (e) Trade and other receivables are denominated in RM.

9. TRADE AND OTHER RECEIVABLES (continued)

- (f) Impairment for trade receivables that do not contain a significant financing component are recognised based on the simplified approach using the lifetime expected credit losses ("ECL").

The Group considers credit loss experience and observable data such as current changes and future forecasts in economic conditions to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information such as gross domestic product (GDP) and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised within administrative expenses in the consolidated statements of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

It requires management to exercise significant judgement in determining the probability of default by trade receivables and appropriate forward looking information.

The reconciliation of movements in the impairment allowance for trade receivables are as follows:

	Group	
	2018	2017
	RM'000	RM'000
Lifetime expected credit loss - credit impaired		
At 1 January under MFRS 139	11,181	6,775
Restated through opening retained earnings	—*	—*
Opening impairment loss of trade receivables in accordance with MFRS 9	11,181	6,775
Charge for the financial year	7,924	4,406
At 31 December	<u>19,105</u>	<u>11,181</u>

* No expected credit loss is recognised arising from trade receivables as it is negligible.

- (g) For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for the financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result in default events on a financial instrument that are possible within 12 months after the reporting date.

For the purpose of assessing whether the credit risk of the Group has increased significantly since initial recognition, the Group compares the risk of a default occurring at the reporting date with the risk of a default occurring at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that are reasonable and supportable, including historical experience and forward-looking information, which are available without undue cost or effort.

9. TRADE AND OTHER RECEIVABLES (continued)

- (g) It requires management to exercise significant judgement in determining the probabilities of default by other receivables, appropriate forward looking information and significant increase in credit risk.

The reconciliation of movements in the impairment allowance for other receivables are as follows:

	Group	
	2018 RM'000	2017 RM'000
At 1 January under MFRS 139	-	-
Restated through opening retained earnings	-*	-*
Opening impairment loss of other receivables in accordance with MFRS 9	-	-
Charge for the financial year	1,936	-
At 31 December	1,936	-

* No expected credit loss is recognised arising from other receivables as it is negligible.

- (h) The ageing analysis of trade receivables of the Group are as follows:

Group	Gross carrying amount	Total allowance	Balance as at
2018	RM	RM	31.12.2018 RM
Current	101,492	-	101,492
1 to 153 days	109,145	-	109,145
More than 153 days	83,116	(19,105)	64,011
	293,753	(19,105)	274,648
Group			
2017*			
Current	184,593	-	184,593
1 to 153 days	63,442	-	63,442
More than 153 days	24,267	(11,181)	13,086
	272,302	(11,181)	261,121

* Comparative information as required under MFRS 139 *Financial Instruments: Recognition and Measurement*

As at the end of each reporting period, the credit risk exposures relating to trade receivables of the Group are reduced by deposits from water account holders. The Group did not renegotiate the terms of any trade receivables at the end of each reporting periods.

- (i) Credit risk concentration profile

The Group does not have any significant concentration of credit risk other than the amount owing by the State Government constituting 17% (2017: 12%) of trade receivables of the Group. The Group does not anticipate the carrying amounts recorded at the end of the reporting period to be significantly different from the values that would eventually be received.

10. DEBT SERVICE RESERVE ACCOUNT (“DSRA”)

Under the terms of the Bai Bithaman Ajil Commercial Papers (“BACP”)/Bai Bithaman Ajil Medium Term Notes (“BAMTN”) programme and Term Loan 2 and Term Loan 3 facilities as disclosed in Note 13 to the financial statements, the Group shall ensure that funds are deposited in the DSRA until the balance held in the DSRA is at least equivalent to the aggregate of profit/interest, which will become due and payable in the next six (6) months and the outstanding principal, which will become due and payable in the next (12) months (to be built up in twelve (12) equal monthly installments during the preceeding twelve (12) months on a straight line basis). This DSRA is maintained with a licensed financial institution. The deposits in the DSRA are held for long term until full redemption/repayment and expiry of the BAMTN Programme and Term Loan 2 and Term Loan 3 term loans facilities.

The Group had obtained indulgence from the BAMTN holder to waive the requirement to deposit the outstanding principal of RM310 million, RM200 million, RM200 million and RM320 million tranche of the BAMTN, which were originally due for repayment on 30 September 2013, 30 September 2014, 30 September 2015 and 30 September 2016 respectively to 30 September 2019 and RM125 million tranche of the BAMTN, which was originally due for repayment on 31 October 2016 to 18 November 2019, in the DSRA.

The weighted average effective interest rate applicable to the deposits held in the DSRA for this purpose at the reporting date was 3.8% (2017: 3.8%) per annum. At the end of the reporting period, the carrying amount of the deposits held in the DSRA approximated their fair values. Fair value of the DSRA of the Group are categorised as Level 2 in the fair value hierarchy. There is no transfer between levels in the hierarchy during the financial year.

As part of the Restructuring of the Water Supply Industry in accordance with the Master Agreement with the Government of Malaysia on 12 September 2014 as disclosed in Note 4(a) to the financial statements, the Group shall redeem all the outstanding BAMTN based on the Settlement Agreement dated 8 September 2015 made between the Company and PAAB as disclosed in Note 4(c) to the financial statements. As the redemption is expected to be completed within the next twelve (12) months, the DSRA has been classified as current assets.

DSRA are denominated in RM.

11. CASH AND BANK BALANCES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	30,998	68,851	552	3,077
Deposits with licensed banks	<u>1,292,632</u>	<u>1,518,661</u>	<u>204,431</u>	<u>173,983</u>
As reported in the statements of financial position	1,323,630	1,587,512	204,983	177,060
Less:				
Deposits from water account holders	(257,292)	(242,444)	-	-
Deposits pledged to licensed banks	(96,424)	(83,736)	-	-
Deposits with maturity more than three (3) months	(183,588)	(631,841)	(66,017)	(41,783)
Restricted deposits' balances	<u>(25,304)</u>	<u>(25,813)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents included in the statements of cash flows	<u>761,022</u>	<u>603,678</u>	<u>138,966</u>	<u>135,277</u>

- (a) As at the end of the reporting period, cash and bank balances of the Group included the following:
- (i) deposits from water account holders of RM257,292,000 (2017: RM242,444,000), which are maintained and may only be utilised for claims from consumers for refund of their deposits;
 - (ii) restricted deposits' balances of RM25,304,000 (2017: RM25,813,000), which are maintained and may only be utilised for various specific purposes but not working capital; and
 - (iii) bank balances and deposits with licensed banks of RM96,424,000 (2017: RM83,736,000) pledged as security for banking facilities granted by the Group.
- (b) Cash and bank balances are denominated in RM.
- (c) The weighted average effective interest rates of deposits of the Group and of the Company at the reporting date were as follows:

	Group		Company	
	2018	2017	2018	2017
Weighted average effective interest rate (%)				
- Fixed rates	<u>3.60%</u>	<u>3.54%</u>	<u>3.59%</u>	<u>3.53%</u>

11. CASH AND BANK BALANCES (continued)

- (d) Sensitivity analysis for fixed rate instruments as at the end of the reporting period was not presented as fixed rate instruments are not affected by changes in interest rates.
- (e) The average maturity days of deposits at the reporting date are as follows:

	Group		Company	
	2018 Days	2017 Days	2018 Days	2017 Days
Deposit with licensed banks	<u>95</u>	<u>111</u>	<u>43</u>	<u>45</u>

- (f) No expected credit losses were recognised from the cash and bank balances and deposits with licensed banks because the probability of default by the financial institution were negligible.

12. SHARE CAPITAL

	Group and Company			
	2018		2017	
	Number of shares (‘000)	RM’000	Number of shares (‘000)	RM’000
Issued and fully paid				
As at 1 January	10,810,650	10,810,650	18,803	18,803
Issuance of ordinary shares pursuant to bonus issue	-	-	10,791,847	10,791,847
Issued during the financial year	<u>1,927</u>	<u>1,927,286</u>	<u>-</u>	<u>-</u>
As at 31 December	<u>10,812,577</u>	<u>12,737,936</u>	<u>10,810,650</u>	<u>10,810,650</u>

- (a) During the financial year, the issued and paid-up ordinary share capital of the Company was increased from RM10,810,650,000 to RM12,737,936,000 by way of issuance of 1,927,286 new ordinary shares for the transfer of water assets valued at RM1,927,286,000 owned by the State Government of Selangor Darul Ehsan (“State Government”) to the Company.

The newly issued ordinary shares rank pari passu in all respects with the existing ordinary shares of the Company.

- (b) The owner of the parent is entitled to receive dividends as and when declared by the Company and is entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.
- (c) During the previous financial year, the issued and paid-up ordinary share capital of the Company has been increased from 18,802,652 to 10,810,649,926 by way of issuance of 10,791,847,274 bonus shares pursuant to the utilisation share premium account of RM10,791,848,000 as stipulated in Section 618(3) of the Companies Act 2016.

