



Pengurusan Aset Air

Revitalising Malaysia's  
Water Asset Management  
Capabilities

Annual Report 2008

# EMERGING FROM A PURE VISION...

Pengurusan Aset Air Berhad (PAAB) was established in May 2006 with the primary responsibility of developing the nation's water infrastructure in Peninsular Malaysia and the Federal Territory of Labuan.



# ...CREATING A PURE FOCUS...



**The Company is wholly-owned by the Government of Malaysia through Minister of Finance Incorporated and is committed to supporting the Government in achieving its national water policy objectives. The Company is tasked with the following objectives**

- Construct, refurbish, improve, upgrade, maintain and repair water infrastructure and all other assets in relation to the systems.
- Source and obtain competitive financing for the development of the nation's water assets and lease such assets to water operators licensed by the Suruhanjaya Perkhidmatan Air Negara (SPAN) for operations and maintenance.
- Assist SPAN to restructure the nation's water industry towards achieving the Government's vision for efficient and quality water services.

## DELIVERING A PURE PROMISE

# VISION

**To be A World Class Water Asset Provider**

# MISSION

- Commit to excellence in managing water assets, founded on the highest standards of ethics.
- Promote continuous improvement in our business processes through the provision of the highest level of service.
- Make a positive difference in the quality of water assets in supporting the delivery of quality water services to the consumer.
- Add value to the industry by providing the most innovative solutions in the management of water assets.

# KEY FOCUS AREAS

- To meet the Federal Government's objectives on water services
- To develop quality water infrastructure and deliver them on time
- To source for optimal funding mix at the lowest rates
- To provide quality and efficient service to clients

## Cover Rationale

### Revitalising Malaysia's Water Asset Management

Tasked to revitalise Malaysia's water asset management, PAAB is a national agency with Malaysia's interests at heart. This simple and heartwarming cover of a boy holding a fish bowl with pride, depicts PAAB's zeal and enthusiasm in touching the lives of Malaysians by enhancing the nation's water delivery system. The fish bowl represents a consolidation of water assets, and the water within reflects purity and quality, evident by the healthy goldfish it nurtures. The boy represents a more positive future as well as adds an element of humanity because at the end of the day, PAAB is focused on uplifting the quality of lives of all Malaysians.

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## Client Service Charter

The PAAB Client Service Charter outlines our commitment to the standard of service to our Clients, namely the state water operators that lease water infrastructure from us. Apart from leasing the water assets, PAAB is also involved in helping some of our Clients achieve financial sustainability over time.

Area of Service	Service Standards
<p><b>Revenue and Lease Management</b></p>	<p><b>Review of Business Plan (BP) and Cash Flow Projections (CFP)</b></p> <ul style="list-style-type: none"> <li>The BP and CFP shall be analysed, evaluated and reviewed on an annual basis to ensure compliance and in accordance with the requirements of SPAN.</li> </ul> <p><b>Review of monthly management accounts from water operators</b></p> <ul style="list-style-type: none"> <li>The review of the monthly management accounts will be completed within five (5) working days from the date of receipt of all necessary information and clarification.</li> </ul> <p><b>Disbursement of budgeted OPEX (as specified in the approved CFP) and unbudgeted OPEX:</b></p> <ul style="list-style-type: none"> <li>Budgeted - on a monthly basis no later than the last working day of the preceding month or any other deadline as specified in the Facility Agreement.</li> <li>Unbudgeted - within 5 business days from the receipt of full supporting documents.</li> </ul> <p><b>Water operators' surplus funds (where water revenue is managed by PAAB):</b></p> <ul style="list-style-type: none"> <li>Surplus funds (i.e. remaining funds after deducting OPEX, any advances from PAAB and outstanding and/or current lease rental) will be placed with financial institutions which offer the most competitive rates for any given placement tenure.</li> </ul> <p><b>Lease Rental Rates</b></p> <ul style="list-style-type: none"> <li>The rental rate will be reviewed every three (3) years throughout the Facility Agreement, with the first review taking place on the third anniversary of the commencement date. Rental rate reviews are subject to the approval of SPAN.</li> </ul>

Area of Service	Service Standards
<p><b>Procurement</b></p>	<ul style="list-style-type: none"> <li>• PAAB's procurement process is guided by Ministry of Finance's Procurement Policies as well as the GLC Red Book.</li> <li>• We will ensure that services or goods required for infrastructure development are procured;               <ul style="list-style-type: none"> <li>– in an efficient, transparent and effective manner.</li> <li>– at the most optimal price taking into consideration the quality, quantity and duration of process.</li> </ul> </li> <li>• Where applicable, PAAB will seek the client's input and cooperation in the procurement process.</li> <li>• Procurement valuing less than RM200,000/year will be done via direct purchase/direct appointment. Depending on the value and the type of the procurement, a minimal number of quotations may be required.</li> <li>• Procurement valuing above RM200,000/year will be done via a tender process. Depending on the value of the procurement, either a restricted tender, an open tender or an international tender can be carried out.</li> </ul>
<p><b>Business planning</b></p>	<ul style="list-style-type: none"> <li>• PAAB will work closely and assist the clients in drawing up the 30-year and 3-year business plans (which will be submitted to SPAN), particularly to co-ordinate the request for new water infrastructure.</li> </ul>
<p><b>Water infrastructure development</b></p>	<p><b>Planning and design stage</b></p> <ul style="list-style-type: none"> <li>• PAAB will work closely with the respective clients in the development of new water infrastructure.</li> <li>• Local water operators will be consulted in the planning and design of new water infrastructure to ensure that the specific needs and requirements for the area are met.</li> </ul> <p><b>Construction</b></p> <ul style="list-style-type: none"> <li>• We will ensure that every project is completed according to contractual requirements and specifications, within cost and delivered on time.</li> </ul>



**“The Government aims to achieve efficient, improved quality water supply and sewerage services by restructuring the Nation’s water industry and introducing PAAB as a national water asset management company.”**

## Facts to boost water knowledge in Malaysia

(Source: Malaysia Water Industry Guide 2007)

	<b>2005 million litre</b>	<b>2006 million litre</b>
Total annual raw water resources	4,805,313	4,882,536
Metered Domestic water consumptions	1,827,517	1,833,978
Metered Non-Domestic water consumptions	861,602	950,228

	<b>2005 %</b>	<b>2006 %</b>
Population served with water supply		
Urban	97	97.8
Rural	90.8	91

	<b>2005 litres/ connection/day</b>	<b>2006 litres/ connection/day</b>
Water Loss per Service Connection (National Average)	770	813

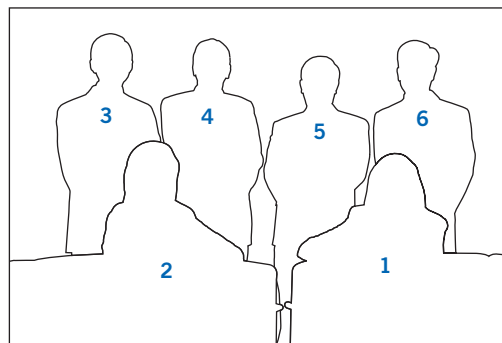
	<b>2005 litre/km/day</b>	<b>2006 litre/km/day</b>
Water Loss in Distribution (National Average)	46,578	44,003

	<b>2005 %</b>	<b>2006 %</b>
Percentage of Non-Revenue Water (NRW) (National Average)	37.70	37.70

## Profile of Directors



- 1 Dato' Halipah binti Esa
- 2 Dato' Puteh Rukiah Abd. Majid
- 3 Suhaimi Kamaralzaman
- 4 Tn. Haji Mohd Radzi Hussein
- 5 Dato' Dr. Halim Man
- 6 Datuk Wira Ahmad Rusli Joharie



### **Dato' Halipah binti Esa**, Chairman

#### **Dato' Halipah binti Esa is the Chairman of the Board of Directors of PAAB.**

She started her career with the Administrative and Diplomatic Services in 1973 in the Economic Planning Unit (EPU), Prime Minister's Department. During her tenure in EPU, she had served in various capacities in the area of infrastructure, water supply, energy, health, education, housing, telecommunications, urban services, macro economy, international economy environment and regional development. Dato' Halipah held various senior positions in EPU including Director of Energy, Senior Director of Macroeconomics and Deputy Director General Macro Planning Division and retired in 2006 as the Director General of EPU.

Before being appointed as the Director General, she served in the Ministry of Finance as Deputy Secretary General (Policy) from 2004 to 2005. Dato' Halipah had been a consultant to the World Bank and United Nations Development Programme (UNDP) in advising the Royal Kingdom of Saudi Arabia on economic planning. She had also provided technical advice to planning agencies in Vietnam, Cambodia, Indonesia and several African countries.

Currently, she is also the Chairman of Cagamas SME Bhd as well as an independent non-executive Director of MISC Berhad, KLCC Property Bhd, MSE Holdings Sdn Bhd, Malaysia Marine and Heavy Engineering Sdn Bhd and Putrajaya Holding Sdn Bhd.

Dato' Halipah graduated with an honours Bachelor's degree majoring in Economics from the University of Malaya and was later conferred Masters of Economics degree from the same university.

She had also attended various courses overseas including those offered at the IMF Institute and Intradros Management Group in Washington, the Kiel Institute of World Economics in Germany and the Adam Smith Institute in London. *(Dato' Halipah had retired from the Board of PAAB after her tenure ended in December 2008)*

### **Dato' Dr. Halim Man**, Director

#### **Dato' Dr. Halim Man is the Secretary General of the Ministry of Energy, Water and Communications.**

His career with the Government spans over 30 years. He began his career as a civil servant with the Ministry of Home Affairs in 1977. He also served the National Institute of Public Administration (INTAN) in various capacities for about 16 years, during which he gained vast experience in training and human capital development. In 1999, he was given the trust by the Government to establish and lead INTAN North East (INTILA) Sarawak Campus. During the stint at INTAN, Dato' Dr Halim Man was appointed as a Consultant to develop training programs in Brunei Darussalam, Zimbabwe and Namibia. In 2002, he was conferred the Eisenhower Fellowships, USA. Due to his enormous experience and knowledge in the field of management and training, he was subsequently seconded to the University of Malaya as the Registrar in January 2003.

Dato' Dr. Halim Man is an Exco Member of the Eisenhower Fellowships Association Malaysia and is active in the AOTS Alumni Society of Malaysia as well as MU Alumni Association. He is also a board member of Bank Simpanan Nasional Berhad, Telekom Smart School, Multimedia Development Corporation and Multimedia University Malaysia.

### **Dato' Puteh Rukiah Abd. Majid**, Director

#### **Dato' Puteh Rukiah Abd Majid is the Deputy Secretary General (Systems and Controls), Treasury, Ministry of Finance.**

Dato' Puteh has held various posts in the Government such as the Deputy Under Secretary, Minister of Finance (Incorporated), Privatisation and Public Enterprise Division (2000 - 2004) and later as Under Secretary, Investment, Minister of Finance (Incorporated) and Privatisation Division (2004 - August 2006).

