



Pengurusan Aset Air

# WATER FOR SUSTENANCE

ANNUAL REPORT 2019



## COVER RATIONALE

The availability of clean water creates and enables infinite opportunities, supports economies and livelihoods, and nourishes nature and people. At PAAB, our single-minded pursuit as the custodian of Malaysia's water assets is to help build an ecosystem spearheaded by excellent water infrastructure to enable the sustainable supply of clean treated water for the benefit of all stakeholders. As one of the most critically important resources that drives growth, PAAB is committed to ensuring Water for Sustenance for the nation and its people.



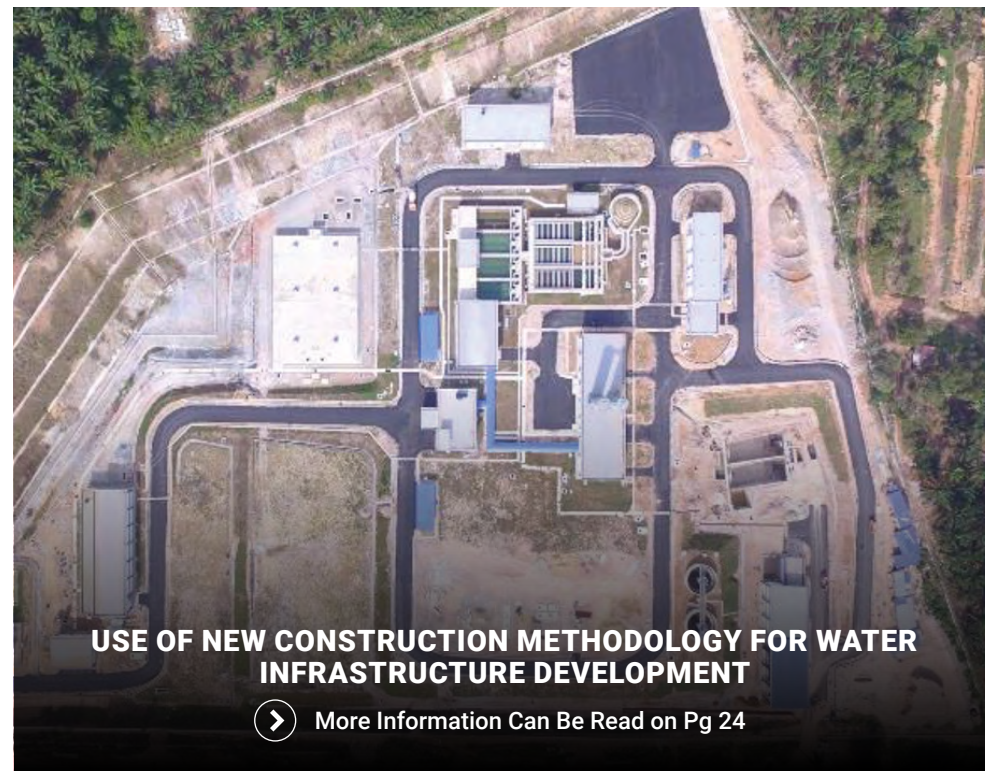
### FEEDBACK

We need your feedback to make sure we are covering the things that matter to you. For the feedback form, scan the QR Code with your smartphone. You can also email to [comms@paab.my](mailto:comms@paab.my)



### BUKIT SEMBILAN BALANCING RESERVOIR (9 ML)

➤ More Information Can Be Read on Pg 26



### USE OF NEW CONSTRUCTION METHODOLOGY FOR WATER INFRASTRUCTURE DEVELOPMENT

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### MESSAGE FROM CHAIRMAN

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# ABOUT US

ABOUT US

## CORPORATE PROFILE >>

**PENGURUSAN ASET AIR BERHAD (PAAB)** was established on 5<sup>th</sup> May 2006 as a wholly owned company under Minister of Finance Incorporated. PAAB forms part of the Federal Government's efforts to restructure the water services industry in the country to achieve better efficiency and quality.

Our primary responsibility is to develop the nation's water infrastructure in Peninsular Malaysia and the Federal Territories of Putrajaya and Labuan in line with the Water Service Industry Act 2006 (Act 655).