13. BORROWINGS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-current liabilities				
Secured				
Hire purchase and lease arrangement	1,626,176	1,638,745	1,626,166	1,637,988
	1,626,176	1,638,745	1,626,166	1,637,988
Unsecured				
Term loan	114,870	127,742	114,870	127,742
Government loans	38,519	12,472	38,519	12,472
	153,389	140,214	153,389	140,214
Total non-current liabilities	1,779,565	1,778,959	1,779,555	1,778,202
Current liabilities				
Secured				
Al-Bai' Bithaman Ajil Islamic Debt Securities/Al-Murabahah Commercial Papers/Medium Al-Murabahah Medium Term Notes ("BAIDS/MCPS/MMTNS")	1,019,582	1,019,234	-	-
Bai Bithaman Ajil Medium Term Notes ("BAMTN")	2,117,160	2,109,101	-	-
Hire purchase and lease arrangement	12,718	13,232	11,993	11,486
Fixed Rate Serial Bonds	722,375	715,024	-	-
Government loans	143,964	145,303	-	-
Junior Subordinate Loan ("JNA")	298,567	269,234	-	-
Redeemable Secured Bond ("RSB")	432,420	429,990	-	-
Term loans	659,975	659,975	-	-
Sukuk Murabahah	136,000	136,000	-	-
	5,542,761	5,497,093	11,993	11,486

13. BORROWINGS (continued)

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current liabilities					
Unsecured					
Government loans		360,060	364,073	33,224	33,224
Redeemable Preference Shares ("RPS")		810,749	791,938	-	-
Term loan		12,976	12,258	12,976	12,258
Revolving credit-I ("RC-i")		30,000	-	30,000	-
		<u>1,213,785</u>	<u>1,168,269</u>	<u>76,200</u>	<u>45,482</u>
Total current liabilities		<u>6,756,546</u>	<u>6,665,362</u>	<u>88,193</u>	<u>56,968</u>
Total borrowings					
BAIDS/MCPS/MMTNS	(a)	1,019,582	1,019,234	-	-
BAMTN	(b)	2,117,160	2,109,101	-	-
Hire purchase and lease arrangement	(c)	1,638,894	1,651,977	1,638,159	1,649,474
Fixed Rate Serial Bonds	(d)	722,375	715,024	-	-
Government loans	(e)	542,543	521,848	71,743	45,696
JNA	(f)	298,567	269,234	-	-
RPS	(g)	810,749	791,938	-	-
RSB	(h)	432,420	429,990	-	-
Term loans	(i)	787,821	799,975	127,846	140,000
Sukuk Murabahah	(j)	136,000	136,000	-	-
Revolving credit-I ("RC-i")	(k)	30,000	-	30,000	-
		<u>8,536,111</u>	<u>8,444,321</u>	<u>1,867,748</u>	<u>1,835,170</u>

The Company entered into a Settlement Agreement to transfer certain water assets to Pengurusan Aset Air Berhad ("PAAB"), whereby in return certain borrowings are novated to PAAB as disclosed in Note 4(c) to the financial statements. This arrangement is subject to the completion of conditions precedent as mentioned in the Settlement Agreement.

Except for the hire purchase and lease arrangements, Government Loan of RM38.5 million, Government Soft loan 2 of RM33.2 million, Term Loan 1 of RM127.8 million, and Revolving credit-I of RM30.0 million, the other borrowings which are subject to the Settlement Agreement have been classified as current liabilities. This is based on the significant assumption that the completion of the terms and conditions in the Settlement Agreement between the Company and PAAB is highly probable and is expected to be concluded within the next twelve (12) months.

13. BORROWINGS (continued)

(a) BAIDS/MCPS/MMTNS

The terms of the said borrowings are as follows:

Extended redemption date	26 April 2019
Coupon	5.00% to 5.60% per annum

The BAIDS/MCPS/MMTNS entails the following collateral:

- (i) Debenture over all the fixed and floating assets of a subsidiary (excluding the charge over Distribution Supply System 2 and Wangsa Maju Water Treatment Plant);
- (ii) Assignment over a subsidiary Privatisation Cum Concession Agreement ("PCCA") and Construction Cum Operation Agreement ("CCOA");
- (iii) Assignment over a subsidiary insurance (excluding the insurances in relation to Distribution Supply System 2 and Wangsa Maju Water Treatment Plant); and
- (iv) Legal assignment over a subsidiary operating account and mandatory redemption account (to be shared via security sharing arrangement with JNA and RSBs as disclosed below).

(b) BAMTN

A subsidiary of the Group is required to maintain the following financial ratios:

- (i) Debt to Equity Ratio of not more than 70:30 from and including year 2009 onwards until the expiry of the BACP/BAMTN Programme; and
- (ii) Finance Service Cover Ratio of not less than 1.50 times from and including year 2009 onwards until the expiry of the BACP/BAMTN Programme.

BAMTN shares the same securities as listed in Note 13(i) to the financial statements. In addition, the BAMTN is also secured by way of the rights over the Escrow Account and the monies standing to the credit thereof.

The subsidiary is restricted from declaring and paying any dividends, whereupon:

- (i) An Event of Default is occurred or will be occurred, is continuing and has not been waived, if following such payment or distribution;
- (ii) The Finance Service Cover Ratio is breached or will be breached if calculated immediately following such payment or distribution;
- (iii) The Debt to Equity Ratio is breached or will be breached if calculated immediately following such payment or distribution; or
- (iv) The balance outstanding to the credit of the DSRA both before and after the payment is less than the Minimum Required Balance.

Provided that conditions (ii) and (iv) above shall not be applicable to dividends paid on the RPS as disclosed in Note 13(g) to the financial statements from year 2015 onwards.

The interest rates per annum of this borrowing at the reporting date ranged between 3.00% to 8.24%.

13. BORROWINGS (continued)

(c) Hire purchase and lease arrangement

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Minimum hire purchase and lease payments:				
- not later than one (1) year				
Hire purchase creditors	735	1,847	-	-
Finance lease creditor	91,792	91,792	91,792	91,792
	92,527	93,639	91,792	91,792
- later than one (1) but not later than five (5) years				
Hire purchase creditors	10	746	-	-
Finance lease creditor	367,166	367,166	367,166	367,166
	367,176	367,912	367,166	367,166
- later than five (5) years				
Hire purchase creditors	-	-	-	-
Finance lease creditor	3,413,315	3,497,457	3,413,315	3,497,457
	3,413,315	3,497,457	3,413,315	3,497,457
Total minimum hire purchase and lease payment	3,873,018	3,959,008	3,872,273	3,956,415
Less: Future interest charges				
- Hire purchase creditors	(10)	(90)	-	-
- Finance lease creditor	(2,234,114)	(2,306,941)	(2,234,114)	(2,306,941)
	(2,234,124)	(2,307,031)	(2,234,114)	(2,306,941)
Present value of minimum hire purchase and lease payments	1,638,894	1,651,977	1,638,159	1,649,474
Present value of minimum hire purchase and lease payments are represented by:				
Hire purchase creditors	735	2,503	-	-
Finance lease creditor	1,638,159	1,649,474	1,638,159	1,649,474
	1,638,894	1,651,977	1,638,159	1,649,474

13. BORROWINGS (continued)

(c) Hire purchase and lease arrangement (continued)

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Repayable as follows:				
Current liabilities:				
- not later than one (1) year				
Hire purchases	725	1,746	-	-
Finance lease	11,993	11,486	11,993	11,486
Total current liabilities	12,718	13,232	11,993	11,486
Non-current liabilities				
- later than one (1) year and not later than five (5) years				
Hire purchases	10	757	-	-
Finance lease	54,276	51,974	54,276	51,974
	54,286	52,731	54,276	51,974
- later than five (5) years				
Hire purchases	-	-	-	-
Finance leases	1,571,890	1,586,014	1,571,890	1,586,014
	<u>1,571,890</u>	<u>1,586,014</u>	<u>1,571,890</u>	<u>1,586,014</u>
Total non-current liabilities	<u>1,626,176</u>	<u>1,638,745</u>	<u>1,626,166</u>	<u>1,637,988</u>
	<u>1,638,894</u>	<u>1,651,977</u>	<u>1,638,159</u>	<u>1,649,474</u>

The finance leases are in respect of the finance lease arrangement of long-term leasehold lands and water treatment plant under the Lease Agreement, Right to Use Agreement, Facility Agreement and Settlement Agreement entered into by the Company and PAAB in accordance with the Restructuring of Water Service Industry as disclosed in Note 4(c) and Note 4(d) to the financial statements.

(d) Fixed Rate Serial Bonds

Pursuant to the Trust Deed dated 18 April 2006, a subsidiary of the Group had issued Fixed Rate Serial Bonds ("FRSB") at nominal value of up to RM738.0 million as follows:

- (i) first series on 28 April 2006 with proceeds of RM8,549,000 and matured on 28 April 2012 at a redemption value of RM10,000,000 (coupon rate: 4.00%);
- (ii) second series on 28 April 2006 with proceeds of RM37,080,000 and extended maturing on 29 April 2019 at a redemption value of RM45,000,000 (coupon rate: 4.00%);
- (iii) third series on 28 April 2006 with proceeds of RM71,307,000 and extended maturing on 29 April 2019 at a redemption value of RM90,000,000 (coupon rate: 4.00%);

13. BORROWINGS (continued)

(d) Fixed Rate Serial Bonds (continued)

Pursuant to the Trust Deed dated 18 April 2006, a subsidiary of the Group had issued Fixed Rate Serial Bonds ("FRSB") at nominal value of up to RM738.0 million as follows (continued):

- (iv) fourth series on 28 April 2006 with proceeds of RM72,219,000 and extended maturing on 29 April 2019 at a redemption value of RM95,000,000 (coupon rate: 4.00%);
- (v) fifth series on 28 April 2006 with proceeds of RM62,135,000 and extended maturing on 29 April 2019 at a redemption value of RM85,000,000 (coupon rate: 4.00%);
- (vi) sixth series on 28 April 2006 with proceeds of RM63,207,000 and extended maturing on 29 April 2019 at a redemption value of RM90,000,000 (coupon rate: 4.00%);
- (vii) seventh series on 28 April 2006 with proceeds of RM67,410,000 and extended maturing on 29 April 2019 at a redemption value of RM100,000,000 (coupon rate: 4.00%);
- (viii) eighth series on 28 April 2006 with proceeds of RM71,170,000 and maturing on 29 April 2019 at a redemption value of RM110,000,000 (coupon rate: 4.00%);
- (ix) ninth series on 28 April 2006 with proceeds of RM58,149,800 and maturing on 28 April 2020 at a redemption value of RM83,000,000 (coupon rate: 5.00%); and
- (x) tenth series on 28 April 2006 with proceeds of RM20,418,000 and maturing on 28 April 2021 at a redemption value of RM30,000,000 (coupon rate: 5.00%).