Dato' Puteh is a member of the Board of Tenaga Nasional Berhad. She also sits on the Boards of Perbadanan Usahawan Nasional Berhad, Malaysia Airlines System Berhad (as an Alternate Director), Penerbangan Malaysia Berhad and Pelabuhan Hartanah Bumiputera Berhad. Dato' Puteh holds a Bachelor of Economics (Hons) from the University of Malaya and a Masters (Economy) from the Western Michigan University, USA.

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**Datuk Wira Ahmad Rusli Joharie**, Director

**Datuk Wira Ahmad Rusli Joharie is a board member of the Inland Revenue Board and Advisor to A'Famosa Resort Melaka. He was appointed to the Board of Directors of PAAB in January 2007.**

Datuk Wira Ahmad Rusli started his career with the Administrative and Diplomatic Service (PTD) as an Assistant Director of the Melaka State Economic Planning Unit. Subsequently, he held other various positions in the Public Services Department (Training Division), National Institute of Public Administration (INTAN), Ministry of Agriculture, Economic Planning Unit, Melaka State Financial Office, Melaka State Secretariat before he retired in October 2005 as Senior Deputy Secretary General of the Prime Minister's Department.

Among the senior positions that he had held during his long and distinguished career include the positions of Director of Development Budget, Economic Planning Unit of the Prime Minister's Department, Under Secretary of the Ministry of Agriculture, Melaka State Financial Officer, Melaka State Secretary and Senior Deputy Secretary General of the Prime Minister's Department.

Datuk Wira Ahmad Rusli graduated from the University of Malaya with a B.A (Hons) degree majoring in Economics in 1973. In 1976, he obtained his Diploma in Public Administration from the same university. In 1981 Datuk Wira obtained his M.A. (Development Economics) from Vanderbilt University, USA.

**Tn. Haji Mohd Radzi Hussein**, Director

**Tn. Haji Mohd Radzi Hussein is the Director of the Information Technology Management Division, Accountant-General Department.**

Tn. Haji Mohd Radzi started his career with the Ministry of International Trade and Industry as a cost accountant. Subsequently, he held other various positions in Universiti Utara Malaysia, the Kedah State Treasury, Kedah Akuakultur Sdn Bhd and the Ministry of Home Affairs. He was appointed to the Board of the Directors of PAAB in September 2007 and is also a Member of the Audit Committee of Amanah Saham Kedah Berhad.

He holds a Master in Business Administration (MBA) from University of Wales, Aberystwyth, Wales, UK and a Bachelor in Accounting (Hons) from University of Malaya.

**Suhaimi Kamaralzaman**, Chief Executive Officer and Director

**Suhaimi Kamaralzaman is the Chief Executive Officer and Director of PAAB since 1 January 2007.**

Prior to this appointment, Suhaimi was the Chief Executive Officer of Indah Water Konsortium Sdn Bhd (IWK) from August 2000 to December 2006. Under Suhaimi's leadership, IWK achieved major improvements in all areas of its operations and business, significant revenue growth, increased operational efficiency and enhanced consumer knowledge and awareness of sewerage services. In 2005, the Malaysian Water Association awarded IWK the Malaysian Water Award for Management 2005 for excellence in total water management and operational efficiencies in providing efficient sewerage services to all Malaysians, valuable contribution towards protecting public health, preserving the water resources and protecting the environment. Suhaimi remains on the Board of Directors of IWK, and since 1 January 2007, has assumed the role of Chairman of its Management Committee.

From 1998 to 2000, Suhaimi was attached to the National Economic Action Council (NEAC), a federal consultative body established during the Asian Financial Crisis in 1997 to tackle the immediate issues related to the crisis. Before joining the National Economic Action Council, Suhaimi had served with reputable chartered accounting firms in Malaysia and the United Kingdom. He also briefly served with Malaysia's national oil corporation, PETRONAS, between 1994 and 1996.

## Key Management



**Suhaimi Kamaralzaman**  
Chief Executive Officer



**Ir. Abdul Kadir Mohd Din**  
Chief Operating Officer

**Kevin Lee**  
Head, Finance



**Hj. Isa Abu Bakar**  
Head, Project Management



**Tham Yee Kiong**  
Head, Technical Services

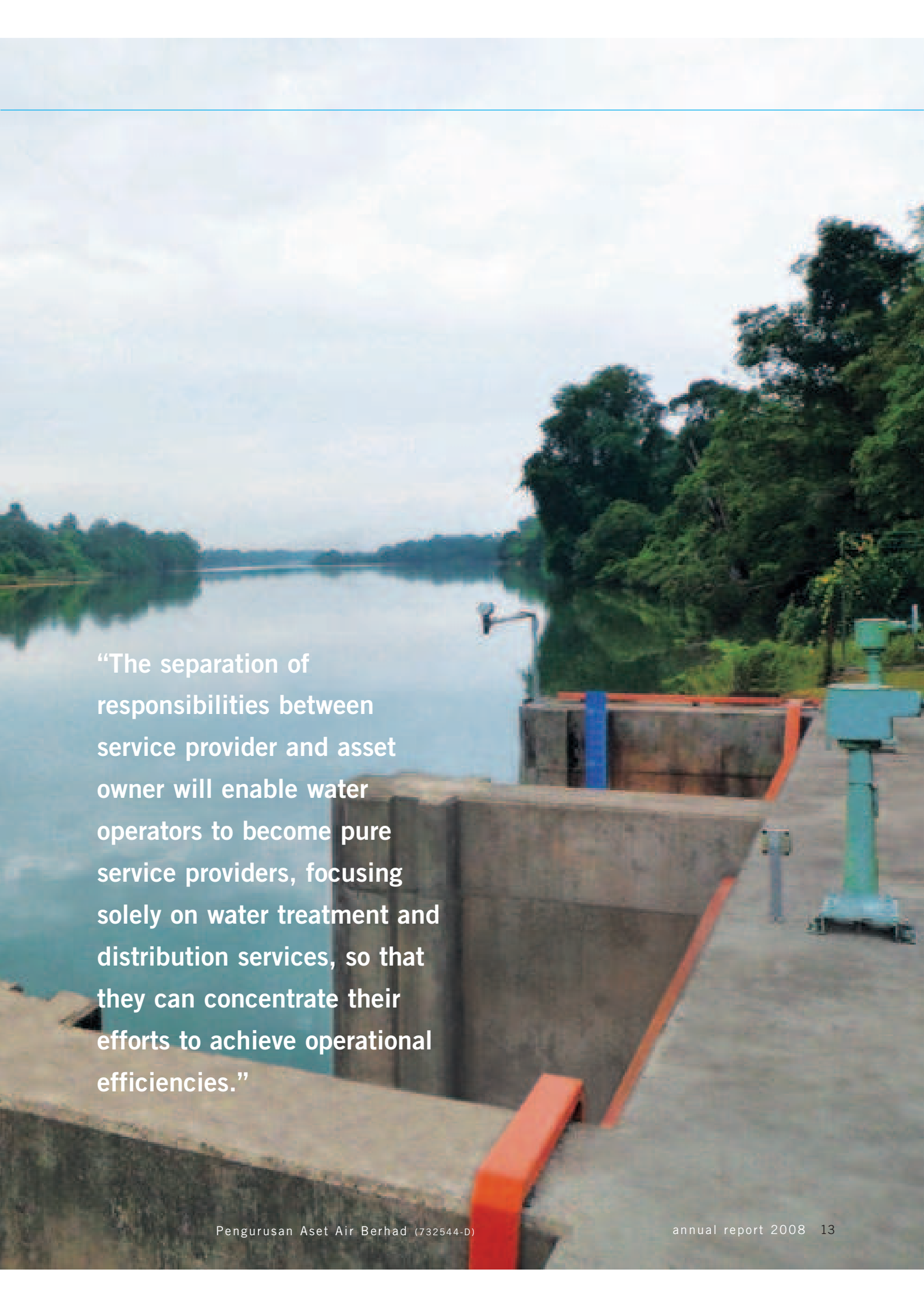
**Lim An Pheng, Ann**  
Head, Corporate  
Communications



**Zainudin Mat Salleh**  
Head, Procurement &  
Corporate Services



**Anita Ibrahim**  
Manager, Legal &  
Company Secretarial



“The separation of responsibilities between service provider and asset owner will enable water operators to become pure service providers, focusing solely on water treatment and distribution services, so that they can concentrate their efforts to achieve operational efficiencies.”

## Facts to boost water knowledge in Malaysia

(Source: Malaysia Water Industry Guide 2007)

Average Water Tariff For Industry and Domestic (2007)					
States		INDUSTRY		DOMESTIC	
		Average Water Tariff (RM/m <sup>3</sup> )	Ranking	Average Water Tariff (RM/m <sup>3</sup> )	Ranking
Labuan	(1982)	0.90	1	0.90	11
P.Pinang	(2001)	0.94	2	0.31	1
Terengganu	(1997)	1.15	3	0.52	2
Kedah	(1993)	1.20	4	0.53	3
Kelantan	(2001)	1.25	5	0.55	4
Perlis	(1996)	1.30	6	0.57	5
Pahang	(1983)	1.45	7	0.57	5
Melaka	(2005)	1.47	8	0.72	8
N. Sembilan	(2002)	1.59	9	0.68	7
Perak	(2006)	1.60	10	0.73	9
Selangor	(2006)	2.27	11	0.77	10
Johor	(2003)	2.93	12	0.90	11
<b>National Average</b>		<b>1.32</b>		<b>0.65</b>	

### NOTES:

Average water tariff for Industrial use applies on the first 500 cubic meters.

Average water tariff for Domestic use applies on the first 35 cubic meters.

(Year) means latest date the tariff was revised for each state.

On behalf of the Board of Directors I am pleased to present to you the annual accounts and report for Pengurusan Aset Air Berhad (PAAB) for the year ending 31 December 2008.



# Chairman's Statement

The year 2008 had been an interesting one for all Malaysians, not the least for us in PAAB. The new political landscape and economic condition have undeniably altered the dynamics of the operating environment, posing new challenges to our work.

As PAAB steered its focus towards implementation in the year 2008, our immediate challenge was to help state water operators in Peninsular Malaysia and Wilayah Persekutuan Labuan migrate to the new regulatory and licensing framework under the National Water Services Industry Restructuring Initiatives. The migration forms part of the national efforts to transform State water operators into asset-light service providers and PAAB into the nation's water asset owner.

Under the new framework, PAAB will take over all the water assets from the states and thereafter, be responsible for the development of new water infrastructure. State water operators being asset-light can then specialise on providing water treatment and distribution services. The separation of responsibilities aims to create more efficient water service providers that are able to deliver better quality water and services to end-users. PAAB will also take on the responsibility of funding the development of water infrastructure, lifting a heavy burden off the state water operators.

Convincing the State Governments to migrate to the new framework has proven to be quite a complex process as all acquisitions are done on a willing-buyer-willing-seller basis. Both parties have to agree on the value and price before a deal can be sealed. The process is further complicated by the fact that some states have more than one player of which some are private concessionaires.

## Chairman's Statement (cont'd)

Nonetheless, against all odds, PAAB managed to make significant accomplishments in 2008. Important milestones were attained on several fronts to help pave PAAB's way towards becoming the nation's water asset owner, as part of the Federal Government's effort to transform the nation's water services industry.