We are tasked with the following objectives:

**Construct, refurbish, improve, upgrade, maintain and repair water infrastructure and all other assets in relation to the water systems.**

**Source and obtain competitive financing for the development of the nation's water assets and lease such assets to water operators licensed by 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.**

The Company has an authorised capital of RM1 billion and currently, the paid-up capital is at RM660 million.

We are committed to support the Government in achieving its national policy objectives for the water supply and sewerage services industry.

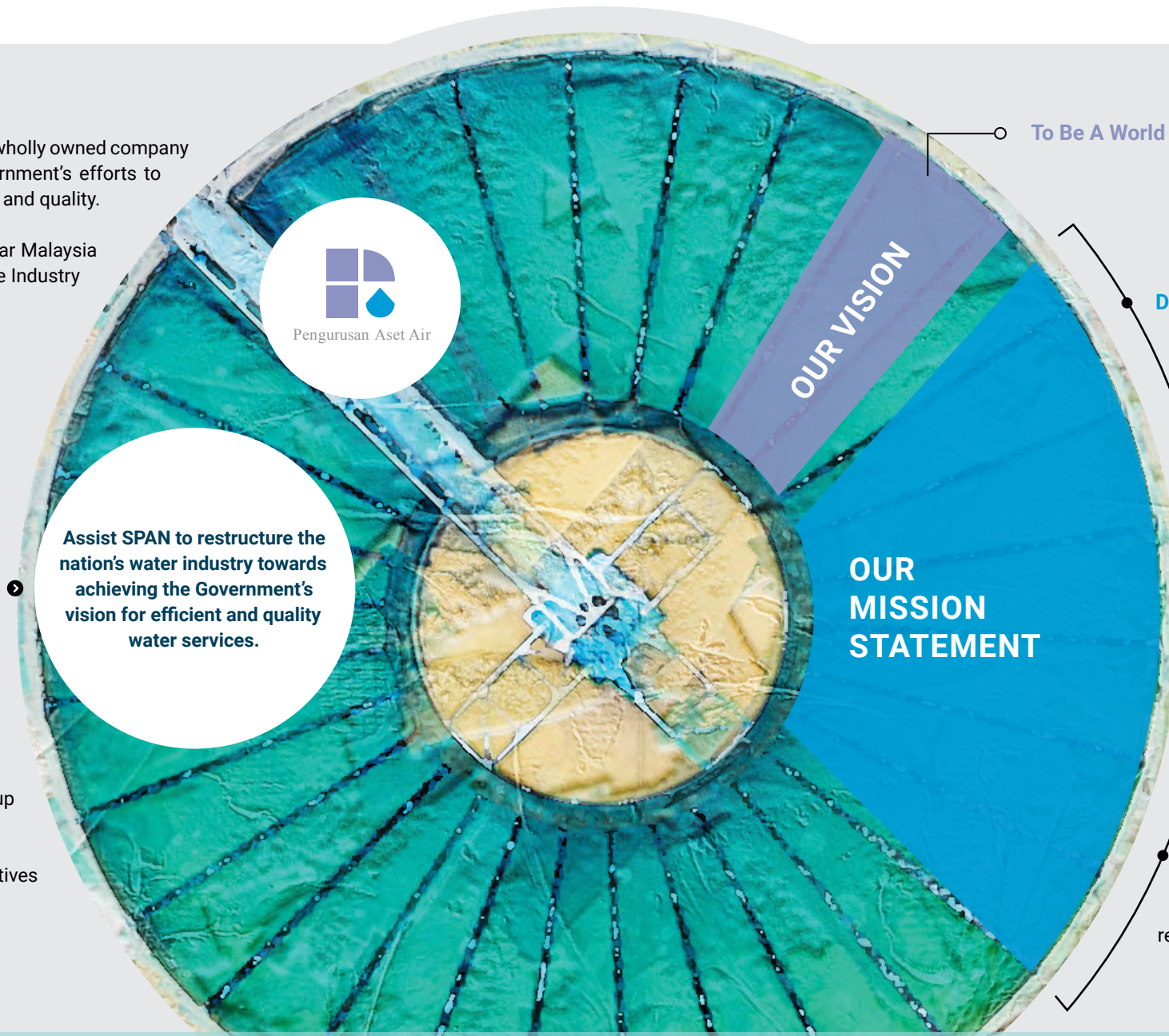
## KEY FOCUS AREAS >>

**Innovation Excellence**  
Enabling new ideas and solutions for sustainable growth.

**Operational Excellence**  
Striving for optimum efficiency across all of our operating processes.

**People Development**  
Enabling our people to achieve a culture of continuous improvement

**Stakeholder Management**  
Realising stakeholders' interest via close engagement.



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

**OUR VISION**

**OUR MISSION STATEMENT**

**Develop water asset infrastructure to be funded at competitive market rates**

The Company is committed to develop the water asset infrastructure for the country. Funding the development at competitive market rates helps ensure sustainability in CAPEX implementation which in turn, would benefit the Company and the industry as a whole.

**Operate the business based on the international standard procedures**

The day-to-day business operation will be based on the best standard practice accepted by the international market. This will lead the Company to be a world class and ISO certified Company.