The Fixed Rate Serial Bonds are secured by way of:

- (i) first charge under a Memorandum of Deposit in favour of the security trustee or its nominees over 10,000,000 paid-up ordinary shares and 87,500,000 Redeemable Cumulative Preference Shares ("RCPS") of a subsidiary;
- (ii) first charge under a Memorandum of Deposit in favour of the security trustee or its nominees over 100,000 ordinary shares in a subsidiary;
- (iii) assignment of over dividend entitlement under the ordinary shares and RCPS of a subsidiary in favour of the security trustee. The scope of assignment herein shall exclude the interim dividend of 1543.21% declared by the subsidiary in respect of the RCPS for the financial period ended 31 December 2005 pursuant to the terms and conditions of Share Sale Agreements dated on 28 October 2005;
- (iv) fixed and floating charge by way of debenture over all the present and future assets, rights and interest and undertakings of the subsidiary;
- (v) first charge in favour of the security trustee over the Revenue Account and the Sinking Fund Account of the subsidiary;
- (vi) contingent rights granted by the subsidiary in favour of the Security Trustee for the consolidation of subsidiary, subject to the consent of applicable authorities; and
- (vii) assignment of rights of the subsidiary under the sale and purchase agreement and share transfer agreement in favour of the Security Trustee.

13. BORROWINGS (continued)

(e) Government loans

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current liabilities					
- Government Soft loan 1	(i)	15,636	16,449	-	-
- Government Soft loan 2	(ii)	33,224	33,224	33,224	33,224
- Government Loan RM320.8 million	(iii)	311,200	314,400	-	-
- Government Loan RM110.0 million	(iv)	63,019	57,450	-	-
- Government Loan RM75.0 million	(v)	34,342	37,249	-	-
- Government Loan RM76.0 million	(vi)	46,603	50,604	-	-
		504,024	509,376	33,224	33,224
Non-current liabilities					
- Government Loan RM248.7 million	(vii)	38,519	12,472	38,519	12,472
		542,543	521,848	71,743	45,696

(i) Government Soft loan 1

On 1 March 2013, a subsidiary of the Group had entered into a Government Loan Agreement with the State Government in respect of a loan facility of RM30.0 million granted to the subsidiary of the Group by the State Government.

	Group	
	2018 RM'000	2017 RM'000
As at 1 January	16,449	17,185
Repayments during the financial year	(2,000)	(2,000)
Unwinding of discount	<u>1,187</u>	<u>1,264</u>
As at 31 December	<u>15,636</u>	<u>16,449</u>

13. BORROWINGS (continued)

(e) Government loans (continued)

(i) Government Soft loan 1 (continued)

The salient terms of the Government Loan Agreement are as follows:

- (i) Facility Amount : RM30.0 million.
- (ii) Purpose of Loan : To finance asset replacement works ("ARW") for operations exceeding the design capacity in Sungai Semenyih Water Treatment Plant.
- (iii) Repayment : The facility amount to be repayable over fifteen (15) years, commencing on 30 September 2016 to 30 September 2030 of RM2.0 million per annum.
- (iv) Interest : Nil

(ii) Government Soft loan 2

On 10 December 2015, the Company had entered into a Government Loan Agreement with the State Government in respect of a loan facility of RM33.2 million granted to the Company by the State Government.

The salient terms of the Government Loan Agreement are as follows:

- (i) Facility Amount : RM33.2 million.
- (ii) Purpose of Loan : To finance the purchase of Syabas's RCULS.
- (iii) Repayment : The facility amount to be repayable in one (1) year period.
- (iv) Interest : 4.00% (up to 9 December 2016); Nil (10 December 2016 onwards).

(iii) Government Loan RM320.8 million

On 16 December 2009, a subsidiary of the Group had entered into a Government Loan Agreement with the Federal Government in respect of a loan facility of RM320.8 million granted to the subsidiary of the Group by the Federal Government.

The salient terms of the Government Loan Agreement are as follows:

- (i) Facility Amount : RM320.8 million.
- (ii) Purpose of Loan : Payment for water purchased from the water treatment operators namely, PNSB, ABASS and Splash.
- (iii) Repayment : The facility amount to be repayable over sixteen (16) years, commencing on the fifth (5th) year from the first (1st) drawdown i.e. grace period of four (4) years.
- (iv) Default Interest : 8.00% per annum on any overdue principal repayment amount.

13. BORROWINGS (continued)

(e) Government loans (continued)

(iii) Government Loan RM320.8 million (continued)

The salient terms of the Government Loan Agreement are as follows (continued):

(v) Events of Default : The Federal Government has the right to call on an event of default without securing or referring to the existing Noteholders and Lenders of the Group and the Company.

(vi) Other Terms : As privately agreed with the Federal Government.

The government loan has been fully utilised by the subsidiary of the Group to pay for water purchased from the water treatment operators, namely, PNSB, ABASS and Splash.

(iv) Government Loan RM110.0 million

On 17 October 2011, a subsidiary of the Group had entered into a Loan Facility Agreement and Deed of Assignment with the Federal Government in respect of a loan facility of RM110.0 million granted to the subsidiary of the Group by the Federal Government.

	Group	
	2018	2017
	RM'000	RM'000
As at 1 January	57,450	66,359
Accretion of finance costs	6,119	5,678
Repayments during the financial year	(550)	(14,587)
As at 31 December	<u>63,019</u>	<u>57,450</u>

The salient terms of the Government Loan Agreement are as follows:

(i) Facility Amount : RM110.0 million.

(ii) Purpose of Loan : (a) To finance capital expenditure works on old pipe replacement project for fourteen (14) critical areas in Selangor, Kuala Lumpur and Putrajaya for an amount of up to RM95.0 million only; and

(b) To finance capital expenditure works on upgrading of water supply system project at Sabak Bernam to move 65 MLD of clean water from the Bernam River Headwork Reservoir for an amount of up to RM15.0 million only.

13. BORROWINGS (continued)

(e) Government loans (continued)

(iv) Government Loan RM110.0 million (continued)

The salient terms of the Government Loan Agreement are as follows (continued):

- (iii) Tenure : Twenty (20) years.
- (iv) Repayment : The facility amount to be repayable over eighteen (18) years, commencing on the third (3rd) year from the first (1st) drawdown i.e. grace period of two (2) years:

Year	Per annum RM'000
2014 - 2016	550
2017	14,587
2018 - 2019	550
2020 - 2023	1,100
2024 - 2027	1,650
2028	13,200
2029	22,000
2030	27,500
2031	18,964

- (v) Special Loan Account and Security : Deed of Assignment over a Special Loan Account and the credit balances therein.
- (vi) Interest : 3.00% per annum.
- (vii) Default Interest : 5.00% per annum on any overdue principal repayment amount.
- (viii) Other Terms : As privately agreed with the Federal Government.

(v) Government Loan RM75.0 million

On 21 October 2013, a subsidiary of the Group entered into a Loan Facility Agreement and Deed of Assignment with the Federal Government in respect of a loan facility of RM75.0 million granted to the subsidiary of the Group by the Federal Government.

13. BORROWINGS (continued)

(e) Government loans (continued)

(v) Government Loan RM75.0 million (continued)

	Group	
	2018	2017
	RM'000	RM'000
As at 1 January	37,249	53,235
Accretion of finance costs	2,187	3,074
Repayments during the financial year	(5,094)	(19,060)
As at 31 December	<u>34,342</u>	<u>37,249</u>

The salient terms of the Government Loan Agreement are as follows:

- (i) Facility Amount : RM75.0 million.
- (ii) Purpose of Loan : To finance the works in relation to the water supply mitigation programme - old pipes and critical pipes replacement projects in Selangor and Kuala Lumpur, this will reduce the loss of non-water revenue at sixteen (16) critical areas in Selangor, Kuala Lumpur and Putrajaya.
- (iii) Tenure : Twenty (20) years.
- (iv) Repayment : The facility amount to be repayable over seventeen (17) years, commencing on the third (3rd) year from the first (1st) drawdown i.e. grace period of three (3) years.
- (v) Special Loan Account and Security : Deed of Assignment over a Special Loan Account and the credit balances therein.
- (vi) Interest : 3.00% per annum.
- (vii) Default Interest : 5.00% per annum on any overdue repayment amount.
- (viii) Other Terms : As privately agreed with the Federal Government.