First and foremost, I am pleased to report that PAAB had successfully acquired water assets from two states - Melaka and Negeri Sembilan. After two years of toiling, it is gratifying to see our efforts finally bearing fruits. The acquisition signified the commencement of the implementation of a very important Federal policy, drawn up to conserve an equally important natural resource. It was indeed a momentous achievement for both PAAB and the Federal Government.

Melaka was the first state in Malaysia to migrate to the new water industry framework, followed by Negeri Sembilan. We are very grateful for the kind co-operation extended by the Federal Government as well as both state governments which helped to conclude the deals.

The acquisitions entailed the transfer of the states' water assets to PAAB and as payment, PAAB assumed the related water loans which both states owed the Federal Government.

For Melaka, the loans totaled RM770 million, whereas the net book value of the assets amounted to RM889 million. As the asset value exceeded that of the loan, there was a surplus value of RM119 million which would be paid to the state of Melaka. Melaka's water assets were bought at one time net book value, which shall be the basis for PAAB's future water assets acquisitions.

As for Negeri Sembilan, the water-related assets taken over were valued at RM1.12 billion which is equivalent to the state's outstanding Federal water loan amount. In total, PAAB now has RM2 billion worth of water assets in its books.

With the acquisition, the water operators for both states - Syarikat Air Melaka Sdn Bhd and Syarikat Air Negeri Sembilan - who are leasing the water assets from PAAB, have effectively become PAAB's first clients. Recognising the importance of delivering quality service, a Client Charter was drafted, outlining PAAB's commitment to the standard of service to our Clients.

It is important to note that PAAB intends to work closely with the water operators especially in the development of water infrastructure to ensure that the states' water needs are effectively addressed. We believe that the operators, being closer to the ground, will have greater insight to local requirements.

On a separate note, PAAB had started studying the water infrastructure needs in Melaka and Negeri Sembilan. PAAB is expected to spend as much as RM2.1 billion and RM3.8 billion in the next 30 years for the development of water assets in the states of Melaka and Negeri Sembilan respectively. This will certainly be a boon to the country's economy.

We sincerely hope that the other states will be encouraged to follow Melaka's and Negeri Sembilan's footsteps and hasten their migration process. For 2009, we are targeting at least three states namely, Johor, Kelantan and Pahang.

Secondly, PAAB had completed its 30 year business plan which will serve as the Company's roadmap for the years ahead. The business plan had also been submitted to SPAN as part of PAAB's application for the Facilities License, to be a licensed water assets owner in the country.

Thirdly, on funding, PAAB had secured a revolving credit of RM3 billion from a leading local financial institution to finance our purchase of water assets as well as for the development of new infrastructure. This accomplishment marks our success in fulfilling one of PAAB's objectives that is to source for competitive financing for the development of the nation's water infrastructure. It also reflects the faith the financial community has on PAAB despite our brief existence. The financing, obtained at a competitive rate will help lower the overall development costs and ultimately, the tariff rate charged to consumers.

Fourthly, there has been considerable progress in the development of the Langat 2 Water Treatment Plant And Water Reticulation System project (Langat 2). Langat 2, which is part of the Pahang-Selangor Water Transfer project, is PAAB's first major water infrastructure development project. The project is currently at Detailed Design stage. It is on course, and we are hopeful that construction work will begin in 2010 as scheduled.

## Transparency and Public Relations

In line with PAAB's strong emphasis on transparency in its operations, the Company had stepped up efforts to improve investors' relations and public relations in 2008.

Being a relatively new organization, PAAB is still somewhat unknown to many and given its unique role, there is a need to educate the public of its function and responsibilities. We recognised that in this age of technology, website is an important channel for disseminating information. Therefore, PAAB's website was revamped during the year to make it more user-friendly and resourceful. It is regularly updated to enable the public to track PAAB's progress with minimal effort. By proactively disseminating information, the Company hopes that the public will become more informed of its operations and be more receptive towards its cause. Going forward, PAAB will continue to intensify its communication with the public especially when the development of the Langat 2 progresses to a more advance stage.

To strengthen its relations with investors, PAAB held its inaugural briefing to analysts and fund managers, which was very well received. It is our intention to maintain open communication with the investing community. We believe that by proactively engaging our stakeholders, there will be better understanding of PAAB's operations and the confidence towards our capability will also grow in tandem.

## Financial Results

For the period ended 31 December 2008, PAAB made a profit of RM2.31 million, mainly attributable to sound management of funds and prudent spending.

This brings the cumulative profit for the year 2008 to RM1.13 million. It is important to note that PAAB is not profit-oriented but we will manage our funds prudently to keep costs low.

As a result of our acquisition exercise, PAAB's Net Tangible Assets (NTA) value had increased from RM101 million in 2007 to RM2,476 million in 2008. During the year of review, PAAB's paid-up capital was also increased from RM103 million in 2007 to RM410 million.

## Organisational Development

As at 31 December 2008, PAAB had a staff strength of 39 employees. The management has intentionally kept the organization lean to minimize operating costs and where possible, utilizes outsourced professional help e.g. IT and Land Services.

Nonetheless, as the Company's operations continue to grow, there will be a need for more active recruitment to fill up key positions.

## Acknowledgements

On behalf of the organisation, I would like to thank the Ministry of Finance, Ministry of Energy, Water and Communications, the Economic Planning Unit and SPAN for their guidance and cooperation in helping PAAB achieve its objectives. To the various Federal and State ministries/agencies that had extended their co-operation to us, we appreciate your kind support. PAAB will continue to seek your assistance to make the reform of the water services industry a success.

On behalf of the Board, I also would like to thank Tan Sri Dr. Wan Abdul Aziz Wan Abdullah who retired from the Board in June 2008. The Board and management record its gratitude to Tan Sri for his invaluable contribution throughout his term as a director of PAAB.

It is also time for me to bid farewell to my fellow Board members as well as the management and staff members of PAAB as this will be my last year as the Chairman of PAAB. My tenure as PAAB's Chairman ends in December 2008 and it is with a heavy heart that I shall step down from this position.

I am grateful of my appointment as the Chairman of PAAB; it has been a privilege to be able to serve the organisation and to be involved in shaping the future of the country's water industry. I thank the Government for having the trust in my ability to guide PAAB.

To my fellow Board members, my most sincere gratitude for your kind support and commitment throughout my tenure as the Chairman. To the management and staff of PAAB, thank you for all your hard work and contribution. Despite the lean staff strength, the Company has been able to achieve significantly due to the staff's dedication and strong desire to make a difference in the nation's water services industry.

In closing this year's statement, it is my hope that PAAB will be able to achieve greater success next year. I wish the management and staff members all the best in confronting future challenges.

## Review of Operations

Having set up the basic foundation for PAAB's operations in 2007, much of year 2008 was focused on implementation, with emphasis on completing the deals to acquire water assets from state governments. Concurrently, the Company was sourcing for competitive funding to finance water assets acquisition and development. (As part of the agreement with the states, PAAB will be responsible for developing new water infrastructure and sourcing for its funding once the states have migrated to the new framework under the National Water Services Industry Restructuring Initiatives).

Apart from the core activities, the company continued to work on improving its corporate governance and the transparency of its operations.

Overall, the year 2008 was quite challenging for PAAB, dampened by unfavorable external factors. Nonetheless, PAAB managed to make significant progress in its operations.



### Progress in Water Services Industry Restructuring

During the year, PAAB continued its negotiations with the state water operators to convince them to migrate to the new licensing framework under the National Water Services Industry Restructuring Initiatives. To this end, PAAB had managed to achieve significant development with a few states, namely Melaka, Johor and Negeri Sembilan.

PAAB had successfully acquired water infrastructures from the states of Melaka and Negeri Sembilan. These were PAAB's first successful acquisitions from the States and they represent an important milestone for the Federal Government in its efforts to restructure the nation's water services industry. As at 31 December 2008, PAAB had RM2 billion worth of water assets in its books.

## **Melaka**

PAAB has successfully acquired the water infrastructures from the state of Melaka - its first successful acquisition from the states.

With the agreements signed, Melaka had transferred all the state's water infrastructure, valued at RM889 million to PAAB and in exchange, PAAB had assumed Melaka's outstanding water asset loan of RM770 million owing to the Federal Government. The surplus amount of RM119 million (difference between the net book value of the assets and loan amount) would be paid to the state of Melaka. Melaka's water assets were bought at one time net book value.

PAAB had also signed a Lease Agreement and a Facility Agreement with Syarikat Air Melaka Berhad (SAMB), the state's water operator. Under the Lease Agreement, SAMB will lease the water infrastructure from PAAB for the next 45 years. The annual lease rate is RM26 million but is subject to renewal every 3 years. Allowing the state government to continue to manage the state's water services operation is in line with the water services industry's restructuring.

Under the Facility Agreement, PAAB had agreed to construct, upgrade and refurbish new water assets for the state. Any newly constructed, upgraded and refurbished water assets will be leased to SAMB at lease rates to be determined. Essentially, PAAB will be responsible for any future water assets development in Melaka and source for financing for these projects. PAAB is expected to invest about RM2.1 billion for water infrastructure development in Melaka for the next 30 years.

Any request for new water infrastructures, be it water pipes, reservoir or water treatment plant, will have to be submitted to SPAN for approval, after which PAAB will work with the operators to develop these infrastructure. As emphasised in the Client Charter, it is PAAB's intention to work closely with the water operators to ensure that the water infrastructures built meet the state's requirement and the people's needs.

## **Negeri Sembilan**

PAAB had also sealed the agreement to acquire water infrastructure from the state of Negeri Sembilan. The deal was signed on 31 December 2008, making Negeri Sembilan the second state to migrate to the new licensing regime after Melaka. Water assets valued at RM1.12 billion were transferred to PAAB and as payment, PAAB assumed the state's Federal Government water asset loan of equivalent value.

Subsequent to the acquisition, the state's water operator Syarikat Air Negeri Sembilan (SAINS) leased the water assets from PAAB for operation and maintenance. The lease term is for 45 years, while the annual lease rental rate is RM36 million, renewable every three years. The state of Negeri Sembilan was also the first state to be awarded the Service License by SPAN.



The status of selected states that have achieved significant progress as at December 2008

State	Progress
<b>Johor</b>	PAAB conducted a verification exercise of the water assets in Johor during the year. To-date, PAAB has concluded negotiation with SAJ Holdings Sdn Bhd (SAJH), one of the water concessionaires in Johor and is finalising the agreement to acquire the water assets belonging to SAJH as well as the Johor State. The agreement is expected to be signed in the first quarter of 2009.
<b>Selangor</b>	PAAB has appointed auditors to undertake a verification exercise on the assets of the State Government and the concessionaires.
<b>Kelantan</b>	Negotiations are in advanced stages, State is agreeable to sell water assets to PAAB and migrate to the licensing regime. The agreement is expected to be signed in 2009.
<b>Pahang</b>	Negotiations are in advanced stages. The agreement is expected to be signed in the first half of 2009.

