

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS
31 DECEMBER 2019

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

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PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (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 2019.

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 Company has officially become the sole licensee for water treatment and distribution to consumers in Selangor, Kuala Lumpur and Putrajaya effective on 13 September 2019 after obtaining the license to operate from Suruhanjaya Perkhidmatan Air Negara ("SPAN"). 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.

RESULTS

	Group RM'000	Company RM'000
Profit/(Loss) for the financial year	<u>5,360,552</u>	<u>(1,430,077)</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 final 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 RM12,737,936,000 to RM13,503,216,000 by way of issuance of 765,280 new ordinary shares for the transfer of water supply service assets valued at RM765,280,000 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 during the financial year and up to the date of this report are as follows:

Pengurusan Air Selangor Sdn. Bhd.

YAB Dato' Seri Amirudin Bin Shari
YB Dato' Mohd Amin Bin Ahmad Ahya
YB Dato' Nor Azmie Bin Diron
YBhg Dato' Teo Yen Hua
Suhaimi Bin Kamaralzaman
Marina Yong Poh Nyuk

(Appointed on 23 April 2020)

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
Tan Sri Nik Awang @ Wan Azmi Bin Wan Hamzah
Dato' Haji Azmi Bin Mat Nor
Dato' Idris Bin Md Tahir
Saw Wah Theng
Wong Mun Keong

(Resigned on 24 April 2019)
(Resigned on 24 April 2019)
(Resigned on 24 April 2019)
(Resigned on 24 April 2019)
(Resigned on 24 April 2019)

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 2019 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 1.1.2019	Bought	Sold	Balance as at 31.12.2019
Shares in a related corporation, Kumpulan Perangsang Selangor Berhad				
<u>Direct interest:</u>				
Suhaimi Bin Kamaralzaman	10,769	-	-	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 25(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 2019 was RM89,275.

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 all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets 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 except for the following:

	Group RM'000	Company RM'000
Impairment of investment in a subsidiary	-	2,550,000
Impairment of goodwill	507,124	-
Waiver of amounts owing to subsidiaries	-	1,644,472
Waiver of payables	4,940,835	-
Waiver of interest on deferred payment liabilities	1,650,609	-

**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 render the amounts written off for bad debts or 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.

SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Significant event subsequent to the end of the reporting period is disclosed in Note 28 to the financial statements.

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

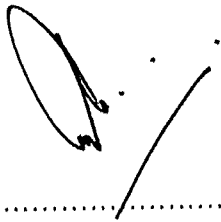
The auditors, BDO PLT (LLP0018825-LCA & AF 0206), have expressed their willingness to continue in office.

The details of auditors' remuneration of the Company and its subsidiaries for the financial year ended 31 December 2019 are disclosed in Note 23 to the financial statements.

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 June 2020


PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))

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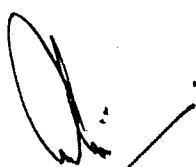
STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 11 to 82 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 2019 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


Kuala Lumpur
22 June 2020


.....
Suhaimi Bin Kamaralzaman
Director

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 82 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 June 2020


Suhaimi Bin Kamaralzaman



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 2019 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 82.

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 2019, 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.

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.



**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
(continued)**

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 June 2020

Rejeesh A/L Balasubramaniam

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

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	10,553,058	15,316,983	10,552,604	12,296,130
Right-of-use assets	6	8,050,746	-	8,050,746	-
Investments in subsidiaries	7	-	-	-	-
Intangible assets	8	3,902,318	-	3,902,318	-
Club membership		210	210	-	-
		22,506,332	15,317,193	22,505,668	12,296,130
Current assets					
Inventories	9	8,353	2,223	8,353	-
Trade and other receivables	10	447,912	402,273	391,812	9,943
Current tax assets		169,242	90,001	3,145	634
Debt service reserve account	11	9,040	125,996	-	-
Cash and bank balances	12	1,042,429	1,323,630	684,456	204,983
		1,676,976	1,944,123	1,087,766	215,560
TOTAL ASSETS		<u>24,183,308</u>	<u>17,261,316</u>	<u>23,593,434</u>	<u>12,511,690</u>
EQUITY AND LIABILITIES					
Equity attributable to owner of the parent					
Share capital	13	13,503,216	12,737,936	13,503,216	12,737,936
Accumulated losses		(6,370,744)	(11,732,527)	(4,273,777)	(2,843,681)
TOTAL EQUITY		<u>7,132,472</u>	<u>1,005,409</u>	<u>9,229,439</u>	<u>9,894,255</u>

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (continued)

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
LIABILITIES					
Non-current liabilities					
Borrowings	14	2,299,666	1,779,565	1,469,863	1,779,555
Lease liabilities	6	10,933,901	-	10,933,901	-
Deferred tax liabilities	15	-	134,449	-	-
Trade and other payables	16	1,967,722	-	577,778	-
Government grant	17	222,197	194,026	222,197	194,026
		15,423,486	2,108,040	13,203,739	1,973,581
Current liabilities					
Borrowings	14	63,693	6,756,546	63,693	88,193
Lease liabilities	6	79,551	-	79,551	-
Trade and other payables	16	1,482,864	7,391,321	1,017,012	555,661
Current tax liabilities		1,242	-	-	-
		1,627,350	14,147,867	1,160,256	643,854
TOTAL LIABILITIES		<u>17,050,836</u>	<u>16,255,907</u>	<u>14,363,995</u>	<u>2,617,435</u>
TOTAL EQUITY AND LIABILITIES		<u>24,183,308</u>	<u>17,261,316</u>	<u>23,593,434</u>	<u>12,511,690</u>

The accompanying notes form an integral part of the financial statements

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue	20	1,918,792	1,851,609	605,966	31,423
Other income		7,464,559	165,173	1,692,884	6,534
Items of expense:					
Raw materials, consumables and maintenance expenses	21	(1,127,946)	(1,402,311)	(279,408)	(8,889)
Employee benefits expenses		(386,663)	(330,367)	(134,817)	(21,087)
Depreciation and amortisation expenses		(645,523)	(537,794)	(381,649)	(214,127)
Other expenses		<u>(1,143,567)</u>	<u>(202,324)</u>	<u>(2,616,601)</u>	<u>(6,902)</u>
		6,079,652	(456,014)	(1,113,625)	(213,048)
Finance costs	22	<u>(881,979)</u>	<u>(830,748)</u>	<u>(318,138)</u>	<u>(101,701)</u>
Profit/(Loss) before tax	23	5,197,673	(1,286,762)	(1,431,763)	(314,749)
Taxation	24	<u>162,879</u>	<u>(23,183)</u>	<u>1,686</u>	<u>(1,273)</u>
Profit/(Loss) for the financial year		5,360,552	(1,309,945)	(1,430,077)	(316,022)
Other comprehensive income for the financial year, net of tax		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income/(loss) for the financial year		<u><u>5,360,552</u></u>	<u><u>(1,309,945)</u></u>	<u><u>(1,430,077)</u></u>	<u><u>(316,022)</u></u>

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

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Group	Note	Share capital RM'000	Accumulated losses RM'000	Total RM'000
Balance as at 1 January 2018		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	13	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
Balance as at 1 January 2019, as previously reported		12,737,936	(11,732,527)	1,005,409
Effect of adoption of MFRS 16	27.1	-	1,231	1,231
Balance as at 1 January 2019, as restated		12,737,936	(11,731,296)	1,006,640
Profit for the financial year		-	5,360,552	5,360,552
Other comprehensive income, net of tax		-	-	-
Total comprehensive income		-	5,360,552	5,360,552
Transaction with owner				
Issuance of ordinary shares	13	765,280	-	765,280
Total transaction with owner		765,280	-	765,280
Balance as at 31 December 2019		13,503,216	(6,370,744)	7,132,472

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

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

Company		Share capital RM'000	Accumulated losses RM'000	Total RM'000
As at 1 January 2018	Note	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	13	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
Balance as at 1 January 2019, as previously reported		12,737,936	(2,843,681)	9,894,255
Effect of adoption of MFRS 16	27.1	-	(19)	(19)
Balance as at 1 January 2019, as restated		12,737,936	(2,843,700)	9,894,236
Loss for the financial year		-	(1,430,077)	(1,430,077)
Other comprehensive income, net of tax		-	-	-
Total comprehensive loss		-	(1,430,077)	(1,430,077)
Transaction with owner				
Issuance of ordinary shares	13	765,280	-	765,280
Total transaction with owner		765,280	-	765,280
Balance as at 31 December 2019		13,503,216	(4,273,777)	9,229,439

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

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,062,356	1,932,031	1,175,640	24,833
Payments for operating expenses		(925,116)	(1,572,856)	(237,482)	(38,940)
Cash generated from/(used in) operations		1,137,240	359,175	938,158	(14,107)
Interest income received		46,733	56,543	8,788	5,833
Tax paid		(40,717)	(14,925)	(825)	(2,200)
Net cash from/(used in) operating activities		1,143,256	400,793	946,121	(10,474)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	5	(715,572)	(316,637)	(225,478)	(77,523)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	7	(1,825,571)	-	(1,900,000)	-
Advances to/(from):					
- immediate holding company		(873)	(621)	(432)	(621)
- subsidiaries		-	-	108,821	98,899
Movements in:					
- deposits from water account holders		(2,598)	(14,848)	(169,890)	-
- deposits pledged to licensed banks		90,673	(12,688)	(5,751)	-
- deposits with maturity more than three (3) months		(162,060)	448,253	(71,584)	(24,234)
- restricted deposits' balances		(100,804)	509	(104,286)	-
Proceeds from disposal of property, plant and equipment		1,903,033	1,161	1,900,000	-
Repayments from a related company		-	-	276	23
Net cash (used in)/from investing activities		(813,772)	105,129	(468,324)	(3,456)