13. BORROWINGS (continued)

(e) Government loans (continued)

(vi) Government Loan RM76.0 million

On 21 October 2013, a subsidiary of the Group had entered into a Loan Facility Agreement and Deed of Assignment with the Federal Government in respect of a loan facility of RM76.0 million granted to the subsidiary of the Group by the Federal Government.

	Group	
	2018	2017
	RM'000	RM'000
As at 1 January	50,604	53,642
Accretion of finance costs	2,209	3,366
Repayments during the financial year	<u>(6,210)</u>	<u>(6,404)</u>
As at 31 December	<u>46,603</u>	<u>50,604</u>

The salient terms of the Government Loan Agreement are as follows:

- (i) Facility Amount : RM76.0 million.
- (ii) Purpose of Loan : To finance the works in relation to the water supply mitigation programme phase 2 to overcome the water shortage in Selangor, Kuala Lumpur and Putrajaya.
- (iii) Tenure : Twenty (20) years.
- (iv) Repayment : The facility amount to be repayable over seventeen (17) years, commencing on the third (3rd) year from the first (1st) drawdown i.e. grace period of three (3) years.
- (v) Special Loan Account and Security : Deed of Assignment over a Special Loan Account and the credit balances therein.
- (vi) Interest : 3.00% per annum.
- (vii) Default Interest : 5.00% per annum on any overdue repayment amount.
- (viii) Other terms : As privately agreed with the Federal Government.

13. BORROWINGS (continued)

(e) Government loans (continued)

(vii) Government loan RM248.7 million

On 31 July 2017, the Company had entered into a Government Loan Agreement with the State Government in respect of a loan facility of RM248.7 million granted to the Company by the State Government.

	Group and Company	
	2018	2017
	RM'000	RM'000
As at 1 January	12,472	-
Drawdowns during the financial year	100,000	55,000
Effect of MFRS 120 (Note 16(c))	(75,722)	(42,704)
Accretion of finance costs	<u>1,769</u>	<u>176</u>
As at 31 December	<u><u>38,519</u></u>	<u><u>12,472</u></u>

The salient terms of the Government Loan Agreement are as follows:

- (i) Facility Amount : RM248.7 million.
- (ii) Purpose of Loan : To finance aged pipe replacement projects in Selangor, Federal Territory of Kuala Lumpur and Putrajaya.
- (iii) Tenure : Twenty (20) years.
- (iv) Drawdown period :
- | | |
|------|-----------------------|
| Year | RM'000 |
| 2017 | 55,000 |
| 2018 | 100,000 |
| 2019 | <u>93,700</u> |
| | <u><u>248,700</u></u> |
- (v) Repayment : The facility amount to be repayable over twenty (20) years, commencing on the tenth (10th) year from the first (1st) drawdown i.e. grace period of ten (10) years.
- (vi) Interest : Nil

13. BORROWINGS (continued)

(f) Junior Subordinate Loan ("JNA")

The JNA is secured by way of legal assignment over a subsidiary's operating account and redemption account.

JNA bears coupon at a rate of 5.68% (2017: 5.68%) per annum.

(g) Redeemable Preference Shares ("RPS")

On 6 May 2005, a subsidiary of the Group entered into a Subscription Agreement with the Ministry of Finance ("MOF") at a total subscription price of RM655 million. MOF agreed to subscribe for a total of 655 million RPS of RM0.01 each of the said subsidiary, to be issued at an issue price of RM1.00 per RPS (a premium of RM0.99 per RPS) within a period of four (4) years, commencing from 15 January 2007 until 14 January 2011. The RPS are not convertible into ordinary shares of the subsidiary but shall be redeemed by the subsidiary commencing on 31 December 2021 until 31 December 2025 in five (5) equal tranches of RM131.0 million nominal value for each of the years.

Each RPS shall confer on its holder the following rights:

- (i) A fixed cumulative net dividend of 3% per annum on each RPS, payable in cash on a date falling in the financial year ending no earlier than 31 December 2015 (which date is to be determined at the sole discretion of the subsidiary), out of the subsidiary profits available for distribution in respect of each financial year or other accounting period of the subsidiary prior to such date provided always that no dividend shall be declared or be due and payable except in accordance with the priority of payments set out in the Assignment and Charge I Agreement dated 19 January 2005 between the subsidiary and the Security Agent.
- (ii) Net dividend declared for each financial year from the date of issue up to the financial year ended 31 December 2014 shall, once declared be payable in eleven (11) equal instalments commencing in the year 2015 and ending in the year 2025. Such instalment shall be in addition to the payment of any net dividend declared for the relevant financial year 31 December 2015 and any financial year thereafter.
- (iii) Each RPS shall not confer on the holder thereof any right to participate on a return in excess on liquidation, winding up or otherwise of the subsidiary other than redemption, up to the paid-up value of RM1.00 for each RPS with a par value of RM0.01 and a premium of RM0.99.
- (iv) The RPS shall carry no right to receive notice of or to attend or vote at any general meeting of the subsidiary other than on a resolution to amend or vary the rights of holders of the RPS.

13. BORROWINGS (continued)

(g) Redeemable Preference Shares ("RPS") (continued)

Each RPS shall confer on its holder the following rights (continued):

- (v) The subsidiary shall redeem each RPS on the following dates and in the following proportions:

Date	Group RM'000
31 December 2021	131,000
31 December 2022	131,000
31 December 2023	131,000
31 December 2024	131,000
31 December 2025	131,000
	<hr/>
	655,000
	<hr/>

- (vi) No RPS shall be convertible into ordinary shares of the subsidiary.

- (vii) The RPS shall not be transferable in whole or in part and they shall not be listed on Bursa Securities or any other stock exchange.

- (viii) The RPS shall rank ahead of all other shares issued or to be issued by the subsidiary, be it preference, ordinary or otherwise. In addition, the subsidiary shall ensure that all advances or loans from shareholders of the subsidiary, to the extent permissible by law, rank behind the RPS in terms of payment in a winding-up of the subsidiary.

(h) Redeemable Secured Bond ("RSB")

The RSB has a maturity date of ten (10) years from the issuance date in the year 2006. During the financial year, the RSB maturity date has been extended to 19 June 2019.

The RSB bears coupon interest at a rate of 5.50% (2017: 5.50%) per annum payable semi-annually for the first five (5) years of the issuance and at rate of 11.00% (2017: 11.00%) per annum payable semi-annually for the subsequent years of the amounts outstanding.

The RSB shall be redeemed by the Group at par or its respective nominal value on the maturity date, unless previously redeemed, purchased and cancelled.

The RSB is secured by way of legal assignment over a subsidiary's operating account and mandatory redemption account.

13. BORROWINGS (continued)

(i) Term Loans

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-current liabilities					
- Term loan 1	i	114,870	127,742	114,870	127,742
Current liabilities					
- Term loan 1	i	12,976	12,258	12,976	12,258
- Term loan 2	ii	409,975	409,975	-	-
- Term loan 3	ii	250,000	250,000	-	-
Total current liabilities		<u>672,951</u>	<u>672,233</u>	<u>12,976</u>	<u>12,258</u>
		<u>787,821</u>	<u>799,975</u>	<u>127,846</u>	<u>140,000</u>

(i) Term Loan 1

On 11 March 2016, the Company had entered into a Debt Settlement Agreement with its immediate holding Company which include the undertaking of RM140.0 million Affin loan as a part of the settlement for the acquisition of fifteen percent (15%) of ordinary share of Syabas from Kumpulan Perangsang Selangor Berhad and approximately seven percent (7%) of RCULS of Syabas from its immediate holding company. The Company has subsequently entered into a Tawarruq Facility Agreement with Bank Islam Malaysia Berhad in respect of a loan facility of RM140 million granted to the Company by the Bank Islam Malaysia Berhad.

The salient terms of the Term Loan Agreement are as follows:

- (i) Facility amount : RM140.0 million.
- (ii) Bank's sale price : RM276,896,000
- (iii) Purpose of loan : To repay facility under its immediate holding company with Affin Bank Berhad.
- (iv) Tenure : Ten (10) years including 1 year grace period.
- (v) Interest : Cost of fund ("COF") + 1.50%

The term loan is repayable as follows from the date of the first drawdown on 29 November 2016:

	Group and Company RM'000
Months 13 to 24	12,258
Months 25 to 120	<u>127,742</u>
	<u>140,000</u>

13. BORROWINGS (continued)

(i) Term Loans (continued)

(ii) Term Loan 2 and Term Loan 3

The Group obtained term loan facilities of up to RM410.0 million and RM250.0 million from Bank Pembangunan Malaysia Berhad ("BPMB") to part finance the capital expenditure and the Non-Revenue Water ("NRW") reduction programmes (including the operation, maintenance, development and upgrading of the water distribution system over a period of thirty (30) years) respectively.

These term loans are repayable as follows from the date of the first drawdown on 9 September 2005:

	Group	
	Term Loan 2	Term Loan 3
	RM'000	RM'000
Month 204 (17 years)	73,240	50,000
Month 216 (18 years)	77,380	50,000
Month 228 (19 years)	81,750	50,000
Month 240 (20 years)	86,370	50,000
Month 252 (21 years)	91,235	50,000
	<u>409,975</u>	<u>250,000</u>

The term loans are secured via the following:

- (i) A debenture incorporating fixed and floating charges over all present and future assets of the subsidiary, both movable and immovable;
- (ii) Assignment of all rights, titles and benefits under the Concession Agreement;
- (iii) Assignment of all contractual rights, titles and benefits under the Construction Contract (excluding the performance bonds); and
- (iv) Assignment over the Designated Accounts (Collection Account, Operating Account, BPMB Disbursement Account, DSRA and Land Use Charges Reserve Account).