**Empowering human resources to meet future industry demand**

The Company continues to depend on talented personnel to carry out the day-to-day activities with efficiency & effectiveness to ensure the Company's success in the long run.

**Contributing relevant expertise in order to meet the stakeholder's expectations**

Being a key player in the water industry, the Company is committed to contribute relevant expertise in order to achieve sustainable growth for the Company.

On behalf of the Board,

I am pleased to present a summary of PAAB's achievements and progress of PAAB's initiatives during the year with regard to the water industry restructuring exercise in Peninsular Malaysia and the Federal Territory of Labuan.

We have progressively acquired water assets and related liabilities from state water operators, assumed the respective states' novated government loans and funded the water infrastructure of migrated states. A total of eight states have migrated –

Against this backdrop, Pengurusan Aset Air Berhad (PAAB) also reported strong performance in 2019, recording strong growth in profit after tax of RM221 million for the Financial Year Ended 31 December 2019, reduced by 25% as compared to FYE 31 December 2018 (or albeit slight reduction compared to FYE 31 December 2018). PAAB's shareholders' fund rose to RM880 million. The Group's water assets were valued at RM23.1 billion as at 31 December 2019.

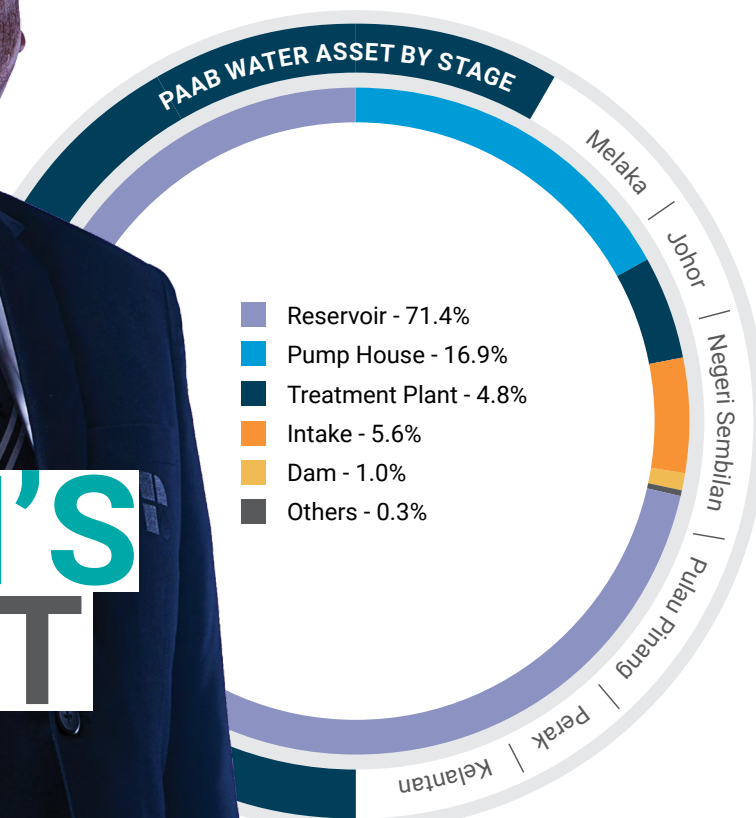
During the year, PAAB paid particular attention to continuing our ongoing initiatives to develop the water infrastructure required for clean, treated water. We built on our initiatives to achieve progress in continuing the journey to become a world class water asset provider by working on effective implementation of water development projects. We also sought to maintain operational and cost efficiency.