## Funding

In 2008, PAAB secured a revolving credit facility amounting to RM3 billion from a leading local financial institution. The funds will be used to acquire existing water infrastructure as well as for new water infrastructure development requested by the states that have migrated to the new regime. The timing of the inflow of funds is crucial as it will affect borrowing costs, and the lease rental rates charged to the water operators. As such, PAAB will try its best to time the loan disbursement to be as close as possible to the outflow of payments to contractors/sub-contractors etc to minimise cost.

During the year, PAAB's paid-up capital was also increased from RM103 million to RM410 million. The extra boost in the paid-up capital will help with the Company's funding.



## Technical Services

### Progress In The Development of Langat 2 Water Treatment Plant and Water Reticulation System

Much progress has been made in the Langat 2 project. In February 2008, PAAB appointed the project consultant for Langat 2. The consultancy service contract, which was procured through an open tender exercise, was awarded to a consortium, SMHB Sdn Bhd in association with Ranhill Consulting Sdn Bhd and KTA Tenaga Sdn Bhd. The three companies are leading local engineering firms that specialise in water works. The consultants are responsible for the study, design, tender, construction supervision and project management of the construction of the Langat 2 Phase 1 works.

As at December 2008, the consultants had completed the Detailed Study stage, which covers, amongst others, water demand study, survey works, soil investigation and utility mapping. Currently, the consultants are at the Detailed Design stage, where they are working on the design of the treatment plant. The challenge at this stage is to produce an optimal design, taking into consideration cost, timing and practicality of the design.

### Technical Road shows

In 2007, PAAB conducted road shows and briefing sessions on PAAB's objectives and the new industry framework to various states and their respective operators. These briefings concerned mostly the aspects of the restructuring.

In 2008, PAAB embarked on technical road shows to brief the various state water operators on PAAB's role in the development of water infrastructure for the states (once they migrate to the new framework) from a technical viewpoint. The road shows, which were carried out throughout 2008, allowed PAAB to understand the operational issues faced by the water operators. With this information, PAAB is able to avoid repeating the same weaknesses in future designs and explore new innovation to improve future design and operation of the water services system.

The Company also took the opportunity to gather information on the existing water assets in the various states (e.g. the type, quantity and condition of the assets) and to assess their water infrastructure needs in the near future. The information gathered will help with the Company's planning on financing, manpower resources and added value services (which PAAB will provide to the water operators).

As at 31 December 2008, PAAB had visited all the states in Peninsular Malaysia and Wilayah Persekutuan Putrajaya and Labuan, except for Perak. PAAB also plans to visit all other private water operators in the future.

### Corporate Governance and Transparency

#### Internal Audit

In 2008, PAAB appointed KPMG, a leading international accounting firm, to perform an internal audit on the company's operations. Initial planning work for the internal audit, such as briefing the Board of the proposed internal audit plan and the charter for the Audit Committee, had begun. Actual audit work will take place in 2009, as part of the company's efforts to improve corporate governance.

#### Procurement

As a Government-owned company entrusted with public funds, PAAB is committed to the principle of transparency in its procurement process. PAAB believes in awarding procurement contracts to the most qualified bidders, which are evaluated based on commercial and technical criteria that are spelt out in advance and clearly stipulated in the tender documents. All tenders are evaluated by two levels of committee, namely the Tender Evaluation Committee and the Procurement Committee, which have different members. The Tender Evaluation Committee is responsible for evaluating the bids and short-listing qualified bidders. The Procurement Committee will then evaluate the short listed bidders and select the most qualified to award the contract.

During the year, PAAB held four open tender exercises for contracts ranging from insurance programme to site investigation works.



#### Corporate Communications

During the year, the company held its inaugural briefing to financial analysts and fund managers to provide an update on its progress. The aim of the briefing was to increase the general understanding towards PAAB and the water services industry restructuring initiatives as well as to increase communication with the investing community. PAAB intends to make this briefing an annual affair, in keeping with its effort to remain transparent.

In addition to the annual briefings, PAAB continued to accept requests for individual briefings throughout the year from analysts, fund managers and financial institutions. To-date, PAAB has briefed various groups of people including foreign and local fund managers, analysts and hedge fund managers.



## Post-2008 Development

### Johor

On March 2009, PAAB signed its third water assets acquisition deal with the Johor state. The deal is a landmark achievement for PAAB as it is its first acquisition from a private concessionaire (SAJ Holdings), which will also result in the first private water concession agreement being rescinded.

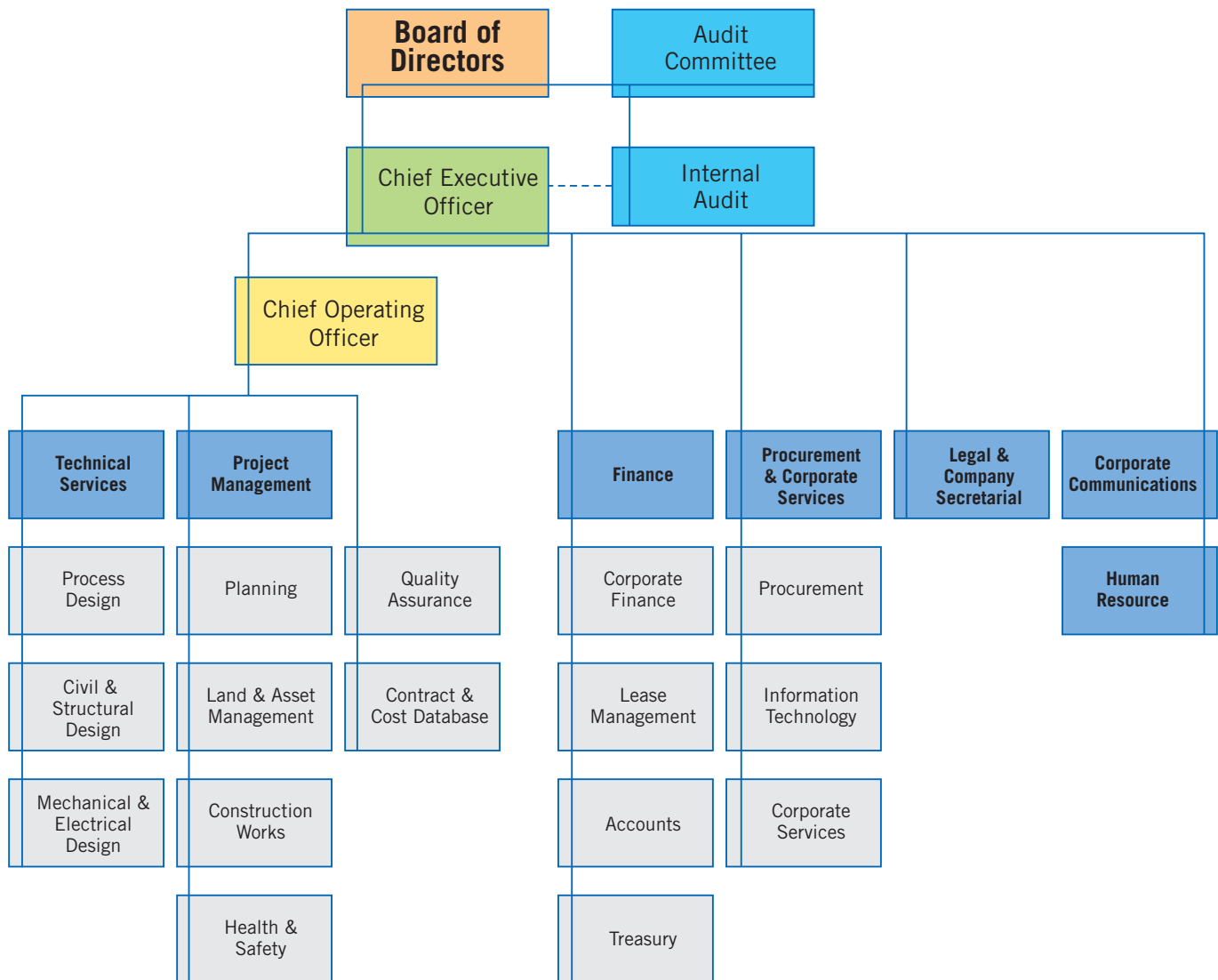
Under the agreements signed, PAAB will take over a total of RM4.03 billion assets which belong to the state of Johor, SAJ Holdings and Syarikat Air Johor. In exchange, PAAB will assume RM3.18 billion loans related to the assets of the three parties. The water assets will be acquired at one time book value.

PAAB also signed the Lease Agreement with SAJ Holdings (which will remain as Johor's water operator), to lease back the water assets to the operator for the next 30 years. A Facility Agreement was also signed, with PAAB agreeing to undertake all future water assets development in Johor and source for its financing.



# Organisation Structure

as at 31 December 2008





**“By consolidating asset management under PAAB, and standardising water designs and standards across all states, a more efficient water industry will emerge. A national standard creates a conducive environment for further development by industry consultants and specialists such as software vendors. Standardisation of materials will encourage the manufacturing of spare parts and lower maintenance costs.”**

## Facts to boost water knowledge in Malaysia

(Source: Malaysia Water Industry Guide 2007)

### Water Supply Operating Expenditure & Revenue in Malaysia

Year	Revenue (RM Million)	Expenditure (RM Million)	Surplus (RM Million)
2005	3,575	3,416	159
2006	3,804	3,735	69

### Total length of Pipe in Malaysia

Year	(km)
2000	87,090
2001	88,786
2002	90,544
2003	92,283
2004	94,668
2005	96,976
2006	105,513

	2005	2006
<b>Waterworks Installations:</b>		
No. of Service Reservoirs	1,976	2,325
Capacity (MI)	7,174	8,051
No. of Water Towers	1,647	1,693
Capacity (MI)	1,055	1,373
No. of Booster Stations	874	919
Total Pumping (Mld)	1,057	1,156

# The Langat 2 Water Treatment Plant and Water Reticulation System

## Background

The Langat 2 Water Treatment Plant and Water Reticulation System (Langat 2) is part of the Pahang-Selangor Interstate Raw Water Transfer Scheme (PSWTS), initiated by the Federal Government to meet the water demand in Selangor, Wilayah Persekutuan Kuala Lumpur and Wilayah Persekutuan Putrajaya, which is expected to exceed the current supply in the near future. The rapid development in these areas and the growing population have shore up the demand for water substantially.

Recognising this problem, the Federal Government has initiated the PSWTS which is scheduled to be completed in 2013. Under the water transfer scheme, raw water will be transferred from Pahang to Selangor and directed to Langat 2 water treatment plant, where the water will be treated and subsequently distributed to Klang Valley. Upon completion, the Langat 2 will be the largest water supply scheme in Malaysia supplying 2,260 million litres per day (Mld) of treated water to Selangor, Wilayah Persekutuan Kuala Lumpur and Wilayah Persekutuan Putrajaya.

In 2007, Pengurusan Aset Air Berhad (PAAB) was appointed the implementing agency for the Langat 2 project, responsible for the development of the whole project. PAAB will also be responsible for raising the funding for this project.