The term loans bear interest at a 5.65% (2017: 5.65%) per annum.

13. BORROWINGS (continued)

(j) Sukuk Murabahah

The Sukuk Murabahah is secured as follows:

- (i) a debenture incorporating fixed and floating charges over all present and future assets of the subsidiary;
- (ii) assignment of all present and future rights, title, benefits and interests under the Concession Agreement and its supplemental;
- (iii) assignment of all present and future rights, title, benefits and interests in all the present and future performance and maintenance bonds in favour of the subsidiary;
- (iv) assignment of all present and future rights, title, benefits and interests in all the present and future insurance taken in relation to the subsidiary's assets and proceeds arising thereunder;
- (v) assignment over the Designated Accounts (Revenue Account, Finance Service Reserve Account and Government Soft Loan Account); and
- (vi) Third party charge over the subsidiary's shares.

The profit is payable semi-annually at the rate of 7.90% (2017: 7.90%) per annum with yield to maturity of 7.90% (2017: 7.90%).

(k) Revolving Credit-I ("RC-i") RM60.0 million

On 7 July 2015, the Company had entered into a Revolving Credit-i ("RC-i") Agreement with Bank Islam Malaysia Berhad in respect of a loan facility of RM10.0 million and on 27 March 2017, the Company had entered into another Revolving Credit-i ("RC-i") Agreement with Bank Islam Malaysia Berhad in respect of a loan facility of RM50.0 million granted from Bank Islam Malaysia Berhad. On 16 April 2018, both of the account has been consolidated into single account with a single limit of RM60.0 million for ease of administration.

The salient terms of Bank Islam are as follows:

- (i) Facility amount : RM60.0 million.
- (ii) Purpose of loan : For the Customer's general working capital purposes.
- (iii) Repayment : The facility amount to be repayable in one (1) year period.
- (iv) Interest : COF + 1.50%.

(l) Borrowings are classified as other financial liabilities and are measured at amortised cost.

(m) All borrowings are denominated in RM.

13. BORROWINGS (continued)

(n) The interest rate profiles of the borrowings as at end of each reporting period are as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
- Fixed rate	8,378,265	8,304,321	1,709,902	1,695,170
- Floating rate	157,846	140,000	157,846	140,000
	<u>8,536,111</u>	<u>8,444,321</u>	<u>1,867,748</u>	<u>1,835,170</u>

(o) Financial instruments that are not carried at fair values and whose carrying amounts are reasonable approximation of fair values, are as follows:

	2018		2017	
Group	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000
Bank loans	5,543,925	5,543,925	5,478,558	5,478,558
Government loans	542,543	542,543	521,848	521,848
Redeemable Preference Shares	810,749	810,749	791,938	791,938
Hire purchase and lease arrangement	1,638,894	436,158	1,651,977	427,314
	<u>8,536,111</u>	<u>7,333,375</u>	<u>8,444,321</u>	<u>7,219,658</u>

Company	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000
Bank loans	157,846	157,846	140,000	140,000
Government loans	71,743	71,743	45,696	45,696
Hire purchase and lease arrangement	1,638,159	435,442	1,649,474	424,894
	<u>1,867,748</u>	<u>665,031</u>	<u>1,835,170</u>	<u>610,590</u>

The carrying amounts of bank loans, government loans and redeemable preference shares are reasonable approximations of fair values due to the current rates offered to the Group and the Company approximate their market rates for similar borrowing of the same remaining maturities.

The fair values of hire purchase and finance lease liabilities are estimated by discounting future contracted cash flows at market interest rate available to the Group and the Company for similar financial instruments.

The fair value of borrowings is categorised as Level 2 in the fair value hierarchy. There is no transfer between levels in the hierarchy during the financial year.

13. BORROWINGS (continued)

(p) The following tables set out the carrying amounts, the weighted average effective interest rate as at the end of each reporting period and the remaining maturities financial instruments of the Group and of the Company that are exposed to interest rate risk:

Group	Weighted average effective interest rate (per annum) %	Within 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000	Total RM'000
2018								
Fixed rate								
BAIDS/MCPS/MMTNS	5.50	1,019,582	-	-	-	-	-	1,019,582
BAMTN	5.44	2,117,160	-	-	-	-	-	2,117,160
Hire purchase and lease arrangement	5.50	12,718	12,603	13,222	13,884	14,577	1,571,890	1,638,894
Fixed Rate Serial Bonds	4.16	722,375	-	-	-	-	-	722,375
Government loans	1.01	504,024	-	-	-	-	38,519	542,543
JNA	5.68	298,567	-	-	-	-	-	298,567
RPS	3.00	810,749	-	-	-	-	-	810,749
RSB	11.00	432,420	-	-	-	-	-	432,420
Term loans	5.65	659,975	-	-	-	-	-	659,975
Sukuk Murabahah	7.90	136,000	-	-	-	-	-	136,000
Floating rate								
Term loans	5.90	12,976	13,839	14,538	15,389	16,290	54,814	127,846
Revolving Credit-I (RC-i)	4.90	30,000	-	-	-	-	-	30,000

13. BORROWINGS (continued)

(p) The following tables set out the carrying amounts, the weighted average effective interest rate as at the end of each reporting period and the remaining maturities financial instruments of the Group and of the Company that are exposed to interest rate risk (continued):

Group	Weighted average effective interest rate (per annum) %	Within 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000	Total RM'000
2017								
Fixed rate								
BAIDS/MCPS/MMTNS	5.50	1,019,234	-	-	-	-	-	1,019,234
BAMTN	5.44	2,109,101	-	-	-	-	-	2,109,101
Hire purchase and lease arrangement	5.50	13,232	12,806	12,672	13,294	13,958	1,586,015	1,651,977
Fixed Rate Serial Bonds	4.16	715,024	-	-	-	-	-	715,024
Government loans	1.07	509,376	-	-	-	-	12,472	521,848
JNA	5.68	269,234	-	-	-	-	-	269,234
RPS	3.00	791,938	-	-	-	-	-	791,938
RSB	11.00	429,990	-	-	-	-	-	429,990
Term loans	5.65	659,975	-	-	-	-	-	659,975
Sukuk Murabahah	7.90	136,000	-	-	-	-	-	136,000
Floating rate								
Term loan	5.78	12,258	12,976	13,735	14,538	15,389	71,104	140,000

13. BORROWINGS (continued)

- (p) The following tables set out the carrying amounts, the weighted average effective interest rate as at the end of each reporting period and the remaining maturities financial instruments of the Group and of the Company that are exposed to interest rate risk (continued):

Company	Weighted average effective interest rate (per annum) %	Within 1 year RM'000	1 - 2 years RM'000	2 - 3 years RM'000	3 - 4 years RM'000	4 - 5 years RM'000	More than 5 years RM'000	Total RM'000
2018								
Fixed rate								
Hire purchase and lease arrangement	5.50	11,993	12,593	13,222	13,884	14,577	1,571,890	1,638,159
Government loans	-	33,224	-	-	-	-	38,519	71,743
Floating rate								
Revolving Credit-I (RC-i)	4.90	30,000	-	-	-	-	-	30,000
Term loans	5.90	12,976	13,735	14,538	15,389	16,290	54,918	127,846
2017								
Fixed rate								
Hire purchase and lease arrangement	5.50	11,486	12,060	12,662	13,294	13,958	1,586,014	1,649,474
Government loans	-	33,224	-	-	-	-	12,472	45,696
Floating rate								
Term loans	5.78	12,258	12,976	13,735	14,538	15,389	71,104	140,000

13. BORROWINGS (continued)

- (q) Sensitivity analysis for fixed rate borrowings as at the end of the reporting period is not presented as fixed rate instruments as it is not affected by change in interest rates. Sensitivity analysis of interest rates for the floating rate instruments at the end of the reporting period, assuming all other variables remain constant is as follows:

	Group and Company	
	2018	2017
	RM'000	RM'000
Effects of 10bp changes to loss after tax		
Floating rate instruments	<u>97</u>	<u>106</u>

- (r) The table below summarises the maturity profile of the liabilities of the Group and of the Company at the end of each reporting period based on contractual undiscounted repayment obligations.

Group	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
As at 31 December 2018				
Financial liabilities				
Borrowings	4,444,565	1,504,195	1,897,304	7,846,064
Hire purchase and lease arrangement	<u>92,527</u>	<u>367,176</u>	<u>3,413,315</u>	<u>3,873,018</u>
Total undiscounted financial liabilities	<u>4,537,092</u>	<u>1,871,371</u>	<u>5,310,619</u>	<u>11,719,082</u>
As at 31 December 2017				
Financial liabilities				
Borrowings	4,110,105	1,717,822	1,982,148	7,810,075
Hire purchase and lease arrangement	<u>93,639</u>	<u>367,912</u>	<u>3,497,457</u>	<u>3,959,008</u>
Total undiscounted financial liabilities	<u>4,203,744</u>	<u>2,085,734</u>	<u>5,479,605</u>	<u>11,769,083</u>

The above analysis includes loans and borrowings that will be assumed by PAAB.

13. BORROWINGS (continued)

- (r) The table below summarises the maturity profile of the liabilities of the Group and of the Company at the end of each reporting period based on contractual undiscounted repayment obligations (continued).