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (continued)

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowings:					
- drawdowns		38,037	100,000	38,037	117,846
- repayments		(43,121)	(26,977)	(56,520)	-
Payments of:					
- finance leases		-	(13,129)	-	(11,315)
- lease liabilities		(30,880)	-	(30,880)	-
- lease interest		(252,520)	-	(252,520)	-
- Interest expense		(496,990)	(408,472)	(47,952)	(88,912)
Net cash (used in)/ from financing activities		<u>(785,474)</u>	<u>(348,578)</u>	<u>(349,835)</u>	<u>17,619</u>
Net (decrease)/increase in cash and cash equivalents		(455,990)	157,344	127,962	3,689
Cash and cash equivalents at beginning of the financial year		<u>761,022</u>	<u>603,678</u>	<u>138,966</u>	<u>135,277</u>
Cash and cash equivalents at end of the financial year	12	<u><u>305,032</u></u>	<u><u>761,022</u></u>	<u><u>266,928</u></u>	<u><u>138,966</u></u>

The accompanying notes form an integral part of the financial statements

PENGURUSAN AIR SELANGOR SDN. BHD. (201401006213 (1082296 - U))
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

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.

Air Selangor Holdings Berhad (formerly known as Kumpulan Darul Ehsan Berhad) ("Air Selangor Holdings"), 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 2019 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 June 2020.

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 Company has officially become the sole licensee for water treatment and distribution to consumers in Selangor, Kuala Lumpur and Putrajaya effective on 13 September 2019 after obtaining the license to operate from Suruhanjaya Perkhidmatan Air Negara ("SPAN"). 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.

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 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatment* for the first time during the current financial year, using the cumulative effect method as at 1 January 2019. 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.

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 Pengurusan Aset Air Berhad ("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 24 April 2019, the Company had completed the acquisition of the entire issued and paid up share capital of Syarikat Pengeluar Air Sungai Selangor Sdn. Bhd. ("Splash"). Subsequent to the acquisition, the Board of Directors of Splash had waived the outstanding trade payable and interest on deferred payment owing by the Group to Splash amounting to RM4,940,835,000 and RM1,650,609,000 respectively. Accordingly, the Group has recorded a reversal of the liabilities during the financial year in the statement of profit or loss of the Group.

- (b) On 22 September 2014, the Company had entered into Assets Transfer Agreement with the State Government to transfer water supply service assets currently owned by the State Government valued at RM14,920,000,000 to the Company. The total consideration for the transfer of water supply service 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 Air Selangor Holdings Berhad and Menteri Besar Selangor (Pemerbadanan) respectively.

In the previous financial years, the State Government had also made the following transfers to the Company:

- (i) transfer of water supply service assets valued at RM10,802,650,000 to the Company of which 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.
- (ii) transfer of land and water treatment plants valued at RM1,927,286,000 to the Company of which the settlement for the transfer of 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.

During the financial year, the State Government transferred water supply service assets valued at RM765,280,000 to the Company of which the settlement for the transfer was made via the issuance of 765,280 ordinary shares of the Company amounting to RM765,280,000.

4. RESTRUCTURING OF WATER SERVICES INDUSTRY (continued)

- (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 loans 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., Titisan Modal (M) Sdn. Bhd. and PNSB Water Sdn. Bhd., which are subsidiaries of the Company. On 4 February 2019 and 11 September 2019, the Company had entered into supplemental and second supplemental settlement agreements for the purpose of setting out the updated terms and conditions in respect of the previous Settlement Agreement.
- (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.

On 4 February 2019, the Company had entered into Supplemental Facility Agreement, Supplemental Lease Agreement and Supplemental Right to Use Agreement and on 11 September 2019, the Company had entered into Second Supplemental Facility Agreement for the purpose of setting out the updated terms and conditions.

- (e) On 13 September 2019, the Group and the Company had completed the Restructuring of the Water Services Industry and all the related concession agreements by the concession companies were terminated and the service license held by Konsortium Air Selangor Sdn. Bhd. was surrendered. Upon the completion of Restructuring of the Water Service Industry, the Group and the Company had undertaken the following on 13 September 2019:
- (i) Novation of the following borrowings to PAAB pursuant to the Settlement Agreement as disclosed in Note 4(c) to the financial statements:

	RM'000
Al-Bai' Bithaman Ajil Islamic Debt Securities/Al-Murabahah Commercial Papers/Medium Al-Murabahah Medium Term Notes ("BAIDS/MCPS/MMTNS")	1,020,000
Bai Bithaman Ajil Medium Term Notes ("BAMTN")	2,125,000
Fixed Rate Serial Bonds	728,000
Government Soft Loan 1 of RM30.0 million	24,000
Government Loan of RM320.8 million	311,200
Government Loan of RM110.0 million	93,214
Government Loan of RM75.0 million	52,111
Government Loan of RM76.0 million	64,929
Junior Subordinate Loan ("JNA")	328,124
Redeemable Secured Bond ("RSB")	435,000
Sukuk Murabahah	136,000
Term loan	665,390
BAIDS (borrowings arising from acquisition of Splash)	1,097,000
	<u>7,079,968</u>

4. RESTRUCTURING OF WATER SERVICES INDUSTRY (continued)

- (e) On 13 September 2019, the Group and the Company had completed the Restructuring of the Water Services Industry and all the related concession agreements by the concession companies were terminated and the service license held by Konsortium Air Selangor Sdn. Bhd. was surrendered. Upon the completion of Restructuring of the Water Service Industry, the Group and the Company had undertaken the following on 13 September 2019 (continued):
- (ii) Transfer of all water supply service assets of the subsidiaries to PAAB through the Company pursuant to the Asset Transfer Agreements which were subsequently leased by the Company from PAAB pursuant to the Lease Agreement and the Supplemental Facility Agreement as disclosed in Note 4(d) to the financial statements.
 - (iii) The Company had obtained the license to operate from SPAN under the Water Services Industry Act 2006 as a single holistic water service provider for the distribution and treatment of water supply to consumers in Selangor, Kuala Lumpur and Putrajaya effective 13 September 2019. Accordingly, the Group and the Company recognised the License as an intangible asset amounting to RM3,931,439,000 in accordance with MFRS 138 *Intangible Assets*.

5. PROPERTY, PLANT AND EQUIPMENT

Group	Balance as at 1.1.2019 RM'000	Effect on adoption of MFRS 16 (Note 27.1) RM'000	Additions RM'000	Acquisition of a subsidiary (Note 7) RM'000	Effects of restructuring (Note 4 (e)) RM'000	Disposals RM'000	Written Off RM'000	Depreciation charges for the financial year RM'000	Reclassifications 31.12.2019 RM'000	Balance as at 31.12.2019 RM'000
Carrying amount										
Freehold land	1,657	-	-	1,785	(1,267)	(2,175)	-	-	-	-
Long term leasehold land and water treatment plants	3,483,460	(1,556,174)	-	-	-	(1,900,000)	-	-	-	27,286
Water supply service assets	11,475,994	-	1,126,375	870,166	(3,133,370)	-	(2,144)	(452,766)	247,578	10,131,833
Computer and office equipment, furniture and fittings	86,970	-	57,283	113	(9)	(9)	(276)	(42,931)	-	101,141
Motor vehicles	25,748	-	18,474	5	(10)	(9)	(33)	(8,478)	-	35,697
Renovation	9,164	-	8,424	1,375	851	-	(259)	(4,438)	-	15,117
Construction-in-progress	233,990	-	270,296	-	(14,724)	-	-	-	(247,578)	241,984
	<u>15,316,983</u>	<u>(1,556,174)</u>	<u>1,480,852</u>	<u>873,444</u>	<u>(3,148,529)</u>	<u>(1,902,193)</u>	<u>(2,712)</u>	<u>(508,613)</u>	<u>-</u>	<u>10,553,058</u>
At 31.12.2019										
							Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000	
Freehold land							-	-	-	-
Long term leasehold land and water treatment plants							27,286	-	27,286	
Water supply service assets							11,062,276	(930,443)	10,131,833	
Computer and office equipment, furniture and fittings							140,341	(39,200)	101,141	
Motor vehicles							39,418	(3,721)	35,697	
Renovation							17,279	(2,162)	15,117	
Construction-in-progress							241,984	-	241,984	
							<u>11,528,584</u>	<u>(975,526)</u>	<u>10,553,058</u>	

Company No:
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5. PROPERTY, PLANT AND EQUIPMENT (continued)

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	1,657	-	-	-	-	-	1,657
Freehold land							
Long term leasehold land and water treatment plants	1,594,762	1,927,286	-	-	(38,588)	-	3,483,460
Water supply service 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 plants		3,596,223			(112,763)		3,483,460
Water supply service 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