## The Langat 2 Project

The Langat 2 will be developed in two phases, with an ultimate capacity of 2,260Mld. Phase 1 of the project involves the construction of treatment works with a nominal output capacity of 1,130Mld. The construction of Phase 1 works is scheduled for completion in early 2013 to coincide with the completion of the PSWTS, in time to receive the raw water from Pahang. Meanwhile, Phase 2 of the project, which has the same output capacity of 1,130Mld will be constructed later on to meet the demand for water in 2019.

For Phase 1, the scope of works includes the construction of Phase 1 of the treatment plant and distribution channels of the treated water, including:

- the twin raw water pipe mains from the raw water transfer tunnel outlet portal to the Langat 2 Phase 1 water treatment plant
- 2 balancing reservoirs (located at Bukit Enggang and Hulu Langat)
- five service reservoirs (located at Sg. Besi, Bukit Jalil, Petaling, Ampang and AU3)
- the bulk distribution pipelines covering the Western and Northern Corridors
- the interconnection to existing pipe network

Phase 1 of the Langat 2 water treatment plant will be located approximately 5km from Hulu Langat town, Pekan Batu 11 and about 3km from the Raw Water Transfer Tunnel outlet portal. The location plan is shown in **Figure 1**.



Figure 1 : Overall Layout of Langat 2 Phase 1 Works

The project will involve laying of new pipes as most existing pipes are not big enough to channel the volume of treated water that will be distributed. For the Northern Corridor (covering areas such as Ampang and AU3), about 21.5km of pipes, with diameter ranging from 1.1m to 1.75m, will be laid and a 1km tunnel will be constructed. As for the Western Corridor (covering areas such as Sg. Besi, Bukit Jalil and Petaling) 37.7km of pipes with diameter ranging from 1.15m to 2.5m will be laid and a 1.2km tunnel will be constructed.

Construction work is expected to commence in February 2010 and scheduled to be completed by February 2013.



## Progress of The Langat 2 Project

In February 2008, through an open tender exercise, PAAB appointed a consortium led by SMHB Sdn Bhd in association with Ranhill Consulting Sdn Bhd and KTA Tenaga Sdn Bhd (CSRK), as the project consultant for Langat 2. The consortium is entrusted with the responsibility for the study, design, tender, construction supervision and project management of the construction of the Langat 2 Phase 1 works.

Work for Phase 1 has commenced since and as at December 2008, the consultants have completed the Detailed Study stage, which covers, amongst others, water demand study, survey works, soil investigation and utility mapping. Currently, the consultants are at the Detailed Design stage, where they are working on the design of the treatment plant. The challenge at this stage is to produce an optimal design, taking into consideration cost, timing and practicality of the design.

As the implementing agency, it is PAAB's responsibility to monitor the progress of the project. PAAB must ensure the success of the Langat 2 project and more importantly, that it is built as per cost and quality, and delivered on time.

PAAB will endeavor to avoid any unnecessary delay or inefficiencies which will translate to higher cost and will have an impact on the tariff charged to consumers later.



## Conclusion

The Langat 2 will be constructed with emphasis on local expertise and skills. Implementing the biggest water scheme in Malaysia will definitely be a challenge for the local industry players but it will also be a rewarding learning experience.

The project will also help to stimulate economic activities in the country, providing a boost to the construction sector which has been affected by the current global economic woes.

Ultimately, the Langat 2 is a very crucial project for Selangor, Putrajaya and Kuala Lumpur. Without Langat 2, these areas will be faced with the possibility of water shortage in the near future. The lives of the people as well as the economic activities in Selangor, Putrajaya and Kuala Lumpur will be disrupted. The disruption will not only bring inconvenience to the people but will also result in monetary losses to the country. It will also erode investors' confidence leading to loss of precious investment. Therefore, it is important that the Langat 2 project is implemented as per schedule.

### Salient Points of Water Services Industry Act 2006 (Act 655)

#### Background

In July 2006, the Parliament enacted the Water Services Industry Act 2006 (Act 655) (WSIA) which provides the legal framework required for the regulation of the water and sewerage service industry. WSIA plays a vital part in the Federal Government's efforts to reform the water and sewerage services industry in Peninsular Malaysia and the Federal Territories of Putrajaya and Labuan through an integrated and holistic approach. The goal is to create a sustainable industry structure that is capable to achieve full cost recovery in the long term.

#### WSIA - The salient provisions

WSIA is divided into 13 parts and embraces various considerations such as economic, technical and social considerations together with the protection of consumer's interest that were translated to the statute's various provisions.

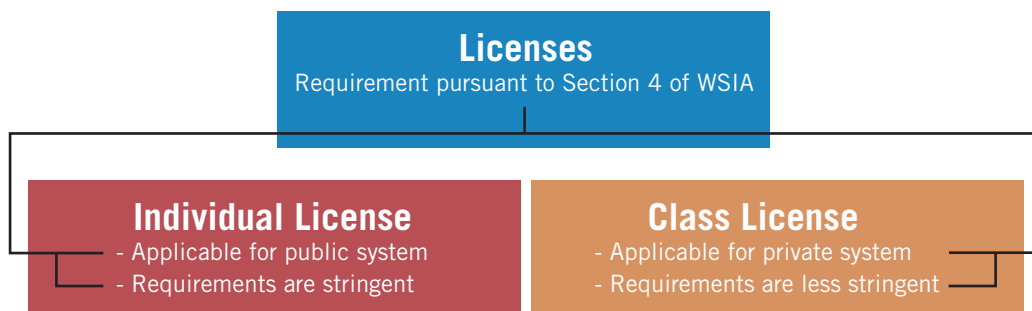
#### The licensing framework

The most significant part of WSIA is the introduction of the new licensing framework for the industry with Suruhanjaya Perkhidmatan Air Negara (SPAN) acting as the regulator. This is a new mechanism introduced under WSIA which allows SPAN to effectively regulate operators and owners of water and sewerage assets.

Under the licensing framework of WSIA, there are two basic categories of license, namely individual license and class license. As the law stands, all owners of public water supply system and public sewerage system or any part of the systems or those who operates such systems for public purposes must obtain an individual license which will be granted by the Ministry of Energy, Water & Communications upon the recommendation by SPAN. On the other hand, any person who owns a private water supply system or private sewerage system or those who operates such systems for private use only is required to obtain a class license.



The licensing structure is perhaps best illustrated by the following diagram:-



Each of these licenses is further categorised into facility license and service license respectively. A facility license is required for the ownership of the water supply system or the sewerage system or any part thereof whilst the operator of such system must have a service license. With the licensing framework, the roles of asset owners and operators are separated to enable each party to better focus on their core responsibilities and improving their capabilities.

The statutory duties and obligations of a licensee are spelt out in Part 3 of WSIA. Among other things, an individual licensee is under the obligation to submit to SPAN, a rolling business plan detailing pertinent information such as plan on expansion, upgrading works and also estimations on capital and operational expenses. Through the business plan, SPAN is able to evaluate the financial standing of the licensees and their progress towards financial sustainability. It gives SPAN greater insight to the licensees' operations.



The statutory duties of the licensee also encompass future duties with the ultimate aim of ensuring the sustainability of the relevant system with regard to overall efficiency and economical aspects.

It is important to note that the licenses are subject to renewal every 3 years and the renewal hinges on the licensees' ability to meet the requirements as stipulated in WSIA and its subsidiary legislation.

### **Water Forum**

WSIA also has provisions pertaining to the protection of consumer's interest. In Part 5 of WSIA, various measures are being put into place to protect the consumer's interest the significant of which, is the establishment of the Water Forum whereby consumers are given the opportunity to be involved in the industry. Through the Water Forum, the consumer may propose consumer standards such as in dealing with consumer's reasonable requirements, complaints and also protection of consumer's information. In addition, the Water Forum will promote consumer's interest in relation to the water tariffs and SPAN shall have due regard to the recommendations of the Water Forum in its exercise of powers and performance of its functions under WSIA.

### **Permits for contractors**

The effort to regulate and streamline the water services industry also includes the monitoring of the persons that undertake any related water and sewerage work.

Section 50 of WSIA requires any such persons to obtain the requisite permits from SPAN and currently there are five types of permit covering work by water plumbers, sewerage plumbers, works contractors, O & M contractors and desludging contractors.

SPAN has provided a comprehensive procedure in processing the permit applications and in so doing, it is assured the persons that are involved in the related work possess certain level of knowledge and capabilities both economically and technically thus capable of producing quality work. This has extensive repercussion as quality work will ensure less disruption in service which will translate to substantial financial savings. As for the consumers, better service will mean less disruption and frustration.

### **Conclusion**

With the enactment of WSIA, the implementation of the reform in water and sewerage services industry has been set in motion. The consumers will be the main beneficiaries of the water services industry restructuring efforts which will ensure that the industry is properly regulated and consumers' right to quality clean water and efficient service is safeguarded.

## The Water Services Industry Restructuring Initiatives

The restructuring in the water services industry was initiated by the Federal Government to provide a holistic regulation of water services industry which covers both water supply and sewerage services. The objectives of the restructuring are clearly outlined in the National Policy Objectives for the Water Services Industry (please refer to page 38). In a nutshell, the reform aims to improve the efficiency of the water services sector for the benefit of the people as well as to maintain the sustainability of this important resource.

Before the restructuring of the water services industry was initiated, the industry was under the purview of each State Government. In most cases, the State Governments own the water infrastructures and operate the water services. There are also some states, such as Selangor and Johor, where the water services operations are privatised and private concessionaires are responsible for the treating and supplying of water to consumers.

The industry was not centrally regulated, resulting in the varying degree of quality of water supply and services, and differing water charges from state to state. In the states where the water services are privatized, operations are fragmented with several private operators involved in providing water supply to the states which is highly inefficient.

The industry is also facing problems meeting the escalating costs of developing new water infrastructure, resulting in most States having to borrow from the Federal Government for capital expenditure (CAPEX). To compound the problem, some States are experiencing eroding mainstream revenue following rising operational expenses and high non revenue water. Many face difficulty covering their costs and in some states, even operational expense (OPEX) is not met. Caught in this financial conundrum, it is not easy to continue to provide quality service to the consumers.

Instead of borrowing from the Federal Government, some states resorted to privatising the water services. The plus side to privatisation is that services often improve however it is not without a cost. These operations are funded predominantly by private debts and the expensive financial cost is passed on to consumers as higher water charges.

It is obvious that the water industry is facing many problems including poor management, but chief of it is financial. However, the Government's resources are limited, and proper financial planning needs to be implemented to ensure the sustainability of the water services industry. Without the financial means to properly maintain and upgrade the water infrastructure, the country is unnecessarily exhausting its precious water resources.

## Working Towards A New Water Services Industry - Effecting Legislative Changes

In early 2003, the Federal Government stepped up efforts to reform the industry for the benefit of all stakeholders including the Federal Government, consumers and the State Government. It was an extensive process which included making amendments to the Constitution and passing of new legislations to enable the Government to mobilize the reform.

In January 2005, Parliament approved the amendments to the Ninth and Tenth Schedules of the Federal Constitution. The amendment to the Ninth Schedule involves the transfer of water supplies and services from the State List to the Concurrent List. In other words, the water supplies and services is now a shared responsibility between the State and the Federal Government. It is a pertinent move which gives the Federal Government authority over the water services in the States. The Tenth Schedule was also amended and as a result, the revenue from water supplies & services (previously assigned to the States) is now assigned to the Federal Government.