	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
Company				
As at 31 December 2018				
Borrowings	83,352	80,513	98,228	262,093
Hire purchase and lease arrangement	<u>91,792</u>	<u>367,166</u>	<u>3,413,315</u>	<u>3,872,273</u>
Total undiscounted financial liabilities	<u>175,144</u>	<u>447,679</u>	<u>3,511,543</u>	<u>4,134,366</u>
As at 31 December 2017				
Borrowings	53,270	80,180	92,682	226,132
Hire purchase and lease arrangement	<u>91,792</u>	<u>367,166</u>	<u>3,497,457</u>	<u>3,956,415</u>
Total undiscounted financial liabilities	<u>145,062</u>	<u>447,346</u>	<u>3,590,139</u>	<u>4,182,547</u>

- (s) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group and Company's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statements of cash flows as cash flows from financing activities.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	8,444,321	8,462,096	1,835,170	1,841,556
Financing cash flows	59,894	(4,515)	106,531	36,142
Effect of MFRS 120	(75,722)	(42,704)	(75,722)	(42,704)
Non-cash flows:				
Accretion of interest	91,916	13,838	1,769	176
Interest payable	<u>15,702</u>	<u>15,606</u>	<u>-</u>	<u>-</u>
At 31 December	<u>8,536,111</u>	<u>8,444,321</u>	<u>1,867,748</u>	<u>1,835,170</u>

14. DEFERRED TAX

- (a) The deferred tax liabilities are made up of the following:

	Group	
	2018	2017
	RM'000	RM'000
Deferred tax liabilities		
As at 1 January	122,414	108,371
Recognised in profit or loss (Note 23)	12,035	14,043
As at 31 December	134,449	122,414

- (b) The components and movements of deferred tax liabilities during the financial year are as follows:

	As at 1 January 2018 RM'000	Recognised profit or loss RM'000	As at 31 December 2018 RM'000
Allowances	120,275	11,345	131,620
Government loan	2,772	195	2,967
Others	(633)	495	(138)
	122,414	12,035	134,449

	As at 1 January 2017 RM'000	Recognised profit or loss RM'000	As at 31 December 2017 RM'000
Allowances	107,458	12,817	120,275
Government loan	2,595	177	2,772
Others	(1,682)	1,049	(633)
	108,371	14,043	122,414

- (c) The amounts of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Unused tax losses	11,974,486	10,618,122	-	-
Unabsorbed capital allowances	2,747,651	2,520,615	18,797	-
Other deductible temporary differences	5,946,882	5,878,564	(10,547)	1,706
	20,669,019	19,017,301	8,250	1,706

Deferred tax assets of the Company and certain subsidiaries have not been recognised in respect of these items as it is not probable that taxable profits of the subsidiaries would be available against which the deductible temporary differences could be utilised. The unused tax losses and unabsorbed capital allowances up to the year of assessment 2018 shall be deductible until year of assessment 2025. The unused tax losses and unabsorbed capital allowances for the year of assessment 2019 onwards will expire in seven (7) years.

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Trade payables				
Third parties	4,920,208	4,432,230	743	-
Related company	10,839	16,567	-	-
	4,931,047	4,448,797	743	-
Other payables				
Amounts owing to related companies	730	736	-	-
Amounts owing to subsidiaries	-	-	307,470	208,580
Amount owing to immediate holding company	432	1,053	432	1,053
Other payables	1,599,720	1,424,119	241,991	235,983
Deposits	539,049	518,897	174	-
Accruals	320,343	323,436	4,851	2,817
	2,460,274	2,268,241	554,918	448,433
	7,391,321	6,717,038	555,661	448,433

- Trade and other payables are classified as other financial liabilities and are measured at amortised cost.
- Trade payables represent amounts outstanding for trade purchases and subcontractors claim on the contract works performed and have normal credit terms of 30 days to 90 days (2017: 30 to 90 days).
- Included in trade payables and other payables are amounts owing to Splash amounting to RM4,858,315,000 and RM1,529,473,000 respectively. The trade amount owing is subject to interest at a floating rate of 7.65% (2017: 7.65%) per annum for amount exceeding the credit term.
- The amounts owing to related companies, subsidiaries and immediate holding company are interest free, unsecured and are payable on demand in cash and cash equivalents.
- Trade and other payables are denominated in RM.
- Maturity profile of trade and other payables of the Group and of the Company at the end of the reporting period based on contractual undiscounted repayment obligations is repayable on demand or within one (1) year.
- Sensitivity analysis of trade payable at floating interest rate amounting to RM4,529,316,000 (2017: RM4,036,495,000) at the end of the reporting period, assuming all other variables remain constant is as follows:

	Group	
	2018	2017
	RM'000	RM'000
Effects of 10bp changes to loss after tax		
Floating rate instruments	3,442	3,068

16. GOVERNMENT GRANT

	Group and Company	
	2018	2017
	RM'000	RM'000
Government grant	194,026	118,304

- (a) The Company had entered into a Government Loan Agreement with the State Government in respect of a loan facility of RM248.7 million granted to the Company by the State Government as disclosed in Note 13(e)(vii) to the financial statements. MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance* requires the benefit of the government loan at below-market rate of interest to be treated as government grants. RM75,722,000 (2017: RM42,704,000) being the difference between the amount received and the fair value of the government loan is accounted for as a government grant.

	Group and Company	
	2018	2017
	RM'000	RM'000
As at 1 January	42,704	-
Add: Effect of MFRS 120 (Note 13(e)(vii))	75,722	42,704
As at 31 December	118,426	42,704

- (b) Government grant represents funding received by the Group and the Company to partially fund the pipe replacement works as part of a program to replace aged pipes in order to overcome the water woes and supply disruptions in Kuala Lumpur, Putrajaya and Selangor, which has not been utilised as at the end of reporting period.
- (c) Government grant relating to costs are deferred and recognised as income in profit or loss on a straight line basis over the periods necessary to match them with the related costs that they are intended to compensate.

17. CAPITAL COMMITMENTS

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Capital expenditure in respect of purchase of property, plant and equipment				
- Contracted but not provided for	28,256	9,341	-	-
- Approved but not contracted for	293,114	242,200	-	-
- Approved and contracted for	330,680	246,387	187,805	45,224
	652,050	497,928	187,805	45,224

18. CONTINGENT LIABILITIES

Tax penalty

PNSB Water Sdn. Bhd. ("PNSB"), a subsidiary of the Company, recognised all the invoices issued to Syabas in its profit or loss for the supply of treated water as revenue.

PNSB had appealed to the Inland Revenue Board ("IRB") to revise the tax computations for YA2009 to YA2011 to take into account the following tax adjustments:

- (i) To claim a deduction under Section 34(2) of the Income Tax Act 1967 ("the Act") in respect of the amount owing from Syabas for treated water supplied which was not collectible as at end of the basis period for YA2009 to YA2011 respectively; and
- (ii) To include as gross income and subject to tax on the bad and doubtful debts claimed as tax deduction under item (i) above which was recovered from Syabas in the subsequent years of assessment pursuant to Section 30(1) of the Act, i.e. when the payment is received from Syabas, it will become taxable.

PNSB had fully paid all the tax installments for YA2009, YA2010 and YA2011 and is appealing for a tax refund from IRB.

The IRB had replied to the PNSB's petition of appeal on 5 August 2013 wherein IRB had requested the Company to prove that the amount owing by Syabas is bad debts pursuant to Section 34(2) of the Act.

PNSB had submitted a RMNil tax payable for YA2012 to YA2015 and estimated the tax payable for subsequent YAs based on the same approach as the tax appeal above.

In the event that IRB does not grant approval to PNSB to claim a deduction under Section 34(2) of the Act in respect of amount owing from Syabas for treated water supplied, PNSB will be exposed to a potential tax penalty under Section 107C(10) of the Act for YA2012 onwards in respect of late payment of tax. PNSB had expressed its awareness on the matter and the final outcome will be based on IRB's decision on the matter.

Based on the solicitor's advise, the Directors of PNSB are of the view that PNSB has an arguable case to contend that there is no legal and factual basis for IRB to disallow the bad debts, which are deductible under Section 34(2) of the Act.

The Court has directed PNSB and IRB to attend hearings on 17 September 2019 and 18 September 2019 and to write in to update the Court should PNSB is able to achieve out of court settlement with the Ministry of Finance.

19. REVENUE

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Revenue from contracts with customers:				
Supply and distribution of treated water to consumers	1,851,609	1,780,576	12,425	2,595
Management fees	-	-	18,998	21,393
	<u>1,851,609</u>	<u>1,780,576</u>	<u>31,423</u>	<u>23,988</u>
Timing of revenue recognition				
Transferred at a point in time	1,851,609	1,780,576	12,425	2,595
Transferred over time	-	-	18,998	21,393
	<u>1,851,609</u>	<u>1,780,576</u>	<u>31,423</u>	<u>23,988</u>

(a) Supply and distribution of treated water to consumers

Water revenue is recognised when the related water activity is rendered. Water consumed is billed every month according to the bill cycles of the customers.

(b) Management fees

Management fees are recognised when the services are rendered over time in respect of management and administrative support to its subsidiaries.