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Balance as at 1.1.2018 RM'000	Additions RM'000	Reclassifi- cations 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 plants	1,594,762	1,927,286	-	(38,588)	3,483,460
Water supply service assets	8,862,845	-	-	(168,080)	8,694,765
Computer and 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
	<u>10,505,448</u>	<u>2,004,809</u>	<u>-</u>	<u>(214,127)</u>	<u>12,296,130</u>

	----- At 31.12.2018 -----		
	Cost RM'000	Accumulated depreciation RM'000	Carrying amount RM'000
Long term leasehold land and water treatment plants	3,596,224	(112,764)	3,483,460
Water supply service assets	9,133,712	(438,947)	8,694,765
Computer and 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
	<u>12,855,610</u>	<u>(559,480)</u>	<u>12,296,130</u>

- (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 and the Company. The principal depreciation periods are as follows:

Long term leasehold land and water treatment plants	45 years
Water supply service assets	50 years
Computer and office equipment, furniture and fittings	3 - 10 years
Motor vehicles	5 years
Renovation	3 - 7 years

Water supply service 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.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- (b) In the previous financial year, the Group and the Company had assessed and classified land use rights of the Group and the Company as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group and the Company arising from the lease term. Consequently, the Group and the Company had classified the unamortised upfront payment for land use rights as finance leases in accordance with MFRS 117 *Leases*.
- (c) In the previous financial year, included in property, plant and equipment of the Group and of the Company were assets acquired under hire purchase and finance lease arrangements with a carrying amount of RM1,556,895,000 and RM1,556,174,000 respectively.
- (d) During the financial year, the Group and the Company made the following cash payments to purchase property, plant and equipment:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Purchases of property, plant and equipment	1,480,852	2,243,923	990,758	2,004,809
Settlement by way of issuance of ordinary shares	(765,280)	(1,927,286)	(765,280)	(1,927,286)
Cash payments on purchases of property, plant and equipment	715,572	316,637	225,478	77,523

6. LEASES

The Group as a lessee

Right-of-use assets	Balance as at 1.1.2019	Effects on adoption MFRS 16 (Note RM'000)	Additions (RM'000)	Effects of restructuring (Note 4 (e)) (RM'000)	Depreciation (RM'000)	Balance as at 31.12.2019 (RM'000)
Carrying amount	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Land and water plants	-	1,556,174	3,413,666	3,148,529	(103,173)	8,015,196
Office premises and equipment	-	3,671	36,495	-	(4,616)	35,550
	-	1,559,845	3,450,161	3,148,529	(107,789)	8,050,746

6. LEASES (continued)

The Group as a lessee (continued)

Lease liabilities	Balance as at 1.1.2019	Effects on adoption of MFRS 16 (Note 27.1)	Additions	Effects of restructuring (Note 4 (e))	Lease payments	Interest expense	Balance as at 31.12.2019
Carrying amount	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Land and water treatment plants	-	1,638,159	2,286,020	7,079,968	(277,851)	250,663	10,976,959
Office premises and equipment	-	2,440	37,745	-	(5,549)	1,857	36,493
	-	1,640,599	2,323,765	7,079,968	(283,400)	252,520	11,013,452

The Company as a lessee

Right-of-use assets	Balance as at 1.1.2019	Effects on adoption of MFRS 16 (Note 27.1)	Additions	Effects of restructuring (Note 4 (e))	Depreciation	Balance as at 31.12.2019
Carrying amount	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Land and water treatment plants	-	1,556,174	3,413,666	3,148,529	(103,173)	8,015,196
Office premises and equipment	-	649	39,517	-	(4,616)	35,550
	-	1,556,823	3,453,183	3,148,529	(107,789)	8,050,746

Lease liabilities	Balance as at 1.1.2019	Effects on adoption of MFRS 16 (Note 27.1)	Additions	Effects of restructuring (Note 4 (e))	Lease payments	Interest expense	Balance as at 31.12.2019
Carrying amount	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Land and water treatment plants	-	1,638,159	2,286,020	7,079,968	(277,851)	250,663	10,976,959
Office premises and equipment	-	668	39,517	-	(5,549)	1,857	36,493
	-	1,638,827	2,325,537	7,079,968	(283,400)	252,520	11,013,452

Group and Company

Represented by:	2019 RM'000
Current liabilities	79,551
Non-current liabilities	10,933,901
	11,013,452

6. LEASES (continued)

- (a) The right-of-use assets are initially measured at cost, which comprise the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date of the leases.

After initial recognition, right-of-use assets are stated at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of the lease liabilities.

The right-of-use assets are depreciated on the straight-line basis over the earlier of the estimated useful lives of the right-of-use assets of the end of the lease term. The lease terms of right-of-use assets are as follows:

Land and water treatment plants	up to 45 years
Office premises and equipment	2 - 10 years

- (b) The Group and the Company has certain leases of machineries with lease term of 12 months or less, and low value leases of office equipment. The Group and the Company applies the "short-term lease" and lease of "low value assets" exemptions for these leases.
- (c) The following are the amounts recognised in profit or loss:

	Group and Company 2019 RM'000
Depreciation charge of right-of-use assets (included in depreciation and amortisation expenses)	107,789
Interest expense on lease liabilities (included in finance costs)	252,520
Expense relating to short-term leases (included in other expenses)	11,085
	<u>371,394</u>

- (d) At the end of the financial year, the Group and the Company had total cash outflow for leases of RM283,400,000.
- (e) The following table sets out the carrying amounts, the weighted average incremental borrowing rates and the remaining maturities of the lease liabilities of the Group and the Company that are exposed to interest rate risk:

Group and Company	Weighted average incremental borrowing rate	Within 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
31 December 2019	per annum %	RM'000	RM'000	RM'000	RM'000	RM'000
Lease liabilities						
Fixed rates	5.5% - 6.4%	79,551	79,688	256,381	10,597,832	11,013,452

6. LEASES (continued)

- (f) The table below summarises the maturity profile of the lease liabilities of the Group and of the Company at the end of the reporting period based on contractual undiscounted repayment obligations as follows:

Group and Company	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
31 December 2019				
Lease liabilities	647,111	2,501,592	24,073,149	27,221,852

- (g) The Group and the Company leases several lease contracts that include extension and termination options. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

- (h) 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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Lease liabilities				
At 1 January, as previously reported	-	-	-	-
Effects on adoption of MFRS 16	1,640,599	-	1,638,827	-
At 1 January, as restated	1,640,599	-	1,638,827	-
Cash flows	(283,400)	-	(283,400)	-
Non-cash flows:				
Additions	9,403,733	-	9,405,505	-
Accretion of interest	13,565	-	13,565	-
Interest payable	238,955	-	238,955	-
	9,656,253	-	9,658,025	-
At 31 December	11,013,452	-	11,013,452	-

7. INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
At cost		
Unquoted shares	4,496,330	1,946,330
Cumulative Convertible Redeemable Preference Shares	4,800	4,800
	4,501,130	1,951,130
Less: Accumulated impairment losses	(4,501,130)	(1,951,130)
	-	-

- (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
	2019	2018	
PNSB Water Sdn. Bhd. ("PNSB")	100%	100%	Operation, maintenance, management, construction, rehabilitation and refurbishment of water treatment facilities, sale of treated water and contract works relating to water industry activities. With effect from 13 September 2019, PNSB had ceased its operations after the termination of concession agreement.
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. With effect from 13 September 2019, Syabas had ceased its operations after the termination of concession agreement.
Titisan Modal (M) Sdn. Bhd. ("TMSB")	100%	100%	Investment holding

7. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name of company	Effective interest in equity		Principal activities
	2019	2018	
Konsortium Air Selangor Sdn. Bhd. ("KASB")	100%	100%	Operation, maintenance and commissioning of Sg Labu water treatment plant and facilities, sale of treated water and contract works relating to water industry activities. With effect from 13 September 2019, KASB had ceased its operations after the termination of license to operate by SPAN.
Syarikat Pengeluar Air Sungai Selangor Sdn Bhd ("Splash")	100%	-	Operation, maintenance, management, construction and undertaking the rehabilitation and refurbishment of dam and water treatment facilities of Sungai Selangor water supply scheme Phase 1 and 3 and operation and maintenance of Sungai Tinggi and Sungai Selangor dams. With effect from 13 September 2019, Splash had ceased its operations after the termination of concession agreement.
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. With effect from 13 September 2019, ABASS had ceased its operations after the termination of concession agreement.
Rangkai Aman Sdn. Bhd.	100%	100%	Dormant

7. INVESTMENTS IN SUBSIDIARIES (continued)

(c) Acquisition of Syarikat Pengeluar Air Sungai 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 ("RULS") issued by Splash to the Company.

On 24 April 2019 ("the date of acquisition"), the Company acquired the entire issued and paid-up ordinary share capital of Syarikat Pengeluar Air Sungai Selangor Sdn. Bhd. ("Splash"), a company incorporated in Malaysia for a consideration of RM2,550,000,000. The consideration is to be settled in the following manner:

- (i) a sum of RM1,900,000,000 upon satisfaction of the conditions precedent; and
- (ii) a sum of RM650,000,000 in nine (9) annual instalments.

The Group acquired Splash for the purposes of the Restructuring of the Water Service Industry in accordance with the Master Agreement as disclosed in Note 4 to the financial statements.