The world went through challenging times in 2019 as a result of prolonged trade war and the Brexit process that affected the global trade and economy. The global economy recorded its lowest growth of the decade, falling to 2.3% in 2019. The year ended with the start of COVID-19 pandemic which spread to many countries around the world posing further pressure on the global economy.

Despite these challenges, Malaysia's Gross Domestic Product (GDP) remained resilient and grew 4.3% in 2019. The growth was partly because the government had put in place policies that were accommodative of sustainable social and economic activities.



# CHAIRMAN'S STATEMENT



To date, PAAB has taken over 1,912 water assets and 43,319-kilometer pipelines in the migrated states. In terms of water supply system capacity, PAAB now owns water treatment plants with a total capacity of 3,696 million liter per day (MLD), reservoir water storage capacity of 3,516 MLD and pipeline length of 43,319 km in migrated states.

1,912 water assets  
 Total capacity  
 3,516 MLD

### NEGERI SEMBILAN'S WATER RESTRUCTURING JOURNEY

We are particularly delighted with the progress of projects in Negeri Sembilan since its migration in 2008. Various projects, including extension, construction, rehabilitation and upgrading of water treatment plants and pipe replacements have been successfully implemented.

On 11 September 2019, pipe laying and construction work for a new reservoir at Bukit Sembilan in Negeri Sembilan, which began on 16 November 2015, was completed. The work is part of an extension of Phase 2 of the Sawah Raja Water Treatment Plant project that was proposed under the second operating period (OP2) 2012-2014.

The project is expected to meet the water supply demand of thousands of residents in Port Dickson and Rembau. To date, Syarikat Air Negeri Sembilan has completed three business operating periods (OP1-OP3) with PAAB between 2009 and 2017, while projects under OP4 are currently in progress.

Various key projects involving the extension of water treatment plants and

pipe replacements under OP1 to OP3 have been completed, while several projects involving rehabilitation and upgrading of water treatment plants and reservoirs under OP3 (2015-2017) and OP4 (2018-2020) are currently in the design stage.

### PROGRESS OF LANGAT 2 WATER TREATMENT PLANT

In Selangor, PAAB has handed over Section 1 works with a capacity of 565 million litres a day (MLD) of Langat 2 Water Treatment Plant (WTP) to Pengurusan Air Selangor Sdn Bhd (Air Selangor) following the completion of the facility on 21 December 2019.

The handover will result in an increase in Air Selangor's supply or demand buffer from about 2% to 7%, and the supply will be increased progressively. As of September 2019, Langat 2 WTP had a supply of 430 MLD.

I am grateful that overall, the Langat 2 WTP project has been progressing well, with 80.88% completion as of 31 December 2019. Its target completion deadline is in 2022, and once operational it will have an additional capacity of 1,130 MLD of treated water to meet the demand of consumers in Selangor, Kuala Lumpur and Putrajaya.

Until 2019, PAAB's central purchasing contract (CPC) has supplied water supply products to 92 CAPEX projects worth RM640 million. Introduced in 2010, PAAB CPC's objectives include ensuring continuous supply of pipes, reduce project development cost by buying products directly from manufacturers, controlling product quality and monitoring product performance.

We are positive that the progress we are making provides better value for our shareholders and our clients. Moving forward, much needs to be done to get to where we want to be. We are focused on

maintaining the momentum of delivering good results and ensuring the efficient and sustainable development of water assets.

With climate change and population growth, PAAB will innovate, adapt and overcome environmental and economic challenges to reinforce our role of building a more climate-resilient water infrastructure. We are committed to moving ahead to complete the water infrastructure exercise. We will do so by looking at emerging technologies and innovative solutions to implement water infrastructure improvement projects and make the water industry more energy-efficient.