20. EMPLOYEE BENEFITS

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Salaries, wages and bonuses	241,265	204,256	17,076	16,224
Contributions to defined contribution plan	34,222	28,301	2,554	1,811
Defined benefit plan	-	3,351	-	-
Other employee benefits	54,880	49,531	1,457	834
	<u>330,367</u>	<u>285,439</u>	<u>21,087</u>	<u>18,869</u>

21. FINANCE COSTS

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
- BAIDS/MCPS/MMTNS	55,021	54,908	-	-
- BAMTN	115,703	115,704	-	-
- Hire purchase and lease arrangements	80,557	73,098	80,477	72,933
- Fixed Rate Serial Bonds	30,250	30,250	-	-
- JNA	18,638	18,637	-	-
- RPS	15,702	15,606	-	-
- RSB	47,849	47,719	-	-
- Term loans	45,171	45,535	7,883	8,247
- Sukuk Murabahah	10,744	10,744	-	-
- Late payment interest	335,004	289,088	-	-
- Waiver of interest income	-	-	-	43,908
- Others	12,021	11,288	11,572	15,306
Accretion of interest on:				
- BAIDS/MCPS/MMTNS	348	-	-	-
- BAMTN	8,059	8,377	-	-
- Fixed Rate Serial Bonds	7,352	10,240	-	-
- Government loans	13,456	13,598	1,769	176
- JNA	29,333	-	-	-
- RPS	3,109	2,884	-	-
- RSB	2,431	-	-	-
	<u>830,748</u>	<u>747,676</u>	<u>101,701</u>	<u>140,570</u>

22. LOSS BEFORE TAX

Other than those disclosed elsewhere in the financial statements, the loss before tax is arrived at:

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
After charging:					
Auditors' remuneration:					
- statutory audit					
- Current year					
- BDO PLT		760	748	160	150
- Under/(Over) provision in prior years		9	(3)	10	-
- non-statutory audit					
BDO PLT		48	-	48	-
Bad debts written off		-	3,358	-	-
Operating leases on:					
- office and parking lot		4,772	4,624	423	118
- equipment and plant		9,859	9,958	4	-
- storage		498	388	-	-
And crediting:					
Amortisation of deferred government grant		18,941	18,941	-	-
Bad debts recovered		898	1,285	-	-
Disconnection/Reconnection charges		1,973	11,024	-	-
Income from liquidated ascertained damages from contractors		661	454	-	-
Gain on disposal of property, plant and equipment		1,160	372	-	-
Income from property developers	(a)	87,934	95,517	-	-
Interest income	(b)	56,543	57,904	6,499	6,266
Waiver of intercompany interest		-	-	-	5,960
RCULS interest income		-	-	-	43,907
Reversal of accretion of interest					
- BAIDS		-	53	-	-
- JNA		-	3,244	-	-
- RSB		-	4,942	-	-

22. LOSS BEFORE TAX (continued)

- (a) Income from property developers represents contributions by developers towards upgrading of the upstream work of water supply including trunk distribution system.
- (b) Interest income is recognised as it accrues, using the effective interest method.

23. TAX EXPENSE

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Current tax expense based on loss for the financial year:				
- Current year	11,765	8,025	1,686	1,793
- (Over)/under-provision in prior years	(617)	(2,341)	(413)	11
	<u>11,148</u>	<u>5,684</u>	<u>1,273</u>	<u>1,804</u>
Deferred tax (Note 14)				
- Relating to origination and reversal of temporary differences	11,635	13,411	-	-
- Under/(Over)-provision in prior years	400	632	-	-
	<u>12,035</u>	<u>14,043</u>	<u>-</u>	<u>-</u>
Total tax expense for the financial year	<u><u>23,183</u></u>	<u><u>19,727</u></u>	<u><u>1,273</u></u>	<u><u>1,804</u></u>

- (a) Malaysian income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated taxable profit for the fiscal year.

23. TAX EXPENSE (continued)

- (b) The numerical reconciliation between the tax expense and the product of accounting loss multiplied by the applicable tax rates of the Group and of the Company is as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Loss before tax	<u>(1,286,762)</u>	<u>(1,094,850)</u>	<u>(314,749)</u>	<u>(306,311)</u>
Tax at Malaysian statutory tax rate of 24% (2017: 24%)	(308,823)	(262,764)	(75,540)	(73,515)
Tax effects in respect of:				
Tax exempt income	(283,987)	(425,663)	-	(1,430)
Non-allowable expenses	219,798	309,683	75,655	76,915
Deferred tax assets not recognised	396,412	400,180	1,571	-
Utilisation of previously unrecognised deferred tax assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>(177)</u>
	23,400	21,436	1,686	1,793
Under/(Over)-provision in prior years				
- current tax	(617)	(2,341)	(413)	11
- deferred tax	<u>400</u>	<u>632</u>	<u>-</u>	<u>-</u>
Tax expense	<u>23,183</u>	<u>19,727</u>	<u>1,273</u>	<u>1,804</u>

24. RELATED PARTIES DISCLOSURES

(a) Identities of related parties

Parties are considered to be related to the Group if the Group 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 and the party are subject to common control or common significant influence. Related parties could be individuals or other parties.

The Company has controlling related party relationship with its direct and indirect subsidiaries.

Related parties of the Group include:

- (i) Direct and indirect subsidiaries as disclosed in Note 7 to the financial statements;
- (ii) Immediate and ultimate holding companies;
- (iii) Companies in which certain Directors have financial interests; and
- (iv) Key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Company, and certain members of the senior management of the Group.

(b) Significant related party transactions

In additions to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with the related parties during the financial year:

- (i) Transactions with Government and government related entities

KDEB, a wholly-owned entity of Menteri Besar Selangor (Pemerbadanan), its related companies and ultimate holding company are deemed to be related parties of the Group and the Company. The Federal Government, State Government and bodies controlled, jointly controlled or significant influenced by the Federal Government and State Government are also related parties to the Group and the Company.

The Group and the Company has not presented the related parties transaction with Government and government related entities as it has used the exemption available in paragraph 25 of MFRS 124: *Related Party Disclosures*.

24. RELATED PARTIES DISCLOSURES (continued)

(b) Significant related party transactions (continued)

In additions to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with the related parties during the financial year (continued):

	Company	
	2018	2017
	RM'000	RM'000
Subsidiaries		
Interest paid and payable	-	4,306
Interest received and receivable	-	19,848
Management fees	18,998	21,393
Operation and maintenance charges paid and payable	3,824	3,525
Sale of treated water	12,425	2,595
Waiver of intercompany interest	-	5,960
Waiver of RCULS interest	-	43,907

Information regarding outstanding balance arising from related party transactions as at 31 December 2018 is disclosed in Note 9 and 15 to the financial statements

(c) Compensation of key management personnel

The remuneration of key management personnel comprising solely directors are as follows:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Emoluments paid and payable	2,288	2,093	2,288	2,093

(d) Material contracts

There were no material contracts, which have been entered into by the Company or its subsidiaries which involved Directors' and major shareholders' interests subsisting at the end of the financial year ended 31 December 2018 or entered into since the end of the previous financial year except as disclosed elsewhere in the financial statements.

25. MATERIAL LITIGATION

The Group determines whether a present obligation in relation to a material litigation exists at the reporting date by taking into account all available evidence, including the opinion of the solicitors. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence, the Group evaluates if a provision needs to be recognised in the financial statements

(a) PNSB Water Sdn. Bhd.'s Tax Appeal before the Special Commissioners of Income Tax

Appellant : PNSB
Respondent : Ketua Pengarah Hasil Dalam Negeri
Appeal No : PKCP(R) 1/2013

The issue before the Special Commissioners of Income Tax is whether the Respondent has any legal basis to disallow the deductibility of the debt amounting to RM629,008,059 which is owed by Syabas to the Appellant under Section 34(2) of the ITA.

On 31 July 2012, the Appellant submitted its tax return ("Form C") and its tax computation for the YA 2011. Pursuant to Section 90(1) and Section 90(2) of the ITA, the said Form C is deemed to be a notice of assessment raised and served on the Appellant for the YA 2011 on 31 July 2012.

The Appellant on 3 August 2012 filed a Notice of Appeal against the said notice of assessment for the YA 2011.

On 5 April 2013, the Appellant filed its Petition of Appeal to the Special Commissioners of Income Tax and served the same on the Respondent.

On 5 August 2013, the Respondent file its Reply to the Appellant's Petition of Appeal to the Special Commissioners of Income Tax and served the same on the Appellant.

The Appellant on 19 August 2013 filed its Reply to the Respondent's Reply to Appellant's Petition of Appeal to the Special Commissioners of Income Tax and served the same on the Respondent.

On 1 November 2013, pursuant to the instructions of the Special Commissioners of Income Tax, the parties filed the Statement of Agreed Facts. The Appellant also filed the Appellant's Statement of Issues to be tried.

On 5 December 2013, the Appellant filed the Index to the Bundles of Agreed Documents to the Special Commissioners of Income Tax and served the same on the Appellant.

On 6 December 2013, the Special Commissioner of Income Tax fixed the Appeal for Hearing on 7, 8 & 9 April 2015 and subsequently postponed to 18 & 19 October 2016.

The matter came up before the Special Commissioners of Income Tax on 9 January 2017. The Appellant informed the Court they would require more time for the settlement negotiation with the Ministry of Finance as there is a delay in water restructuring.

Based on the solicitor's advise, the Directors of PNSB are of the view that PNSB has an arguable case to contend that there is no legal and factual basis for IRB to disallow the bad debts, which are deductible under Section 34(2) of the Act.