The fair value of the identifiable assets and liabilities Splash as at the date of acquisition are as follows:

	Note	2019 RM'000
Property, plant and equipment	5	873,444
Trade and other receivables		64
Current tax assets		35,289
Cash and bank balances		74,429
Trade and other payables		(1,774,710)
Borrowings	14(u)	(1,097,079)
		(1,888,563)
Total identifiable net assets		
Recognition of License upon completion of the restructuring of water service industry	4(e)(iii)	3,931,439
Goodwill		507,124
Total cost of acquisition		2,550,000

Goodwill amounting to RM507,124,000 has been fully impaired during the financial year as the Directors do not anticipate any future economic benefits to be generated from Splash, which has ceased its operations after the termination of concession agreement.

7. INVESTMENTS IN SUBSIDIARIES (continued)

(c) Acquisition of Syarikat Pengeluar Air Sungai Selangor Sdn. Bhd. (continued)

The effects of the acquisition of Splash on cash flows are as follows:

	2019 RM'000
Group	
Consideration settled in cash	1,900,000
Less: Cash and cash equivalents of subsidiary acquired	(74,429)
	<u>1,825,571</u>
Net cash outflow on acquisition	

Revenue of Splash mainly derived from sales made to the Group for the financial year from the acquisition date. There is no significant impact to the revenue and profit or loss of the Group during the financial year.

- (d) Impairment loss on investment in a subsidiary amounting to RM2,550,000,000 (2018: Nil) has been recognised in respect of costs of investment in Splash. The Directors have impaired investments in all subsidiaries as they do not anticipate any future economic benefits associated with these investments as the Directors intend to liquidate these subsidiaries upon the completion of the Restructuring of the Water Service Industry as disclosed in Note 4 to the financial statements.

8. INTANGIBLE ASSETS

Group and Company	Balance as at 1.1.2019 RM'000	Acquisition of a subsidiary (Note 7(c)) RM'000	Amortisation charge for the financial year RM'000	Balance as at 31.12.2019 RM'000
Carrying amount				
License	-	3,931,439	(29,121)	<u>3,902,318</u>

Intangible assets are initially measured at cost. The cost of intangible assets recognised in a business combination is their fair values as at the date of acquisition. After initial recognition, intangible assets, excluding goodwill are carried at cost less accumulated amortisation and any accumulated impairment losses, if any.

License represents costs allocated pursuant to the Restructuring of Water Service Industry as disclosed in Note 4 to the financial statements. The Company obtained a service license issued by SPAN and commenced the operations as a single holistic water service provider for the distribution and treatment of water supply. The License is amortised on a straight line method over forty five (45) years based on the rights to use the water supply service assets pursuant to the Lease Agreement and Right to Use Agreement (Note 4).

9. INVENTORIES

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At cost				
Spare parts and equipment	8,353	2,223	8,353	-

(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 RM24,414,000 (2018: RM41,615,000).

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Trade receivables				
Third parties	297,651	247,733	297,651	-
Amount owing by State Government	84,219	46,020	60,497	-
	381,870	293,753	358,148	-
Less: Impairment losses	(2,905)	(19,105)	(2,905)	-
Total trade receivables	378,965	274,648	355,243	-
Other receivables				
Amount owing by holding company	2,512	58	446	-
Amounts owing by subsidiaries	-	-	7,512	-
Other receivables	36,167	104,984	11,347	3,727
Deposits	21,509	20,430	16,451	4,498
	60,188	125,472	35,756	8,225
Less: Impairment losses	(220)	(1,936)	-	-
Total other receivables	59,968	123,536	35,756	8,225
Total receivables	438,933	398,184	390,999	8,225
Prepayments				
Goods and services tax ("GST") receivables	7,753	2,695	128	1,654
Prepayments	1,226	1,394	685	64
	447,912	402,273	391,812	9,943

10. TRADE AND OTHER RECEIVABLES (continued)

- (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 and by the Company ranged from 30 to 90 days (2018: 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 and subsidiaries 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.
- (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 and the Company consider 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.

For all other financial assets, the Group and the Company recognise 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 and the Company measure 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.

10. TRADE AND OTHER RECEIVABLES (continued)

- (g) For the purpose of assessing whether the credit risk of the Group and the Company has increased significantly since initial recognition, the Group and the Company compare 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 and the Company consider 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.
- (h) 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.
- (i) The reconciliation of movements in the impairment allowance for trade and other receivables are as follows:

Group	ECL	Credit	Total
Trade receivables	allowance	impaired	allowance
	RM'000	RM'000	RM'000
At 1 January 2019	-*	19,105	19,105
Charge for the financial year	2,905	-	2,905
Bad debts written off	-	(19,105)	(19,105)
At 31 December 2019	2,905	-	2,905
At 1 January 2018	-*	11,181	11,181
Charge for the financial year	-*	7,924	7,924
At 31 December 2018	-*	19,105	19,105
Company			
Trade receivables			
At 1 January 2019/31 December 2018	-*	-	-
Charge for the financial year	2,905	-	2,905
At 31 December 2019	2,905	-	2,905
Group			
Other receivables			
At 1 January 2019	-*	1,936	1,936
Charge for the financial year	-*	220	220
Bad debts written off	-	(1,936)	(1,936)
At 31 December 2019	-*	220	220
At 1 January 2018	-*	-	-
Charge for the financial year	-*	1,936	1,936
At 31 December 2018	-*	1,936	1,936

* The effect of expected credit loss is insignificant

10. TRADE AND OTHER RECEIVABLES (continued)

- (j) The information about the credit risk and expected credit losses (“ECL”) allowance for trade receivables of the Group and of the Company using the provision matrix are as follows:

Group 2019	Current RM’000	1 to 153 days past due RM’000	More than 153 days past due RM’000	Total RM’000
Gross carrying amounts				
- trade receivables	129,387	182,345	70,138	381,870
ECL allowance	-	-	(2,905)	(2,905)
	<u>129,387</u>	<u>182,345</u>	<u>67,233</u>	<u>378,965</u>
2018				
Gross carrying amounts				
- trade receivables	101,492	109,145	83,116	293,753
Credit impaired	-	-	(19,105)	(19,105)
	<u>101,492</u>	<u>109,145</u>	<u>64,011</u>	<u>274,648</u>
Company 2019				
Gross carrying amounts				
- trade receivables	105,665	182,345	70,138	358,148
ECL allowance	-	-	(2,905)	(2,905)
	<u>105,665</u>	<u>182,345</u>	<u>67,233</u>	<u>355,243</u>

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

- (l) Credit risk concentration profile

The Group and the Company do not have any significant concentration of credit risk other than the amount owing by the State Government constituting 22% (2018: 17%) of trade receivables of the Group and the Company. The Group and the Company do 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.

11. 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 14 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 preceding 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.

11. DEBT SERVICE RESERVE ACCOUNT ("DSRA") (continued)

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 3.9% (2018: 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 had redeemed 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.

The remaining balance as at 31 December 2019 in DSRA had been fully transferred to the Company subsequent to the financial year end.

DSRA are denominated in RM.

12. CASH AND BANK BALANCES

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and bank balances	96,545	30,998	69,209	552
Deposits with licensed banks	945,884	1,292,632	615,247	204,431
As reported in the statements of financial position	1,042,429	1,323,630	684,456	204,983
Less:				
Deposits from water account holders	(259,890)	(257,292)	(169,890)	-
Deposits pledged to licensed banks	(5,751)	(96,424)	(5,751)	-
Deposits with maturity more than three (3) months	(345,648)	(183,588)	(137,601)	(66,017)
Restricted deposits' balances	(126,108)	(25,304)	(104,286)	-
Cash and cash equivalents included in the statements of cash flows	305,032	761,022	266,928	138,966

(a) As at the end of the reporting period, cash and bank balances of the Group and of the Company included the following:

- (i) deposits from water account holders of the Group and of the Company are maintained and may only be utilised for claims from consumers for refund of their deposits;

12. CASH AND BANK BALANCES (continued)

- (b) As at the end of the reporting period, cash and bank balances of the Group and of the Company included the following (continued):
- (ii) bank balances and deposits with licensed banks of the Group and of the Company have been pledged as security for banking facilities granted by the Group and by the Company.
 - (iii) restricted deposits' balances of the Group and of the Company are maintained and may only be utilised for various specific purposes but not working capital; and
- (c) During the current financial year, included in cash and bank balances of the Group and of the Company are amounts of RM803,000 and RM4,948,000 held under the Financial Service Reserve accounts ("FSRA") and Revenue Accounts ("RA") respectively in relation to the borrowing as disclosed in Note 14(i) to the financial statements. The Group assigned and charged all its rights, interests, titles and benefits to FSRA and RA as securities for the repayment of the total secured amounts in respect of term loan amounting to RM1,332,956,000.
- (d) Cash and bank balances are denominated in RM.
- (e) The weighted average effective interest rates of deposits of the Group and of the Company at the reporting date were as follows:

	Group		Company	
	2019	2018	2019	2018
Weighted average effective interest rate (%)				
- Fixed rates	<u>3.31%</u>	<u>3.60%</u>	<u>3.32%</u>	<u>3.59%</u>

- (f) 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.
- (g) The average maturity days of deposits at the reporting date are as follows:

	Group		Company	
	2019 Days	2018 Days	2019 Days	2018 Days
Deposit with licensed banks	<u>140</u>	<u>95</u>	<u>120</u>	<u>43</u>

- (h) 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.