### ACKNOWLEDGEMENTS

On behalf of the Board and PAAB, I would like to express our gratitude to the Prime Minister's Department, Ministry of Finance, Ministry of Water, Land and Natural Resources, Suruhanjaya Pehidmatan Air Negara, Economic Planning Unit, state governments, water operators and relevant ministries and agencies for their guidance and support. I would also like to thank our shareholders, clients and partners for your support on this journey and the PAAB top management team and employees for sharing your passion and team spirit to ensure the continued success of all our initiatives.

Thank You.

Datuk Seri Dr Nik Norzrul Thani  
 Nik Hassan Thani  
 Chairman

Having been on a journey of restructuring the nation's water industry for over a decade, it is exciting that Pengurusan Aset Air Berhad (PAAB) is embracing digital innovation and new technology to improve our water asset management to maximise our asset value.

Throughout 2019, PAAB strived to improve our water asset management by focusing on digital innovation and transformational leadership to allow us to respond more effectively to our operating environment and challenges.

**EMBRACING DIGITAL SOLUTIONS**

PAAB launched a Water Assets Value Enhancement (WAVE) model to implement the initiatives using innovative data management solutions for assets across our water asset development projects. The initiatives provided statistical records of our water asset portfolio and key activities in asset management, which enabled us to monitor and manage migrated and new water assets.

We introduced two data-driven management solutions to enhance our asset management database – the Water Asset Information System (@i-WA) and the Geographical Information System. Both data management solutions enabled us to monitor and manage migrated and new water assets.

Our stakeholders, especially water operators, benefitted from the systems that provided simplified water asset information and geospatial data. The data could be leveraged to make decisions to improve service delivery, sustain water resources and build water industry resilience, among others.

**WAVE can help us better evaluate PAAB's water assets, which are divided into two categories – water structure and water networks. Water structure consists of dams, water intakes, water treatment plants, pump houses and reservoirs, while water networks consist of pipelines, valves, fittings and hydrants.**



Our focus on data management solutions, which is in line with our business plan for 2018-2020 to drive innovation excellence, helped us implement a systematic approach to sustainably manage water assets. It also helped to maintain updated data that was acquired through migration and capital expenditure (CAPEX) projects, monitor maintenance works of water assets and facilitate decision-making through data on our assets.

For pipeline CAPEX projects, we assisted consultants and contractors in implementing cost-saving measures by introducing free and open-source platform GIS and sharing expertise for data conversion, resolving issues related to project costs.

**LEVERAGING NEW TECHNOLOGY**

Technology is enabling us to achieve progress in several of our key projects, including the new Pagoh Water Treatment Plant (WTP). We replaced the conventional construction method, the Cofferdam Method, with the

Caisson Method for intake construction of the Pagoh WTP. Caisson Method is a new methodology and technology used at Pagoh Intake project. This new method enabled time-savings in carrying out construction works and facilitated the movement of machinery. Given its success, we propose to use the Caisson Method for future intake construction where soil conditions are unstable.

During the year under review, PAAB participated in collaborative and knowledge-sharing activities across the water industry. We took part in a geospatial workshop by Pusat Geospatial Negara and data information-sharing with numerous water authorities including Suruhanjaya Perkhidmatan Air Negara (SPAN), Jabatan Ukur dan Pemetaan Malaysia (JUPEM) and Jabatan Bekalan Air (JBA).

We also conducted knowledge-sharing visits and exchanged ideas with SPAN, water operators, Indah Water Konsortium (IWK), Perbadanan Aset Keretapi (RAC) and Tenaga Nasional Berhad (TNB) for the development of water asset information. However, being certified with ISO 27001: 2013 Information Security Management System, we maintained the confidentiality and integrity of information and records.

**MAINTAINING LEADERSHIP-EMPLOYEE CONNECTION**

Increased transformational leadership has been a priority in developing our workforce capability as we continue to perform our role in restructuring the country's water services industry. Our leadership team has driven the Group's operational strategy and at the same time, maintained engagement with our employees.