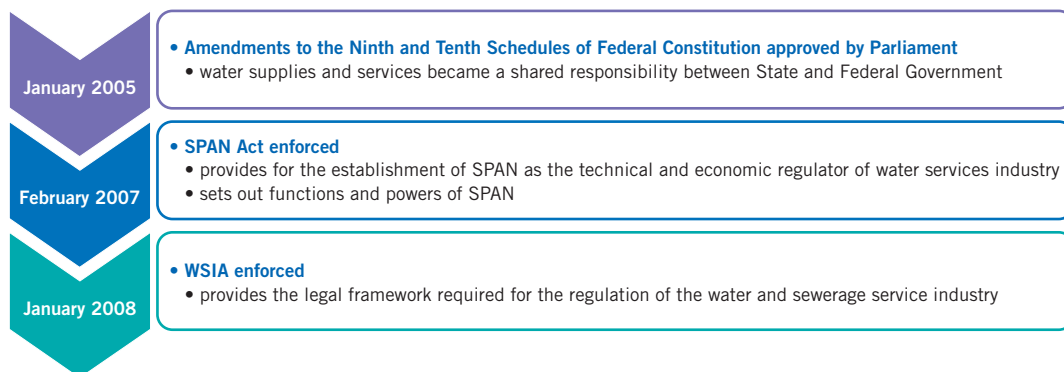


Consequently, with effect from 21 March 2005: -

- (i) The Federal Government will regulate the water supply and services industry but ownership and control of rivers, canals and water catchment remains with the State.
- (ii) The State also retains power to declare and regulate water catchment areas, water sources and river basins.

In July 2006, further to the amendments to the Constitution, Parliament passed two new legislations namely the Suruhanjaya Perkhidmatan Air Negara Act 2006 and Water Services Industry Act 2006 (Act 655) (WSIA). The former provides for the establishment of Suruhanjaya Perkhidmatan Air Negara (SPAN) or National Water Services Commission as the technical and economic regulator and set out the function and powers of SPAN.

WSIA, on the other hand, provides the legal framework required for the regulation of the water and sewerage service industry. The Acts were enforced in February 2007 and January 2008 respectively.





## The New Model

### Separation of responsibilities: towards better efficiency

The legislative process was only the tip of the iceberg. Given that the current business model adopted by most State water operators does not promote sustainability of the water services industry, the Federal Government had to reinvent the wheel. A new model was developed, targeting to resolve the financial woes of the water services industry, promote financial sustainability in the State water operators, and alleviate the Federal Government/taxpayers' financial burden. In the long run, the Federal Government wants the state operators to achieve full cost recovery and attain financial independence. These efforts, will ultimately lead to improvement in the quality of water supply and the efficiency of the industry's services.

Under the new model, there will be a separation of responsibilities between water asset owners and operators. State water operators will be transformed into asset-light entities as all their water assets will be sold to PAAB. Henceforth, State water operators will focus solely on providing water services for the consumers and improving their operational efficiency. They will lease the water assets from PAAB for operation and maintenance. State water operators will also no longer be responsible for developing water infrastructure and sourcing for its funding. These responsibilities will be transferred to PAAB instead.



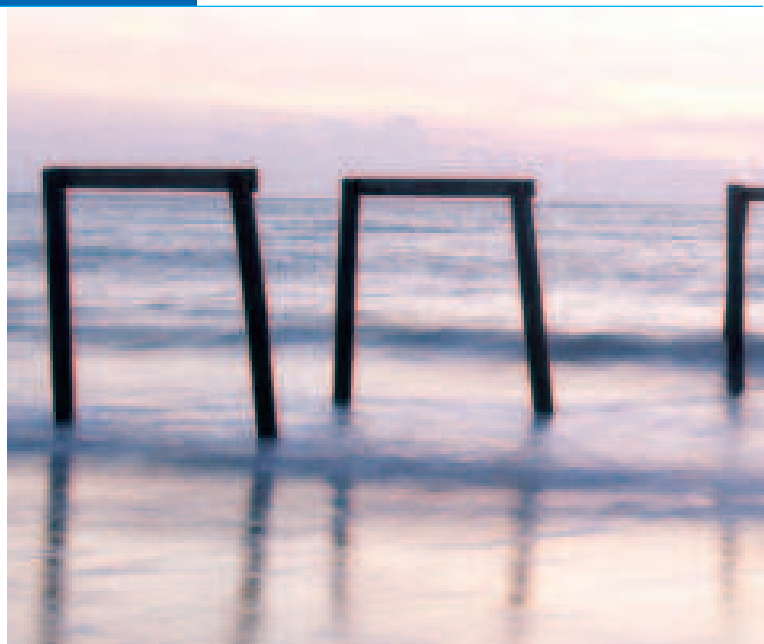
### How it works

Under this arrangement, PAAB will first take over the existing water assets in the States to transform the state water operators into asset-light entities.

PAAB, on the other hand, will become water assets owners after buying the water infrastructure from the states. In exchange for the assets, PAAB will assume the States' outstanding Federal water supply loans of an equivalent sum. (However, for some states where the value of the water assets is more than the outstanding loan amount, the surplus value will be taken into consideration and the settlement terms will be negotiated.)

By transferring the loans to PAAB, the State Governments will be immediately relieved of the heavy burden of settling the Federal water supply loans. The Federal Government, on the other hand, will own the States' water infrastructures via PAAB, enabling it to have better control over the water industry.

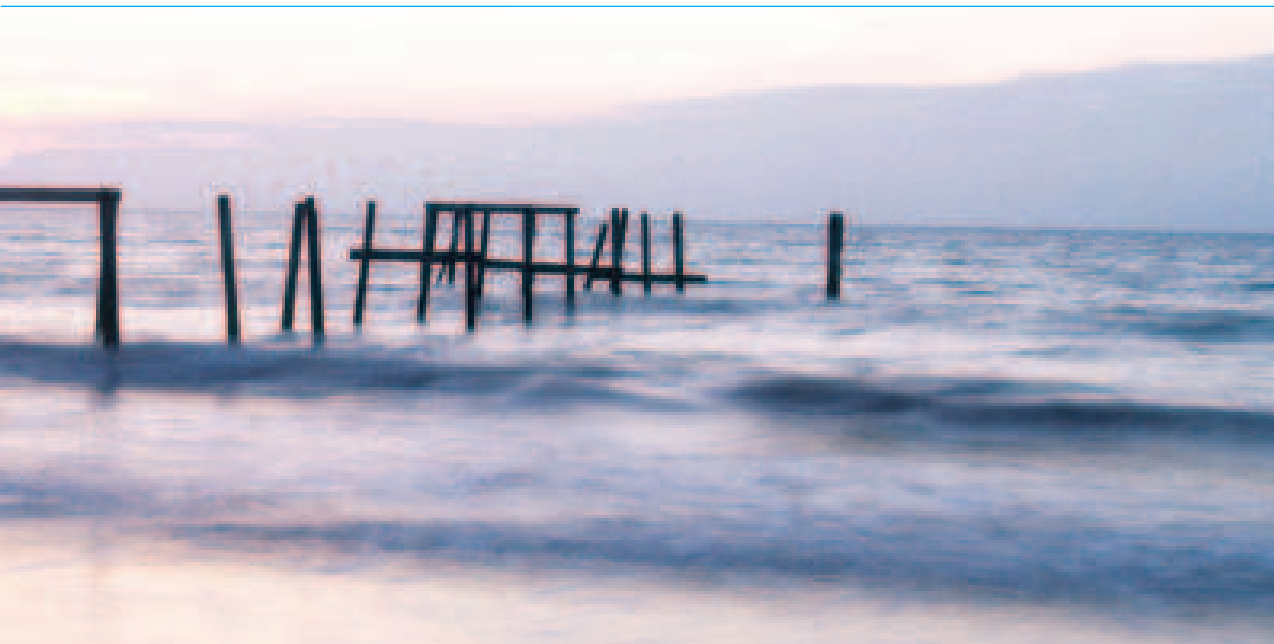
After the transfer of assets, the State Governments will continue to be responsible for providing water supply services in the states. However, instead of owning the water assets, the State water operators (Service Licensee) will lease these assets back from PAAB (Facilities Licensee) for operation and maintenance. With the lease income, PAAB will try to repay the Federal Government loan (which it will take over from States) over time.



### Financial benefits

Apart from the improvement in efficiency operation wise, the nation will also benefit from the better efficiency in funding. In the past, funding for water assets development were either in the form of Federal Government loans and allocations or, in the case of private concessionaires, private debts (e.g. bonds, commercial loans). These two modes were not very effective because the Federal Government loans were often not serviced and sometimes insufficient, while the latter were usually obtained at an expensive rate.

To overcome these shortcomings, PAAB was established to source for funding for water infrastructure development. As a Government-owned company, PAAB is eligible for more favourable financing rates as compared to the concessionaires that raise funds as a private company and unlike in the past, funds will be raised to meet the demand for the water infrastructure development. The financial benefits arising from this structure will be shared with the consumers through lower tariff rates.



### **Constant monitoring**

Under the WSIA licensing framework, operators of water assets are required to apply to SPAN for a Service License. To qualify for this license, operators will have to meet the Key Performance Indicators and strict requirements set by SPAN. The careful monitoring by SPAN will ensure that operators continue to perform to the required standards to provide quality service and water supply to the consumers.

### **Conclusion**

Although the Water Services Industry Restructuring exercise is still at its infancy, it will bring tremendous benefits to the industry and consumers once it is fully implemented. The success of the reform will depend on the co-operation from all stakeholders including the Federal Government, State Governments, PAAB, consumers as well as the water operators.