13. SHARE CAPITAL

	Group and Company			
	2019		2018	
	Number of shares (‘000)	RM'000	Number of shares (‘000)	RM'000
Issued and fully paid				
As at 1 January	10,812,577	12,737,936	10,810,650	10,810,650
Issuance of ordinary shares during the financial year	<u>765</u>	<u>765,280</u>	<u>1,927</u>	<u>1,927,286</u>
As at 31 December	<u>10,813,342</u>	<u>13,503,216</u>	<u>10,812,577</u>	<u>12,737,936</u>

13. SHARE CAPITAL (continued)

- (a) During the financial year, the issued and paid-up ordinary share capital of the Company was increased from RM12,737,936,000 to RM13,503,216,000 by way of issuance of 765,280 new ordinary shares for the transfer of water supply service assets valued at RM765,280,000 owned by the 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) In the previous 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 supply service assets valued at RM1,927,286,000 owned by the State Government to the Company.

- (c) 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.

14. BORROWINGS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-current liabilities				
Secured				
Hire purchase and lease arrangement	-	1,626,176	-	1,626,166
Term loan	1,316,289	-	1,316,289	-
	1,316,289	1,626,176	1,316,289	1,626,166
Unsecured				
Term loan	101,088	114,870	101,088	114,870
Redeemable Preference Shares ("RPS")	829,803	-	-	-
Government loans	52,486	38,519	52,486	38,519
	983,377	153,389	153,574	153,389
Total non-current liabilities	<u>2,299,666</u>	<u>1,779,565</u>	<u>1,469,863</u>	<u>1,779,555</u>

14. BORROWINGS (continued)

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
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	-	-
Bai Bithaman Ajil Medium Term Notes ("BAMTN")		-	2,117,160	-	-
Hire purchase and lease arrangement		-	12,718	-	11,993
Fixed Rate Serial Bonds		-	722,375	-	-
Government loans		-	143,964	-	-
Junior Subordinate Loan ("JNA")		-	298,567	-	-
Redeemable Secured Bond ("RSB")		-	432,420	-	-
Term loans		16,667	659,975	16,667	-
Sukuk Murabahah		-	136,000	-	-
		16,667	5,542,761	16,667	11,993
Unsecured					
Government loans		33,224	360,060	33,224	33,224
Redeemable Preference Shares ("RPS")		-	810,749	-	-
Term loan		13,802	12,976	13,802	12,976
Revolving credit-i ("RC-i")		-	30,000	-	30,000
		47,026	1,213,785	47,026	76,200
Total current liabilities		63,693	6,756,546	63,693	88,193
Total borrowings					
BAIDS/MCPS/MMTNS	(a)	-	1,019,582	-	-
BAMTN	(b)	-	2,117,160	-	-
Hire purchase and lease arrangement	(c)	-	1,638,894	-	1,638,159
Fixed Rate Serial Bonds	(d)	-	722,375	-	-
Government loans	(e)	85,710	542,543	85,710	71,743
JNA	(f)	-	298,567	-	-
RPS	(g)	829,803	810,749	-	-
RSB	(h)	-	432,420	-	-
Term loans	(i)	1,447,846	787,821	1,447,846	127,846
Sukuk Murabahah	(j)	-	136,000	-	-
Revolving credit-i ("RC-i")	(k)	-	30,000	-	30,000
		2,363,359	8,536,111	1,533,556	1,867,748

14. BORROWINGS (continued)

The Company entered into a Settlement Agreement to transfer certain water supply service assets to PAAB, whereby in return BAIDS/MCPS/MMTNS, BAMTN, Fixed Rate Serial Bonds, Government Soft Loan 1, Government loans (RM320.8 million, RM110.0 million, RM75.0 million and RM76.0 million), JNA, RSB and Sukuk Murabahah are novated to PAAB as disclosed in Note 4(c) to the financial statements. As at the end of the reporting period, these conditions precedent of these agreements fulfilled and completed by the respective parties.

As part of the Restructuring of the Water Services Industry, the Group and the Company recognised these borrowings novated to PAAB as lease liabilities for the purpose to leaseback the long term leasehold land and water treatment plant as disclosed in Note 6(c) to the financial statements.

(a) BAIDS/MCPS/MMTNS

In the previous financial year, the terms of the said borrowings were as follows:

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

The BAIDS/MCPS/MMTNS entailed 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

In the previous financial year, a subsidiary of the Group was 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 14(i) to the financial statements. In addition, the BAMTN was also secured by way of the rights over the Escrow Account and the monies standing to the credit thereof.

The subsidiary was 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.

14. BORROWINGS (continued)

(b) BAMTN (continued)

Provided that conditions (ii) and (iv) above shall not be applicable to dividends paid on the RPS as disclosed in Note 14(g) to the financial statements from year 2015 onwards.

In previous financial year, the interest rates per annum of this borrowing ranged between 3.00% to 8.24%.

(c) Hire purchase and lease arrangement

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Minimum hire purchase and lease payments:				
- not later than one (1) year				
Hire purchase creditors	-	735	-	-
Finance lease creditor	-	91,792	-	91,792
	-	92,527	-	91,792
- later than one (1) but not later than five (5) years				
Hire purchase creditors	-	10	-	-
Finance lease creditor	-	367,166	-	367,166
	-	367,176	-	367,166
- later than five (5) years				
Hire purchase creditors	-	-	-	-
Finance lease creditor	-	3,413,315	-	3,413,315
	-	3,413,315	-	3,413,315
Total minimum hire purchase and lease payment	-	3,873,018	-	3,872,273
Less: Future interest charges				
- Hire purchase creditors	-	(10)	-	-
- Finance lease creditor	-	(2,234,114)	-	(2,234,114)
	-	(2,234,124)	-	(2,234,114)
Present value of minimum hire purchase and lease payments	-	1,638,894	-	1,638,159
Present value of minimum hire purchase and lease payments are represented by:				
Hire purchase creditors	-	735	-	-
Finance lease creditor	-	1,638,159	-	1,638,159
	-	1,638,894	-	1,638,159

14. BORROWINGS (continued)

(c) Hire purchase and lease arrangement (continued)

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Repayable as follows:				
Current liabilities:				
- not later than one (1) year				
Hire purchases	-	725	-	-
Finance lease	-	11,993	-	11,993
Total current liabilities	-	12,718	-	11,993
Non-current liabilities				
- later than one (1) year and not later than five (5) years				
Hire purchases	-	10	-	-
Finance lease	-	54,276	-	54,276
	-	54,286	-	54,276
- later than five (5) years				
Hire purchases	-	-	-	-
Finance leases	-	1,571,890	-	1,571,890
	-	1,571,890	-	1,571,890
Total non-current liabilities	-	1,626,176	-	1,626,166
	-	1,638,894	-	1,638,159

In previous financial year, 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

In the previous financial year, 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:

- 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%);
- 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%);
- 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%);

14. BORROWINGS (continued)

(d) Fixed Rate Serial Bonds (continued)

In the previous financial year, 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 were 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.

14. BORROWINGS (continued)

(e) Government loans

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current liabilities					
- Government Soft loan 1	(i)	-	15,636	-	-
- Government Soft loan 2	(ii)	33,224	33,224	33,224	33,224
- Government Loan RM320.8 million	(iii)	-	311,200	-	-
- Government Loan RM110.0 million	(iv)	-	63,019	-	-
- Government Loan RM75.0 million	(v)	-	34,342	-	-
- Government Loan RM76.0 million	(vi)	-	46,603	-	-
		33,224	504,024	33,224	33,224
Non-current liabilities					
- Government Loan RM248.7 million	(vii)	52,486	38,519	52,486	38,519
		<u>85,710</u>	<u>542,543</u>	<u>85,710</u>	<u>71,743</u>

(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	
	2019 RM'000	2018 RM'000
As at 1 January	15,636	16,449
Repayments during the financial year	-	(2,000)
Unwinding of discount	8,364	1,187
Novation through Settlement Agreement	<u>(24,000)</u>	<u>-</u>
As at 31 December	<u>-</u>	<u>15,636</u>

14. BORROWINGS (continued)

(e) Government loans (continued)

(i) Government Soft loan 1 (continued)

The salient terms of the Government Loan Agreement were 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 Redeemable Convertible Unsecured Loan Stocks ("RCULS").
- (iii) Repayment : The facility amount to be repayable in one (1) year period. (repayment extended to November 2020)
- (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 were 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.

14. BORROWINGS (continued)

(e) Government loans (continued)

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

The salient terms of the Government Loan Agreement were 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.

	Group	
	2019	2018
	RM'000	RM'000
As at 1 January	311,200	314,400
Repayments during the financial year	-	(3,200)
Novation through Settlement Agreement	(311,200)	-
As at 31 December	-	311,200

(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	
	2019	2018
	RM'000	RM'000
As at 1 January	63,019	57,450
Accretion of finance costs	30,195	6,119
Repayments during the financial year	-	(550)
Novation through Settlement Agreement	(93,214)	-
As at 31 December	-	63,019

The salient terms of the Government Loan Agreement were 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

14. BORROWINGS (continued)

(e) Government loans (continued)

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

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

- | | |
|----------------------|---|
| (ii) Purpose of Loan | (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. |
|----------------------|---|

- | | |
|--------------|----------------------|
| (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.