The Court has directed PNSB and IRB to attend hearings on 17 September 2019 and 18 September 2019 and to write in to update the Court should PNSB be able to achieve out of court settlement with the Ministry of Finance.

25. MATERIAL LITIGATION (continued)

- (b) Syarikat Pengeluar Air Sungai Selangor Sdn. Bhd. (“Splash”) vs Syarikat Bekalan Air Selangor (“SYABAS”)

Plaintiff : Splash
Defendant : SYABAS
Suit No : WA-22NCC-124-04/2018

Splash filed a suit against SYABAS on 4 April 2018 claiming a total of RM4,217,911,713 for the outstanding payments of Supply Charge and Capacity Charge as per Splash’s invoices as at 1 April 2018 together with interests and costs.

The details of the claim are as follows:

- (i) Claim amount RM4,217,911,713;
- (ii) Interest at the rate of one percent (1%) plus the base lending rate of Malayan Banking Berhad, presently at 6.90% per annum calculated on a daily basis from the date when the invoices are due for payment until the full payment of the same;
- (iii) Costs; and
- (iv) Any other reliefs that are deemed fit and just by the Court.

Defence and striking out application were filed by Messrs Teh & Associates on 26 April 2018. During the case management on 24 May 2018, the Judge directed for the following:

- (i) Striking out application

The oral submissions were heard on 11 July 2018. The principal written submissions were filed and exchanged on 22 June 2018 and 6 July 2018 for the final submissions.

- (ii) Summary judgment

Splash had filed an application for Summary judgment on 15 May 2018. The Judge only directed that the filing and exchange of affidavits to be exhausted.

The new hearing date for the striking out application was on 18 July 2018.

Splash and SYABAS have withdrawn their respective claims against each other with liberty to file afresh and that costs as agreed between the parties, to be paid by Splash to SYABAS within 14 days from 17 July 2018.

The agreed costs of RM275,000 was paid by Splash to SYABAS on 30 July 2018.

26. CAPITAL AND FINANCIAL RISK MANAGEMENT

(a) Capital management

The primary objective of the capital management of the Group is to ensure that the Group would be able to continue as a going concern whilst maximising return to its shareholder through the optimisation of the debt and equity ratios. The overall strategy of the Group remains unchanged from the date of incorporation.

The capital structure of the Group is represented by the equity of the Group and capital ratio is determined by the ultimate holding company. No changes were made in the objectives, policies or processes during the financial year ended 31 December 2018.

The Group is not subject to any externally imposed capital requirements other than those disclosed in Note 13 to the financial statements.

(b) Financial risk management

The exposure to these risks arises in the normal course of business of the Group. The overall business strategies of the Group outlines its tolerance to risk and its general risk management philosophy and is determined by the management in accordance with prevailing economic and operating conditions. The Group is exposed mainly to credit risk, liquidity and cash flow risk and interest rate risk. Information on the management of the related exposures is detailed below.

(i) Credit risk

Credit risk is the potential risk of financial loss arising from the failure of a customer or counter party to settle its financial and contractual obligations to the Group, as and when they fall due. The credit risk attributable to receivables is managed and monitored on an ongoing basis to ensure that overdue debts are within an acceptable level. For other financial assets, the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position. The Group has set up credit policies which establish credit limit for all water consumers and monitor their balances on an ongoing basis. The credit policies also require customers to place deposits within the Group where the deposits can be utilised to off-set against outstanding balance when the customers' accounts have been terminated.

The Group has established appropriate procedure to collect deposit from consumers when opening a new account and collected amount is maintained in a separate bank account to meet the claims of consumers for refund of consumers' deposits.

Deposits placed with licensed banks and cash and bank balances are placed with major financial institutions in Malaysia. The Directors believe that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

The credit concentration profile has been disclosed in Note 9 and Note 11 to the financial statements.

26. CAPITAL AND FINANCIAL RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(ii) Liquidity and cash flow risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group manages its liquidity risk by establishing budget with the view to ensuring that sufficient bank balances to meet the obligations. In addition, the Group negotiates with financial institutions to reschedule and/or restructure the existing credit facilities to coincide with the present operating environment.

The analysis of financial instruments by remaining contractual maturities has been disclosed in Note 13 and Note 15 to the financial statements respectively.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of the Group would fluctuate because of changes in market interest rates.

The Group's primary interest rate risk relates to interest-earning deposits and interest-bearing borrowings. The Group's floating borrowings are exposed to a risk of changes in their fair values due to changes in interest rates. The Group's floating rate deposits and borrowings are exposed to a risk of change in cash flows due to changes in interest rates. The Group does not use derivative financial instruments to hedge its risk.

The interest rate profile and sensitivity analysis of interest rate risk have been disclosed in Note 11, Note 13 and Note 15 to the financial statements respectively.

27. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs

27.1 New MFRSs adopted during the financial year

The Group and Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board (“MASB”) during the financial year:

Title	Effective Date
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2017 Cycle</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarification to MFRS 15	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS as issued by IASB in July 2014)</i>	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2017 Cycle</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48

Adoption of the above Standards did not have any material effect on the financial performance or position of the Group and of the Company except for the adoption of MFRS 15 and MFRS 9 described in the following sections.

(a) MFRS 9 *Financial Instruments*

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, encompassing all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group and the Company applied MFRS 9 prospectively, with an initial application date of 1 January 2018. The Group and the Company has not restated the comparative information, which continues to be reported under MFRS 139. There is no material impact on the adoption of MFRS 9 on the financial statements of the Group and of the Company.

(i) Classification of financial assets and financial liabilities

The Group and the Company classify their financial assets into the following measurement categories depending on the business model of the Group and of the Company for managing the financial assets and the terms of contractual cash flows of the financial assets:

- Those to be measured at amortised cost; and
- Those to be measured subsequently at fair value either through other comprehensive income or through profit or loss.

27. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(i) Classification of financial assets and financial liabilities (continued)

The following summarises the key changes:

- The Available-For-Sale (AFS), Held-To-Maturity (HTM) and Loans and Receivables (L&R) financial asset categories were removed.
- A new financial asset category measured at Amortised Cost (AC) was introduced. This applies to financial assets with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by collecting contractual cash flows.
- A new financial asset category measured at Fair Value Through Other Comprehensive Income (FVTOCI) was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- A new financial asset category for non-traded equity investments measured at FVTOCI was introduced.

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities.

However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- Amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- The remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment of financial assets

The adoption of MFRS 9 has fundamentally changed the accounting for impairment losses for financial assets of the Group and of the Company by replacing the incurred loss approach of MFRS 139 with a forward-looking expected credit loss (ECL) approach. MFRS 9 requires the Group and the Company to record an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss.

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

Impairment for trade receivables that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime expected credit losses.

27. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(ii) Impairment of financial assets (continued)

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised in the statements of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

Impairment for other receivables and amounts owing by subsidiaries are recognised based on the general approach within MFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

(iii) Classification and measurement

The following table summarises the reclassification and measurement of the financial assets and financial liabilities of the Group and of the Company as at 1 January 2018:

Group	Classification		Carrying amount	
	Existing under MFRS 139	New under MFRS 9	Existing under MFRS 139 RM'000	New under MFRS 9 RM'000
Financial assets				
Club membership	Cost	Fair value through profit or loss	210	210
Trade and other receivables, excluding prepayments and GST receivables	Loans and receivables	Amortised cost	366,657	366,657
Cash and bank balances	Loans and receivables	Amortised cost	1,587,512	1,587,512

27. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(iii) Classification and measurement (continued)

The following table summarises the reclassification and measurement of the financial assets and financial liabilities of the Group and of the Company as at 1 January 2018 (continued):

Group	Classification		Carrying amount	
	Existing under MFRS 139	New under MFRS 9	Existing under MFRS 139 RM'000	New under MFRS 9 RM'000
Financial liabilities				
Trade and other payables	Other Financial Liabilities at Amortised Cost	Amortised cost	6,717,038	6,717,038
Borrowings	Other Financial Liabilities at Amortised Cost	Amortised cost	8,444,321	8,444,321
Company			RM	RM
Financial assets				
Other receivables, excluding prepayments and GST receivables	Loans and receivables	Amortised cost	738	738
Cash and bank balances	Loans and receivables	Amortised cost	177,060	177,060
Financial liabilities				
Trade and other payables	Other Financial Liabilities at Amortised Cost	Amortised cost	448,433	448,433
Borrowings	Other Financial Liabilities at Amortised Cost	Amortised cost	1,835,170	1,835,170

27. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year (continued)

(b) MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 establishes a comprehensive framework for revenue recognition and measurement. It replaces MFRS 118 *Revenue*, MFRS 111 *Construction Contracts*, and related Interpretations. Under MFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires significant judgement.

The Group and the Company adopted MFRS 15 using the modified retrospective method (without practical expedients), with the effect of initially applying this Standard at the date of initial application of 1 January 2018.

There is no material impact on the adoption of MFRS 15 on the financial statements of the Group and of the Company.

27.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2019

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been early adopted by the Group and the Company:

Title	Effective Date
MFRS 16 <i>Leases</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020

27. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (continued)

27.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2019 (continued)

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been early adopted by the Group and the Company (continued):

Title	Effective Date
Amendments to MFRS 3 <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108 <i>Definition of Material</i>	1 January 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group and the Company are in the process of assessing the impact of implementing these Standards and Amendments, since the effects would only be observable in future financial years.

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