I have personally seen the impact engagement has had in encouraging the uptake of high performance in our operations and adapting to changing roles to forge ahead with the various projects to deliver desired outcomes. I believe the activities implemented during the year have been part of our efforts to build the knowledge

and capacity of our employees to deliver improved performance and better returns for shareholders.

**EMBEDDING SUSTAINABILITY**

It is important for us to uphold the sustainability of our operations to ensure water infrastructure projects that are technologically advanced, sustainable and climate-resilient. The nation's water infrastructure must be able to address the 21<sup>st</sup> century environmental, economic and health challenges. Therefore, we are stepping up efforts to align sustainability with our business strategy to make it a core part of our business.

We are also working to address the impacts of climate change and looking at opportunities for implementing renewable energy initiatives within our water assets. While 2020 will likely be a challenging year, now is the time for us to strengthen our commitment to sustainably managing our water assets.

**ACKNOWLEDGEMENTS**

We would like to take this opportunity to thank our government stakeholders and partners at the Ministry of Finance, Ministry of Energy, Green Technology and Water, SPAN, the Economic Planning Unit and the respective state governments for their continued support. We would also like to thank the PAAB Board of Directors for your guidance and support. Furthermore, we extend our appreciation to every employee in PAAB for your resilience and commitment to contributing towards improving the nation's water infrastructure.

Thank You.

**Abdul Hadi Ali**  
Chief Executive Officer

**CEO'S MESSAGE**

1. DATUK SERI DR NIK NORZRUL THANI NIK HASSAN THANI  
CHAIRMAN

2. DATUK SITI ZAUYAH MD DESA  
DIRECTOR

3. DATO' DR HALIM MAN  
DIRECTOR

4. IR. MOHD AMINUDIN MD AMIN  
DIRECTOR

5. DATUK AMIRUDIN ABD RAHMAN  
DIRECTOR

6. DATUK SAAT ESA  
DIRECTOR

7. ANUAR MOHAMAD  
DIRECTOR

8. DATUK ZURINAH PAWANTEH  
DIRECTOR



# BOARD OF DIRECTORS

# DIRECTOR'S PROFILE

DIRECTOR'S PROFILE

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## DATUK SERI DR NIK NORZRUL THANI NIK HASSAN THANI

CHAIRMAN

**Date of Appointment**  
1 OCT 2018

**YBhg Datuk Seri Dr. Nik Norzrul Thani** was appointed the Chairman of PAAB on 1 October 2018.

Datuk Seri Dr. Nik Norzrul Thani brings with him vast experience from the corporate world where he is currently the Chairman of T7 Global Berhad and Chin Hin Group Berhad. He is also the Chairman and Senior Partner of Zaid Ibrahim & Co. (ZICO). Prior to joining ZICO, he practised with Baker & McKenzie (International Lawyers), an international law firm in Singapore. In addition, Datuk Seri Dr. Nik Norzrul Thani sits as Chairman of the Capital Market Compensation Fund.

In January 2017, he was appointed by the Ministry of International Trade & Industry as the Chairman of Malaysia-Singapore Business Council (MSBC).

His previous appointments include:

- Chairman and Director of Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
- Chairman and Director of Perodua Sales Sdn Bhd and Perodua Otomobil Kedua Sdn Bhd
- He had also previously served on the boards of Manulife Holdings Berhad and Manulife Insurance Berhad, UMW Holdings Berhad (including Chairman of UMW Manufacturing & Engineering), Fraser & Neave Holdings Berhad, MSIG Insurance (Malaysia) Bhd and Ranhill Holdings Berhad.

**Qualifications:**

- LL.B (Hons) from University of Buckingham
- LL.M from Queen Mary College, University of London
- Ph.D in Law from the School of Oriental and African Studies (SOAS), University of London and is a Barrister at Law, Lincoln's Inn.
- Post-Graduate Diploma in Syariah Law and Practice (with distinction), International Islamic University Malaysia

**Professional Memberships:**

- Chartered Institute of Marketing (United Kingdom)
- Fellow of the Financial Services Institute of Australasia (FINSIA)
- Practising Member of the Chartered Institute of Islamic Finance Professionals (CIIF).