14. BORROWINGS (continued)

(e) Government loans (continued)

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

	Group	
	2019 RM'000	2018 RM'000
As at 1 January	34,342	37,249
Accretion of finance costs	20,316	2,187
Repayments during the financial year	(2,547)	(5,094)
Novation through Settlement Agreement	(52,111)	-
As at 31 December	-	34,342

The salient terms of the Government Loan Agreement were 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.

14. 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	
	2019 RM'000	2018 RM'000
As at 1 January	46,603	50,604
Accretion of finance costs	21,431	2,209
Repayments during the financial year	(3,105)	(6,210)
Novation through Settlement Agreement	(64,929)	-
As at 31 December	-	46,603

The salient terms of the Government Loan Agreement were 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.

14. 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	
	2019	2018
	RM'000	RM'000
As at 1 January	38,519	12,472
Drawdowns during the financial year	38,037	100,000
Effect of MFRS 120 (Note 17(a))	(28,171)	(75,722)
Accretion of finance costs	4,101	1,769
As at 31 December	<u>52,486</u>	<u>38,519</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>248,700</u> |

Partial drawdown of RM38,037,000 made during the financial year.

- (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

(f) Junior Subordinate Loan ("JNA")

In the previous financial year, the JNA is secured by way of legal assignment over a subsidiary's operating account and redemption account.

JNA borne coupon at a rate of 5.68% per annum.

14. BORROWINGS (continued)

(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.

	Group	
	2019 RM'000	2018 RM'000
Nominal value	6,550	6,550
Share premium	648,450	648,450
Subscription price	655,000	655,000
Effect of MFRS 120	(54,310)	(54,310)
Total accretion of finance costs	47,253	43,901
Finance cost payable	181,860	166,158
	<u>829,803</u>	<u>810,749</u>

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.

14. 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	
31 December 2022	131,000
31 December 2023	131,000
31 December 2024	131,000
31 December 2025	131,000
	<u>131,000</u>
	<u>655,000</u>

- (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.
- (ix) The novation of Redeemable Preference Shares ("RPS") are subject to the redeemable of the RPS 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.
- (h) Redeemable Secured Bond ("RSB")

In the previous financial year, 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 and novated to PAAB on 13 September 2019 as disclosed in Note 4(c) to the financial statements.

The RSB borne coupon interest at a rate of 5.50% per annum payable semi-annually for the first five (5) years of the issuance and at rate of 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 was secured by way of legal assignment over a subsidiary's operating account and mandatory redemption account.

14. BORROWINGS (continued)

(i) Term Loans

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-current liabilities					
- Term loan 1	i	101,088	114,870	101,088	114,870
- Term loan 4	iii	1,316,289	-	1,316,289	-
		1,417,377	114,870	1,417,377	114,870
Current liabilities					
- Term loan 1	i	13,803	12,976	13,803	12,976
- Term loan 2	ii	-	409,975	-	-
- Term loan 3	ii	-	250,000	-	-
- Term loan 4	iii	16,666	-	16,666	-
Total current liabilities		30,469	672,951	30,469	12,976
		1,447,846	787,821	1,447,846	127,846

(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%

14. BORROWINGS (continued)

(i) Term Loans (continued)

(i) Term Loan 1 (continued)

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

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

(ii) Term Loan 2 and Term Loan 3

In previous financial years, 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 were repayable as follows from the date of the first drawdown on 9 September 2005:

	Group Term Loan 2 RM'000	Term Loan 3 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 were 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 borne interest at a 5.65% per annum.

14. BORROWINGS (continued)

(i) Term Loans (continued)

(iii) Term Loan 4

On, 21 June 2019, the Company obtained business Financing-i 2 Facility from Bank Islam Malaysia Berhad ("BIMB") to acquire the land use right over water supply service assets, which amounted to RM1,332,956,000.

The salient terms of Bank Islam are as follows:

- (i) Facility amount : RM1,350.0 million.
- (ii) Repayment : The facility amount to be repayable in fifteen (15) years or one hundred and eighty (180) months from the date of the initial disbursement inclusive of one (1) year or twelve (12) months principal grace period ("Principal Grace Period")
- (iii) Interest : Cost of Fund ("COF") + 1.15% p.a.
- (iv) Security :
 - 1. Supplementary Assignment over designated accounts for PAAB
 - 2. Security Sharing Agreement between the Company and PAAB.
 - 3. Letter of undertaking from the Company
 - 4. Assignment over Finance Service Reserve Account ("FSRA") and Revenue Account.
 - 5. Memorandum of Deposits to maintain the minimum balance in FSRA

(j) Sukuk Murabahah

In the previous financial year, the Sukuk Murabahah was 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 was payable semi-annually at the rate of 7.90% per annum with yield to maturity of 7.90%.

14. BORROWINGS (continued)

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
- Fixed rate	915,513	8,378,265	85,710	1,709,902
- Floating rate	1,447,846	157,846	1,447,846	157,846
	<u>2,363,359</u>	<u>8,536,111</u>	<u>1,533,556</u>	<u>1,867,748</u>

14. BORROWINGS (continued)

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

Group	2019		2018	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Bank loans	1,447,846	1,447,846	5,543,925	5,543,925
Government loans	85,710	85,710	542,543	542,543
Redeemable Preference Shares	829,803	829,803	810,749	810,749
Hire purchase and lease arrangement	-	-	1,638,894	436,158
	<u>2,363,359</u>	<u>2,363,359</u>	<u>8,536,111</u>	<u>7,333,375</u>
Company	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Bank loans	1,447,846	1,447,846	157,846	157,846
Government loans	85,710	85,710	71,743	71,743
Hire purchase and lease arrangement	-	-	1,638,159	435,442
	<u>1,533,556</u>	<u>1,533,556</u>	<u>1,867,748</u>	<u>665,031</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.

In the previous financial year, 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.

14. 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
2019								
Fixed rate								
Government loans	-	33,224	-	-	-	-	52,486	85,710
RPS	3.00	-	165,960	165,960	165,960	165,960	165,963	829,803
Floating rate								
Term loans	5.30	30,469	64,614	68,787	79,675	93,938	1,110,363	1,447,846

14. BORROWINGS (continued)

(q) 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
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

14. BORROWINGS (continued)

(q) 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
2019								
Fixed rate								
Government loans	-	33,224	-	-	-	-	52,486	85,710
Floating rate								
Term loans	5.30	30,469	64,614	68,787	79,675	93,938	1,110,363	1,447,846
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

14. BORROWINGS (continued)

- (r) 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	
	2019	2018
	RM'000	RM'000
Effects of 10bp changes to loss after tax		
Floating rate instruments	<u>1,100</u>	<u>97</u>

- (s) 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 2019				
Financial liabilities				
Borrowings	<u>82,128</u>	<u>1,392,213</u>	<u>1,444,095</u>	<u>2,918,436</u>
Total undiscounted financial liabilities	<u>82,128</u>	<u>1,392,213</u>	<u>1,444,095</u>	<u>2,918,436</u>
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>
Company				
As at 31 December 2019				
Borrowings/Total undiscounted financial liabilities	<u>82,128</u>	<u>562,410</u>	<u>1,444,095</u>	<u>2,088,633</u>

14. BORROWINGS (continued)

- (t) 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
As at 31 December 2018				
Borrowings	83,352	80,513	98,228	262,093
Hire purchase and lease arrangement	91,792	367,166	3,413,315	3,872,273
Total undiscounted financial liabilities	175,144	447,679	3,511,543	4,134,366

In the previous financial year, the above analysis includes loans and borrowings that will be assumed by PAAB.

- (u) 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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Borrowings				
At 1 January, as previously reported	8,536,111	8,444,321	1,867,748	1,835,170
Effect of MFRS 16	(1,638,159)	-	(1,638,159)	-
At 1 January, as restated	6,897,952	8,444,321	229,589	1,835,170
Financing cash flows	(500,824)	(348,578)	(66,435)	17,619
Non-cash flows:				
Effect of MFRS 120	(28,171)	(75,722)	(28,171)	(75,722)
Novation of borrowings	(7,079,968)	-	-	-
Non-cash addition	1,332,956	-	1,332,956	-
Accretion of interest	133,780	91,916	4,101	1,769
Acquisition of subsidiary	1,097,079	-	-	-
Interest payable	510,555	424,174	61,516	88,912
	(4,033,769)	440,368	1,370,402	14,959
At 31 December	2,363,359	8,536,111	1,533,556	1,867,748

15. DEFERRED TAX

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

	Group	
	2019	2018
	RM'000	RM'000
Deferred tax liabilities		
As at 1 January	134,449	122,414
Recognised in profit or loss (Note 24)	(170,885)	12,035
Effect of restructuring	36,436	-
	<u> </u>	<u> </u>
As at 31 December	<u> - </u>	<u>134,449</u>

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

	As at 1 January 2019 RM'000	Recognised profit or loss RM'000	As at 31 December 2019 RM'000
Allowances	131,620	(131,620)	-
Government loan	2,967	(2,967)	-
Others	(138)	138	-
	<u>134,449</u>	<u>(134,449)</u>	<u>-</u>