### **Benefits of the restructuring**

#### **Consumers:**

- More efficient services and better quality water supply

#### **State:**

- State Government relieved of the heavy financial burden to develop water assets
- State Government relieved of settling the water supply loan owing to the Federal Government
- State water operators can focus solely on providing water treatment and distribution services, and concentrate on achieving operational efficiencies.
- State operators can work towards full cost recovery and financial independence in the long term

#### **Federal Government:**

- Relieved of the obligation to provide funding to States for the construction of new water infrastructure
- Have a uniformly regulated water services industry

## National Policy Objectives

The National Policy Objectives for the water supply and sewerage services industry are as follows:

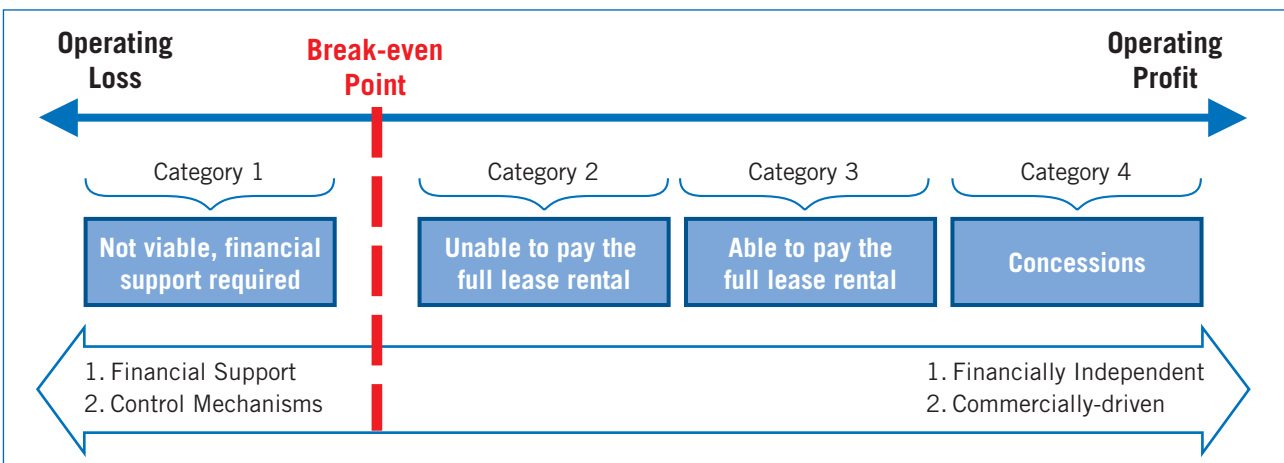
1. To establish a transparent and integrated structure for water supply and sewerage services that delivers effective and efficient services to consumers;
2. To ensure long term availability and sustainability of water supply including the conservation of water;
3. To contribute to the sustainability of watercourses and water catchments;
4. To facilitate the development of competition to promote economy and efficiency in water services industry;
5. To establish a regulatory environment which facilitates financial self-sustainability amongst the operators in water services industry in the long term;
6. To regulate for the long-term benefit of the consumers;
7. To regulate tariff and ensure the provision of affordable water services on an equitable basis;
8. To improve the quality of life and environment through the effective and efficient management of water services;
9. To establish an effective system accountability and governance between operators in water services industry; and
10. To regulate the safety and security of water services systems.

# Restructuring Templates For Water Services Industry Reform

In assisting SPAN to restructure the nation's water industry, PAAB has developed restructuring templates to facilitate the existing water operators' progression into the new industry framework as envisioned by the Government. These restructuring templates have been approved for implementation by the Government in August and September 2007.

A systematic approach is adopted in formulating the restructuring templates and it involves classifying the water operators into the following general categories: -

- (i) Category 1 - water operators that are financially less viable where operating expenditure (OPEX) has to be subsidised.
- (ii) Category 2 - water operators that can only afford to partially pay the lease rentals.
- (iii) Category 3 - water operators that can afford to pay the full lease rentals charged.
- (iv) Category 4 - privatized water operators that are subjected to the terms of their respective concession agreements.



The templates are standard for each category but are modified accordingly to take into consideration each water operator's distinctive characteristics and the unique circumstances surrounding it.

Generally, the restructuring templates become more market-driven with less control mechanisms as the water operator moves from an operating loss position towards operating profit. For example, the water operators under Categories 1 and 2 are likely to be less financially independent and may require forbearance from PAAB in making their lease payments. Hence, the lease terms are likely to include more stringent controls to ensure that PAAB's interests are protected at all times. However, to incentivise and encourage the water operator to move towards a sustainable model (which is one of the objectives of the water industry restructuring efforts), the stringent controls are revised and relaxed as the operator's performance improves and approaches financial independence.

Some of the controls include a revenue management mechanism to instill fiscal prudence and encourage financial efficiency. For Category 1 operators, a Business Turnaround Committee chaired by a PAAB-appointed representative is also established to drive the business towards financial viability.

The classifying of water operators also provides a reference and benchmark for PAAB in its negotiations on the leasing terms with the water operators.

Overall, it is PAAB's intention to derive a win-win sale and leaseback arrangement with the water operators, to help the Government achieve its goal to improve the efficiency and quality of the nation's water services.

## Selected Events 2008

Date	Event
1 January	PAAB granted temporary exemption from holding Facilities License under the Water Services Industry (Licensing)(Exemption)(No. 2) Order.
30 January	PAAB briefs Exco Members of Perak.
3 April	PAAB issues inaugural Annual Report.
14 April	PAAB signs Memorandum Of Agreement (MOA) for Consultancy Services for Langkat 2 Water Treatment Plant and Water Reticulation System project.
24 April	PAAB holds inaugural briefing to analysts and fund managers on PAAB's progress.
2 May	Technical visit to SAJ Holdings Sdn Bhd, Johor.
5 May	Technical visit to Jabatan Bekalan Air Pahang.
15 May	Technical visit to Syarikat Air Melaka Berhad.
29 May	Technical visit to Jabatan Bekalan Air Negeri Sembilan.
09 June	Technical visit to Syarikat Air Terengganu Sdn Bhd.
11 June	Technical visit to Air Kelantan Sdn Bhd.
23 July	Technical visit to Perbadanan Bekalan Air Pulau Pinang Sdn Bhd.
28 July	Technical visit to Jabatan Bekalan Air Kedah.
1 August	SPAN and PAAB briefs Menteri Besar of Selangor on the water industry restructuring proposal.
6 August	Technical visit to Jabatan Kerja Raya Perlis, Perlis.
26 August	Technical visit to Jabatan Bekalan Air Labuan.
18 September	SPAN and PAAB brief Chief Minister of Pulau Pinang on the water industry restructuring proposal.
9 October	Technical visit to Public Utilities Board, Singapore.
14 November	PAAB signs RM3 billion loan facility agreement with CIMB Bank.
27 November	Notation of Melaka's asset transfer and restructuring terms by Federal Cabinet.
17 December	PAAB acquires first tranche of water assets - from State of Melaka.
31 December	PAAB acquires second tranche of water assets - from State of Negeri Sembilan.

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## Directors' Report and Audited Financial Statements

31 December 2008



# Directors' Report

## DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are managing and developing the nation's water and sewerage infrastructure assets. There have been no significant changes in the nature of the principal activities during the financial year.

## RESULT

	<b>RM</b>
Profit for the year	<u>2,308,318</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

The result of the operation of the Company during the financial year was not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

## DIVIDEND

No dividend has been declared or paid by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividend for the current financial year.

## DIRECTORS

The names of the directors in office since the date of the last report and at the date of this report are:

Dato' Halipah binti Esa  
Dato' Puteh Rukiah binti Abd Majid  
Suhaimi bin Kamaralzaman  
Datuk Wira Ahmad Rusli bin Joharie  
Tan Sri Dr Wan Abdul Aziz bin Wan Abdullah (resigned on 16 June 2008)  
Dato' Dr Hj. Halim bin Man  
Mohd Radzi bin Hussein

In accordance with Article 63 of the Company's Articles of Association, Suhaimi bin Kamaralzaman and Datuk Wira Ahmad Rusli bin Joharie shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 5 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## DIRECTORS' INTEREST

None of the directors in office at the end of the financial year had any interest in shares in the Company during the financial year.

## ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from:

- (a) RM103,100,002 to RM243,100,002 on 13 February 2008 by way of the issuance of 140,000,000 ordinary shares of RM1 each for cash for additional working capital purposes.
- (b) RM243,100,002 to RM410,000,000 on 4 August 2008 by way of the issuance of 166,899,998 ordinary shares of RM1 each for cash for additional working capital purposes.

## OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Company were made out, 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 satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
  - (i) any amount to be written off as bad debts or provided for as doubtful debts in the financial statements of the Company; and
  - (ii) the values attributed to the current assets in the financial statements of the Company misleading.

## OTHER STATUTORY INFORMATION (cont'd)

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
  - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

## SIGNIFICANT EVENTS

The details of significant events are as disclosed in Note 13 to the financial statements.

## AUDITORS

The auditors, Saifudin & Co., have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 12 March 2009.

DATO' DR HJ. HALIM BIN MAN  
Kuala Lumpur

SUHAIMI BIN KAMARALZAMAN

## Statement by Directors

Pursuant to Section 169 (15) of the Companies Act, 1965

We, DATO' DR HJ. HALIM BIN MAN and SUHAIMI BIN KAMARALZAMAN, being two of the directors of PENGURUSAN ASET AIR BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 46 to 60 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2008 and of the results and the cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 12 March 2009.

DATO' DR HJ. HALIM BIN MAN  
Kuala Lumpur

SUHAIMI BIN KAMARALZAMAN

## Statutory Declaration

Pursuant to Section 169 (16) of the Companies Act, 1965

I, SUHAIMI BIN KAMARALZAMAN, being the director primarily responsible for the financial management of PENGURUSAN ASET AIR BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 46 to 60 are in my opinion 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 SUHAIMI BIN KAMARALZAMAN  
at KUALA LUMPUR in the  
FEDERAL TERRITORY on 12 March 2009.

SUHAIMI BIN KAMARALZAMAN

Before me,

No: W420 Faridah binti Abdul Hamid  
Pesuruhjaya Sumpah Malaysia

# Independent Auditors' Report

to the members of Pengurusan Aset Air Berhad (732544-D)  
(Incorporated in Malaysia)

## Report on the Financial Statements

We have audited the financial statements of PENGURUSAN ASET AIR BERHAD, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 46 to 60.

### *Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the applicable Financial Reporting Standards and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with applicable Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2008 and of its financial performance and cash flow for the year then ended.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirement of the Companies Act 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

## Other Matters

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

SAIFUDIN & CO.  
No. AF 1451  
Chartered Accountants

Kuala Lumpur

Date: 12 March 2009

AHMAD SAIFUDIN BIN ABDULLAH  
No. 2340/07/10 (J/PH)  
Partner

# Income Statement

for the year ended 31 December 2008

	Note	2008 RM	2007 RM
Other income	3	10,972,406	3,390,680
Administrative expenses	4	(4,300,951)	(2,475,636)
Other operating expenses		(3,123,137)	(1,367,502)
Profit/(Loss) before tax	5	3,548,318	(452,458)
Taxation	6	(1,240,000)	–
Profit/(Loss) for the year		2,308,318	(452,458)

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

# Balance Sheet

as at 31 December 2008

	Note	2008 RM	2007 RM
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	2,107,827,141	800,904
		<b>2,107,827,141</b>	800,904
<b>Current assets</b>			
Other receivables		3,188,369	371,734
Cash and cash equivalents	8	365,034,588	100,925,742
		<b>368,222,957</b>	101,297,476
<b>TOTAL ASSETS</b>		<b>2,476,050,098</b>	102,098,380
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	9	410,000,000	103,100,002
Retained profits/(Accumulated losses)	10	1,131,646	(1,176,672)
<b>Total Equity</b>		<b>411,131,646</b>	101,923,330
<b>Non-current liabilities</b>			
Borrowings	11	1,982,111,562	–
Other payables	12	39,731,514	–
		<b>2,021,843,076</b>	–
<b>Current liabilities</b>			
Other payables	12	41,835,376	175,050
Provision for taxation		1,240,000	–
		<b>43,075,376</b>	175,050
<b>Total liabilities</b>		<b>2,064,918,452</b>	175,050
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,476,050,098</b>	102,098,380