	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)
	<u>122,414</u>	<u>12,035</u>	<u>134,449</u>

- (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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Unused tax losses				
- Expires by 31 December 2025	10,521,193	16,380,599	3,756	3,756
- Expires by 31 December 2026	380,893	-	53,328	-
Unabsorbed capital allowances	118,928	2,702,494	104,818	6,829
Other temporary differences	297,918	(957,720)	(1,393)	5,745
	<u>11,318,932</u>	<u>18,125,373</u>	<u>160,509</u>	<u>16,330</u>

15. DEFERRED TAX (continued)

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

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.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
Non-current liabilities	RM'000	RM'000	RM'000	RM'000
Trade payables				
Third parties (Note 16(b))	1,192,191	-	-	-
Other payables				
Other payables (Note 16(d))	775,531	-	577,778	-
	<u>1,967,722</u>	<u>-</u>	<u>577,778</u>	<u>-</u>
	Group		Company	
	2019	2018	2019	2018
Current liabilities	RM'000	RM'000	RM'000	RM'000
Trade payables				
Third parties	265,187	4,920,208	108,019	743
Related company	2,052	10,839	-	-
	267,239	4,931,047	108,019	743
Other payables				
Amounts owing to related companies	724	730	724	-
Amounts owing to subsidiaries	-	-	-	307,470
Amount owing to immediate holding company	-	432	-	432
Other payables	236,306	1,599,720	152,394	241,991
Deposits	555,667	539,049	555,667	174
Accruals	422,928	320,343	200,208	4,851
	<u>1,215,625</u>	<u>2,460,274</u>	<u>908,993</u>	<u>554,918</u>
	<u>1,482,864</u>	<u>7,391,321</u>	<u>1,017,012</u>	<u>555,661</u>

- (a) Trade and other payables are classified as other financial liabilities and are measured at amortised cost.
- (b) Included in non-current trade payables of the Group are amounts owing to Gamuda Water Sdn. Bhd. and Sungai Harmoni Sdn. Bhd. amounting to RM615,806,000 and RM576,385,000 respectively. The trade amounts owing to are subject to interest rate of 5.25% per annum.

16. TRADE AND OTHER PAYABLES (continued)

- (c) 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 (2018: 30 to 90 days).
- (d) Included in other payables are:
- (i) Consideration payables to Syarikat Pengeluar Air Selangor Holdings Berhad in relation to the acquisition of a subsidiary (Note 7) as follow:

Group and Company	2019 RM'000	2018 RM'000
Non current liabilities	577,778	-
Current liabilities	72,222	-
	<u>650,000</u>	<u>-</u>

The consideration payable to Splash Holdings are subject to interest rate of 5.25% per annum.

- (ii) Amounts owing to State Government amounting to RM307,753,000 in respect of raw water royalty payables and accrued lease liabilities are discounted at a rate of 5.55% per annum. In the previous financial year, the amount was recorded under accrued liabilities.
- (e) The amounts owing to related companies, subsidiaries and immediate holding company are interest free, unsecured and are payable within the next (12) twelve months.
- (f) Trade and other payables are denominated in RM.
- (g) 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 2019				
Financial liabilities				
Trade payables	267,239	799,513	674,333	1,741,085
Other payables	<u>1,215,625</u>	<u>467,472</u>	<u>550,536</u>	<u>2,233,633</u>
Total undiscounted financial liabilities	<u>1,482,864</u>	<u>1,266,985</u>	<u>1,224,869</u>	<u>3,974,718</u>
As at 31 December 2018				
Financial liabilities				
Trade payables	4,931,047	-	-	4,931,047
Other payables	<u>2,460,274</u>	<u>-</u>	<u>-</u>	<u>2,460,274</u>
Total undiscounted financial liabilities	<u>7,391,321</u>	<u>-</u>	<u>-</u>	<u>7,391,321</u>

16. TRADE AND OTHER PAYABLES (continued)

- (g) 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)

Company	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 2019				
Trade payables	108,019	-	-	108,019
Other payables	908,993	387,472	326,806	1,623,271
Total undiscounted financial liabilities	1,017,012	387,472	326,806	1,731,290
As at 31 December 2018				
Trade payables	743	-	-	743
Other payables	554,918	-	-	554,918
Total undiscounted financial liabilities	555,661	-	-	555,661

- (h) In the previous financial year, sensitivity analysis of trade payable at floating interest rate amounting RM4,529,316,000 at the end of the reporting period, assuming all other variables remain constant is as follows:

	Group	
	2019 RM'000	2018 RM'000
Effects of 10bp changes to loss after tax		
Floating rate instruments	-	3,442

17. GOVERNMENT GRANT

	Group and Company	
	2019 RM'000	2018 RM'000
Government grant	222,197	194,026

- (a) The Group and 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 14(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. RM28,171,000 (2018: RM75,722,000) being the difference between the amount received and the fair value of the government loan is accounted for as a government grant.

17. GOVERNMENT GRANT (continued)

(a)	Group and Company	
	2019 RM'000	2018 RM'000
As at 1 January	118,426	42,704
Add: Effect of MFRS 120 (Note 14(e)(vii))	28,171	75,722
As at 31 December	146,597	118,426
(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.		
(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.		

18. CAPITAL COMMITMENTS

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Capital expenditure in respect of purchase of property, plant and equipment				
- Contracted but not provided for	103,387	28,256	103,387	-
- Approved but not contracted for	402,106	293,114	402,106	-
- Approved and contracted for	169,165	330,680	169,165	187,805
	674,658	652,050	674,658	187,805

19. 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

19. CONTINGENT LIABILITIES (continued)

Tax penalty (continued)

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 (continued):

- (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.

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.

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 Appellant informed the Special Commissioners of Income Tax that the Appellant is in the midst of negotiation with the Respondent. The Court fixed a case management on 1 July 2020 to update the Court on the outcome of the negotiation.

20. REVENUE

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Revenue from contracts with customers:				
Supply and distribution of treated water to consumers	1,918,792	1,851,609	589,993	12,425
Management fees	-	-	15,973	18,998
	<u>1,918,792</u>	<u>1,851,609</u>	<u>605,966</u>	<u>31,423</u>
Timing of revenue recognition				
Transferred at a point in time	1,918,792	1,851,609	589,993	12,425
Transferred over time	-	-	15,973	18,998
	<u>1,918,792</u>	<u>1,851,609</u>	<u>605,966</u>	<u>31,423</u>

20. REVENUE (continued)

(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.

21. EMPLOYEE BENEFITS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Salaries, wages and bonuses	286,713	241,265	103,844	17,076
Contributions to defined contribution plan	39,789	34,222	13,849	2,554
Other employee benefits	60,161	54,880	17,124	1,457
	<u>386,663</u>	<u>330,367</u>	<u>134,817</u>	<u>21,087</u>

22. FINANCE COSTS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
- BAIDS/MCPS/MMTNS	90,846	55,021	-	-
- BAMTN	80,523	115,703	-	-
- Hire purchase and lease arrangements	10	80,557	-	80,477
- Fixed Rate Serial Bonds	21,165	30,250	-	-
- JNA	13,021	18,638	-	-
- RPS	15,702	15,702	-	-
- RSB	33,762	47,849	-	-
- Term loans	59,773	45,171	28,716	7,883
- Sukuk Murabahah	7,686	10,744	-	-
- Interest on deferred payment	139,510	335,004	-	-
- Lease liabilities	238,955	-	238,955	-
- Others	33,681	12,021	32,801	11,572
Accretion of interest on:				
- BAIDS/MCPS/MMTNS	418	348	-	-
- BAMTN	7,840	8,059	-	-
- Fixed Rate Serial Bonds	5,625	7,352	-	-
- Government loans	84,407	13,456	4,101	1,769
- JNA	29,558	29,333	-	-
- Lease liabilities	13,565	-	13,565	-
- RPS	3,353	3,109	-	-
- RSB	2,579	2,431	-	-
	<u>881,979</u>	<u>830,748</u>	<u>318,138</u>	<u>101,701</u>

23. PROFIT/(LOSS) BEFORE TAX

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

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
After charging:					
Auditors' remuneration:					
- statutory audit					
- Current year		874	760	206	160
- Under provision in prior years		-	9	-	10
Trade and other receivables written off		-	-	13,951	-
Inventories written off		1,049	-	-	-
Impairment on:					
- investment in a subsidiary		-	-	2,550,000	-
- goodwill		507,124	-	-	-
Lease rental on:					
- office building		313	4,772	87	423
- equipment, plant and storage		10,772	10,357	2,070	4
Property, plant and equipment written off		2,712	-	-	-
And crediting:					
Accretion of interest		105,978	-	-	-
Disconnection/Reconnection charges		14,453	1,973	5,834	-
Gain on disposal of property, plant and equipment		840	1,160	-	-
Waiver of payables	4(a)	4,940,835	-	-	-
Waiver of interest on deferred payment liabilities		1,650,609	-	-	-
Waiver of amounts owing to subsidiaries	(a)	-	-	1,644,472	-
Income from property developers	(b)	90,523	87,934	26,193	-
Interest income from deposits in licensed banks	(c)	46,733	56,543	8,788	6,499
Payables written back		54,803	-	-	-
Realisation of deferred government grant		271,748	18,941	-	-

23. PROFIT/(LOSS) BEFORE TAX (continued)

- (a) The amount owing to subsidiaries have been written back as the Directors intend to liquidate the subsidiaries upon the completion of the Restructuring of Water Service Industry as disclosed in Note 4 to the financial statements.
- (b) Income from property developers represents contributions by developers towards upgrading of the upstream work of water supply including trunk distribution system.
- (c) Interest income is recognised as it accrues, using the effective interest method.

24. TAXATION

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Current tax expense based on profit/(loss) for the financial year:				
- Current year	10,236	11,765	-	1,686
- Over-provision in prior years	(2,230)	(617)	(1,686)	(413)
	8,006	11,148	(1,686)	1,273
Deferred tax (Note 15)				
- Relating to origination and reversal of temporary differences	(168,956)	11,635	-	-
- (Over)/Under-provision in prior years	(1,929)	400	-	-
	(170,885)	12,035	-	-
Taxation for the financial year	(162,879)	23,183	(1,686)	1,273

- (a) Malaysian income tax is calculated at the statutory tax rate of 24% (2018: 24%) of the estimated taxable profit for the fiscal year.
- (b) The numerical reconciliation between the taxation and the product of accounting loss multiplied by the applicable tax rates of the Group and of the Company is as follows:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before tax	5,197,673	(1,286,762)	(1,431,763)	(314,749)
Tax at Malaysian statutory tax rate of 24% (2018: 24%)	1,247,442	(308,823)	(343,623)	(75,540)
Tax effects in respect of:				
Tax exempt income	(161,799)	(283,987)	(414,769)	-
Non-allowable expenses	389,183	219,798	723,789	75,655
Deferred tax assets not recognised	141,130	396,412	34,603	1,571
Utilisation of previously unrecognised deferred tax assets	(1,774,676)	-	-	-
	(158,720)	23,400	-	1,686

24. TAXATION

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
(Over)/Under-provision in prior years				
- current tax	(2,230)	(617)	(1,686)	(413)
- deferred tax	(1,929)	400	-	-
Taxation for the year	<u>(162,879)</u>	<u>23,183</u>	<u>(1,686)</u>	<u>1,273</u>

- (b) Uncertainty over income tax treatments

The Group in consultation with its tax advisors will be seeking a confirmation from the Minister of Finance that the Restructuring of the Water Services Industry as disclosed in Note 4 to the financial statements, will not result in any tax exposure to the Company and its subsidiaries. Based on the tax advisors' advice, the Directors are of the view that there are reasonable grounds to justify the Company and its subsidiaries' income tax treatments based on the reasons and circumstances of the Restructuring of the Water Services Industry.

25. 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.

25. RELATED PARTIES DISCLOSURES (continued)

(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

Air Selangor Holdings, 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*.

	Company	
	2019	2018
	RM'000	RM'000
Subsidiaries		
Management fees expense	15,973	18,998
Operation and maintenance expense	2,881	3,824
Sale of treated water	14,637	12,425

Information regarding outstanding balance arising from related party transactions as at 31 December 2019 is disclosed in Note 10 and 16 to the financial statements.

(c) Compensation of key management personnel

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Emoluments paid and payable	2,206	2,288	2,206	2,288

(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 2019 or entered into since the end of the previous financial year except as disclosed elsewhere in the financial statements.

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 2019.

The Group is not subject to any externally imposed capital requirements other than those disclosed in Note 14 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 10 and Note 12 to the financial statements.

26. CAPITAL AND FINANCIAL RISK MANAGEMENT (continued)

(a) 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 and its creditors 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 14 and Note 16 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 12, Note 14 and Note 16 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
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

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

27.1 New MFRSs adopted during the financial year (continued)

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 (continued):

Title	Effective Date
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

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 16 described in the following sections.

a) MFRS 16 *Leases*

MFRS 16 supersedes MFRS 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the financial statements.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors would continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 does not have a material impact for leases for which the Group and the Company are the lessor.

The Group and the Company applied MFRS 16 using the modified retrospective approach, for which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented is not restated.

On adoption of MFRS 16, the Group and the Company recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the Group and of the Company as of 1 January 2019. The range of incremental borrowing rates of the Group and of the Company applied to the lease liabilities on 1 January 2019 were between 5.5% to 6.4%.

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

27.1 New MFRSs adopted during the financial year (continued)

a) MFRS 16 *Leases* (continued)

In order to compute the transition impact of MFRS 16, a significant data extraction exercise was undertaken by management to summarise all property and equipment lease data such that the respective inputs could be uploaded into management's model. The incremental borrowing rate method has been adopted where the implicit rate of interest in a lease is not readily determinable.

For leases previously classified as finance leases, the Group and the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability respectively at the date of initial application. The measurement principles of MFRS 16 are only applied after that date.

In applying MFRS 16 for the first time, the Group and the Company has used the following practical expedients permitted by the standard:

- (a) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 January 2019;
- (c) Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 and do not contain a purchase option as short-term leases;
- (d) Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- (e) Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On transition to MFRS 16, the Group and the Company recognised right of use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

Group	Note	As at 31 December 2018 RM'000	Impact RM'000	As at 1 January 2019 RM'000
Property, plant and equipment	(a)	15,316,983	(1,556,174)	13,760,809
Right-of-use assets		-	1,559,845	1,559,845
Borrowings		8,536,111	(1,638,159)	6,897,952
Lease liabilities	(b)	-	1,640,599	1,640,599
Accumulated losses		11,732,527	(1,231)	11,731,296
Company				
Property, plant and equipment	(a)	12,296,130	(1,556,174)	10,739,956
Right-of-use assets		-	1,556,823	1,556,823
Borrowings		1,867,748	(1,638,159)	229,589
Lease liabilities	(b)	-	1,638,827	1,638,827
Accumulated losses		2,843,681	19	2,843,700

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

27.1 New MFRSs adopted during the financial year (continued)

a) MFRS 16 *Leases* (continued)

(a) The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the financial statements as at 31 December 2018.

(b) Lease liabilities are measured as follows:

	Group RM'000	Company RM'000
Finance lease liabilities recognised as at 31 December 2018	1,640,599	1,638,827
Lease liabilities recognised at 1 January 2019	1,640,599	1,638,827

b) IC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112 *Income Taxes*. It does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. IC Interpretation 23 specifically addresses the following:

- (a) Whether an entity considers uncertain tax treatments separately;
- (b) The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) How an entity considers changes in facts and circumstances.

The Group and the Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

27.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2020

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
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 January 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform</i>	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 2020 (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
Amendment to MFRS 16 <i>Covid-19-Related Rent Concessions</i>	1 June 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 101 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2022
Annual Improvements to MFRS Standards 2018 - 2020	1 January 2022
Amendments to MFRS 3 <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to MFRS 116 <i>Property, Plant and Equipment - Proceeds before Intended Use</i>	1 January 2022
Amendments to MFRS 137 <i>Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022
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.

28. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The World Health Organisation declared the 2019 Novel Coronavirus infection (“COVID-19”) a pandemic on 11 March 2020. This was followed by the Government of Malaysia issuing a Federal Government Gazette on 18 March 2020, imposing a Movement Control Order (“MCO”) effective from 18 March 2020 to 31 March 2020 arising from COVID-19. The MCO was subsequently extended until 12 May 2020, followed by a Conditional MCO until 9 June 2020 and a Recovery MCO until 31 August 2020.

Since these developments occurred subsequent to the end of the reporting period, the COVID-19 pandemic is treated as a non-adjusting event in accordance with MFRS 110 Events after the Reporting Period. Consequently, the financial statements for the financial year ended 31 December 2019 do not reflect the effects arising from this non-adjusting event.

The financial reporting impact of the COVID-19 pandemic could have certain financial impact to the Group and the Company due to:

- (a) Reduced consumer demand for goods and services of the Group and the Company owing to lost income and/or restrictions on consumers’ ability to move freely; and
- (b) Disruption of supply chains due to the restrictions imposed on the movement of people and goods.

**28. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD
(continued)**

The Group and the Company are in the process of assessing the financial reporting impact of COVID-19 pandemic since ongoing developments remain uncertain and cannot be reasonably predicted as at the date of authorisation of the financial statements.

As at the date of the authorisation of the financial statements, the COVID-19 pandemic and the MCO since 18 March 2020 have certain financial impact to the Group and the Company. In view of the lack of visibility on the end date of the COVID-19 pandemic and the MCO, the Group and the Company are not able to estimate the full potential financial impact as at the date of the authorisation of the financial statements. The Group and the Company will only recognise the financial impact in the financial statements for the financial year ending 31 December 2020.

29. FINANCIAL REPORTING UPDATES

IFRIC Agenda Decision - An assessment of the lease term (IFRS 16)

The IFRS Interpretations Committee ('IFRIC') issued a final agenda decision on 26 November 2019 regarding 'Lease term and useful life of leasehold improvements (IFRS 16 and IAS 16)'.

The submission to the IFRIC raised a question pertaining the determination of the lease term of a cancellable lease or a renewable lease based on the requirements of IFRS 16.B34.

Based on the final agenda decision, the IFRIC concluded that the determination of the enforceable period of a lease and the lease term itself shall include broad economic circumstances beyond purely commercial terms.

The Group and the Company had implemented the requirements of this final agenda decision during the financial year ended 31 December 2019.

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