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

## Statement of Changes in Equity

for the year ended 31 December 2008

	Share Capital RM	Accumulated Profit/(Losses) RM	Total RM
<b>At 1 January 2007</b>	10,000,002	(724,214)	9,275,788
Loss for the year	–	(452,458)	(452,458)
Issues of shares during the year	93,100,000	–	93,100,000
<b>At 31 December 2007</b>	103,100,002	(1,176,672)	101,923,330
<b>At 1 January 2008</b>	103,100,002	(1,176,672)	101,923,330
Profit for the year	–	2,308,318	2,308,318
Issues of shares during the year	306,899,998	–	306,899,998
<b>At 31 December 2008</b>	410,000,000	1,131,646	411,131,646

# Cash Flow Statement

for the year ended 31 December 2008

	2008 RM	2007 RM
<b>Cash Flows From Operating Activities</b>		
Profit/(Loss) before tax	3,548,318	(452,458)
Adjustments for:		
Depreciation	253,855	105,559
Interest income	(10,958,806)	(3,367,060)
Operating loss before working capital changes	(7,156,633)	(3,713,959)
Decrease/(Increase) in other receivables	21,896	(251,736)
Increase/(Decrease) in other payables	130,610	(684,270)
Net cash used in operating activities	(7,004,127)	(4,649,965)
<b>Cash Flows From Investing Activities</b>		
Interest received	8,120,275	3,265,281
Purchase of plant and equipment	(43,907,300)	(906,463)
Net cash (used in)/generated from investing activities	(35,787,025)	2,358,818
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of shares	306,899,998	93,100,000
Net cash generated from financing activities	306,899,998	93,100,000
<b>Cash And Cash Equivalents:</b>		
Net increase during the year	264,108,846	90,808,853
At beginning of the year	100,925,742	10,116,889
At end of the year	365,034,588	100,925,742

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

## 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is wholly owned by the Minister of Finance, Incorporated. The addresses of the registered office and principal place of business of the Company are as follows:

Registered office: Tingkat 12, Bangunan Setia 1  
15, Lorong Dungun  
Bukit Damansara  
50490 Kuala Lumpur.

Principal place of business: Tingkat 24, Menara Multi-Purpose  
Capital Square  
No. 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur.

The principal activities of the Company are managing and developing the nation's water and sewerage infrastructure assets.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 12 March 2009.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial statements of the Company have been prepared under the historical cost basis, unless otherwise indicated in the accounting policies below, and comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia.

The financial statements of the Company are expressed in Ringgit Malaysia ("RM").

### (b) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the economic benefits associated with that item will flow to the Company and the cost of each item can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance are charged to the financial statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and impairment losses.

The policies for the recognition and measurement of impairment losses are in accordance with Note 2(c).

Freehold land and project-in-progress are not depreciated. Depreciation of other plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Office renovation	20%
Furniture and fittings	20%
Office equipment	20%
Computer equipment	33%
Motor vehicles	20%
Water assets	45 years

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (b) Property, Plant and Equipment and Depreciation (cont'd)

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is recognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

### (c) Impairment of Non-Financial Assets

The carrying amounts of assets, other than deferred tax assets and non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a prorata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

### (d) Financial Instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

#### (i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash in hand, cash at banks and deposits at call.

#### (ii) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (d) Financial Instruments (cont'd)

#### (iii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

#### (iv) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### (e) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

### (f) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (g) Employee Benefits

#### (i) Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### (ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

### (h) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand and at bank and fixed deposits with licensed banks.

### (i) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

### (j) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following note to financial statements:

Note 6 - recognition/non-recognition of deferred tax assets.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (k) Financial Risk Management Objectives and Policies

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's businesses whilst managing its interest rate, liquidity and credit risks. The Company operates within clearly defined guidelines that are approved by the Board and the Company's policy is not to engage in speculative transactions.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

#### (i) Foreign Currency Risk

The Company operates predominantly in Malaysia and transacts mainly in Malaysian Ringgit. As such, it is not exposed to any significant foreign currency risk.

#### (ii) Fair Values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date approximated their fair values due to relatively short term maturity of these financial instruments.

#### (iii) Interest Rate Risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company does not have any interest bearing borrowings as at the end of the financial year and as such is not exposed to the effect from changes in market interest rate on interest bearing debts and assets.

The investment in financial assets is short term in nature and they are not held for speculative purposes but have been placed in fixed deposits with licensed banks which yield better returns than cash at bank.

#### (iv) Credit Risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Company's associations to business partners with high creditworthiness.

The Company does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

#### (v) Liquidity Risk

The Company actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

# Notes to the Financial Statements (cont'd)

31 December 2008

## 3. OTHER INCOME

Included in other income are the following:

	2008 RM	2007 RM
Interest income	10,958,806	3,367,060
Registration fees	6,400	11,620
Tender fees	7,200	12,000
	<b>10,972,406</b>	<b>3,390,680</b>

## 4. ADMINISTRATIVE EXPENSES

Included in administrative expenses are employee benefit expenses as follows:

	2008 RM	2007 RM
Salaries and wages	2,557,886	1,429,901
Contributions to defined contribution plan	438,340	245,302
Social security contributions	14,710	8,800
Other benefits	393,784	204,982
	<b>3,404,720</b>	<b>1,888,985</b>

## 5. PROFIT/(LOSS) BEFORE TAX

Profit/(Loss) for the financial year is arrived after charging/(crediting):

	2008 RM	2007 RM
Auditors' remuneration		
- Statutory audits	30,000	7,500
- Other services	40,000	-
Depreciation	253,855	105,559
Directors' emoluments	729,718	544,420
Rental of office premises	769,658	463,903
Interest income	<b>(10,958,806)</b>	<b>(3,367,060)</b>

Included in directors' emoluments is the executive director's remuneration amounting to RM601,927 (2007 : RM427,834).

## 6. TAXATION

	<b>2008</b> <b>RM</b>	<b>2007</b> <b>RM</b>
Income tax expense	<b>1,240,000</b>	–

Income tax is calculated at the Malaysian statutory tax rate of 26% (2007: 27%) of the estimated assessable profit for the year. The statutory tax rate will be reduced to 25% effective from year of assessment 2009.

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	<b>2008</b> <b>RM</b>	<b>2007</b> <b>RM</b>
Profit/(Loss) before tax	<b>3,548,318</b>	(452,458)
Income tax at Malaysian statutory tax rate of 26% (2007: 27%)	<b>922,563</b>	(122,164)
Tax effects arising from:		
Non-deductible expenses	<b>317,437</b>	122,164
Income tax expense for the year	<b>1,240,000</b>	–

As at 31 December 2008, the Company has a potential deferred tax benefit arising from tax losses and unutilised capital allowances approximately RM158,000 (2007: RM165,000) and RM210,229,000 (2007 : RM53,000) respectively, the effects of which are not included in the accounts as there is no assurance beyond any reasonable doubt that future taxable income will be sufficient to allow the benefit to be realised. The increase in unutilised capital allowances is due to capital allowance from water assets amounting approximately RM210,131,000 (2007 : NIL).

# Notes to the Financial Statements (cont'd)

31 December 2008

## 7. PLANT AND EQUIPMENT

	Office renovation RM	Furniture and fittings RM	Office and computer equipment RM	Motor vehicles RM	Project in progress RM	Water Assets RM	Total RM
<b>As at 31 December 2008</b>							
Cost:							
At							
1 January 2008	75,604	23,484	237,097	570,278	–	–	906,463
Additions	5,065	1,900	197,821	89,454	5,679,745	2,101,306,107	2,107,280,092
At							
31 December 2008	80,669	25,384	434,918	659,732	5,679,745	2,101,306,107	2,108,186,555
Accumulated depreciation:							
At 1 January 2008	8,580	699	42,463	53,817	–	–	105,559
Charge for the year	15,885	4,852	105,627	127,491	–	–	253,855
At							
31 December 2008	24,465	5,551	148,090	181,308	–	–	359,414
Net Book Value	56,204	19,833	286,828	478,424	5,679,745	2,101,306,107	2,107,827,141

	Office renovation RM	Furniture and fittings RM	Office and computer equipment RM	Motor vehicles RM	Total RM		
<b>As at 31 December 2007</b>							
Cost:							
At 1 January 2007			75,604	23,484	237,097	570,278	906,463
Additions			–	–	–	–	–
At 31 December 2007			75,604	23,484	237,097	570,278	906,463
Accumulated depreciation:							
At 1 January 2007			8,580	699	42,463	53,817	105,559
Charge for the year			–	–	–	–	–
At 31 December 2007			8,580	699	42,463	53,817	105,559
Net Book Value			67,024	22,785	194,634	516,461	800,904

## 8. CASH AND CASH EQUIVALENTS

	2008 RM	2007 RM
Cash and bank balances	314,588	90,455
Fixed deposits with licensed banks	364,720,000	100,835,287
	<b>365,034,588</b>	100,925,742

The deposits with licensed banks have an average maturity of 102 days (2007: 25 days) and average effective interest rate of 3.50% (2007: 3.48%).

## 9. SHARE CAPITAL

	2008 RM	2007 RM
Authorised:		
Ordinary shares of RM1 each At 1 January/31 December	<b>1,000,000,000</b>	1,000,000,000
Issued and fully paid:		
Ordinary shares of RM1 each At 1 January	103,100,002	10,000,002
Issued during the year	306,899,998	93,100,000
At 31 December	<b>410,000,000</b>	103,100,002

## 10. RETAINED PROFITS/(ACCUMULATED LOSSES)

As at 31 December 2008, the Company does not have any tax credit under Section 108 of the Income Tax Act, 1967 to frank any payment of dividends out of its retained earnings.

## 11. BORROWINGS

	2008 RM	2007 RM
Loans from GoM	1,982,111,562	-
	<b>1,982,111,562</b>	-

The above loans from Government of Malaysia ("GoM") are federal loans taken over from the States of Melaka and Negeri Sembilan and are unsecured, interest-free and have no fixed terms of repayment.

# Notes to the Financial Statements (cont'd)

31 December 2008

## 12. OTHER PAYABLES

	<b>2008</b>	<b>2007</b>
	<b>RM</b>	<b>RM</b>
Amount due to State Government of Melaka	<b>39,731,515</b>	–
Other payables	<b>305,661</b>	175,050
Contract creditors:		
Retention sum	<b>250,600</b>	–
Progress claim	<b>1,547,600</b>	–
	<b>41,835,376</b>	175,050

Amount due to State Government of Melaka:

	<b>2008</b>	<b>2007</b>
	<b>RM</b>	<b>RM</b>
Repayment within 12 months	<b>39,731,515</b>	–
Repayment after 12 months	<b>39,731,514</b>	–
	<b>79,463,029</b>	–

Amount due to State Government of Melaka is the differential sums payable for the acquisition of water assets. The amount are unsecured, interest-free and repayable on 24 December 2009 and 24 December 2010.

## 13. SIGNIFICANT EVENTS

The Company has completed the acquisition of water assets and federal loans for the States of Melaka and Negeri Sembilan on 17 December 2008 and 31 December 2008 respectively. The water assets and federal loans granted to those States which were acquired by the Company during the financial year 2008 have been reflected in the financial statements for the current financial year.



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