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## DATUK SITI ZAUYAH MD DESA

DIRECTOR

**Date of Appointment**  
5 APR 2016

**Dato' Siti Zauyah Md Desa** is currently the Deputy Secretary General (Policy) at the Ministry of Finance (MOF) and she has held that position since 2 February 2016. Prior to this, she was the Director of the National Budget Office. She has held various leadership positions across different functions within the MOF, and was also seconded to the Asian Development Bank from 2003 for a period of three years as a Director's Advisor. Her career began as a Quantity Surveyor at the Public Works Department in 1982.

**Qualifications:**

- Diploma in Public Administration from the National Institute of Public Administration (INTAN)
- Master's in Business Administration (International Banking) at University of Manchester, United Kingdom.

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## DATO' DR HALIM MAN

DIRECTOR

**Date of Appointment**  
20 JUN 2014

**Dato' Dr Halim Man** is the former Secretary General of the Ministry of Energy, Green Technology and Water, Malaysia. Dato' Dr. Halim has served the Government of Malaysia for more than 35 years and has held various senior management positions such as the Director of INTAN, the Registrar/General Manager (Administration) University of Malaya, Malaysia and the Deputy Secretary General of the Ministry of Energy, Water and Communications.

He has wide expertise and experience in the development of policy on national water and sewerage and significantly involved in the pioneering efforts to restructure the water industry since 2006. He is currently the Chairman and Corporate Advisor of a private company in Kuala Lumpur.

His previous appointments included stints on the Boards of Bank Simpanan Nasional (BSN), Telekom Smart School Sdn. Bhd., Multimedia Development Corporation (MDC), Multimedia University (MMU), Malaysia-Thailand Joint Development Authority (MTJA), Yayasan Inovasi Malaysia and Malaysia Energy Centre (PTM). During his leadership at PTM, Dato' Dr. Halim initiated the establishment of Malaysia Green Technology Corporation, an agency tasked with planning and implementation of green technology programmes in Malaysia.

He has also served as a Member of the Malaysian Communications and Multimedia Commission (MCMC) and as Commissioner of National Water Services Commission (SPAN).

**Qualifications:**

- Bachelor of Arts and Social Sciences (BA) (Hons), Universiti Malaya.
- Master of Public Administration (MPA), University of Southern California, Los Angeles
- Doctor of Philosophy (PhD) degree in Human Resource Management and Business Strategy, University of Birmingham, United Kingdom

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## IR. MOHD AMINUDIN MD AMIN

DIRECTOR

**Date of Appointment**  
16 JUN 2014

**Ir. Mohd Aminudin Md Amin** is the former Director of Corporate Management Branch, JKR Headquarters, a position he retired from on 15 August 2013. During his service, he has held the positions of Director of Complex Project Management Branch, Head of Structural Engineering Forensic Unit, Head of Concrete Pavement Research Unit (IKRAM), District Engineers of Klang and Kuala Langat, Project Manager and as a Structural Designer. He has also been seconded to KL International Airport Berhad (KLIAB) from 1995 till 2000, as a Construction General Manager and Head of KLIAB Central Laboratory.

Ir. Mohd Aminudin started his career with Jabatan Kerja Raya (JKR) Malaysia on 15 August 1979 as a Project Engineer in the East-West Highway Project, Gerik/Jeli.

**Qualifications:**

- Bachelors of Civil Engineering, University of Salford, England
- Masters of Science (MSc) in Structural Engineering, University of Strathclyde, Scotland.
- Registered Professional Engineer (PE) with the Board of Engineers Malaysia
- Certified Practising Project Director (CPPD, 2010-2013) by the Australian Institute of Project Management.

## DIRECTOR'S PROFILE

## DIRECTOR'S PROFILE

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**DATUK AMIRUDIN ABD RAHMAN**

DIRECTOR

**Date of Appointment**  
5 NOV 2009

**Datuk Amirudin** is currently the Legal Advisor of the Public Private Partnership, Prime Minister's Department and is responsible for the preparation and drafting of agreements for privatisation and public private partnership projects.

Datuk Amirudin gained experience in the water industry when he was the State Legal Adviser for Negeri Sembilan from 2006 to 2007. While assuming this position, he was involved in the negotiation, preparation, drafting and approving various legal documentations for the restructuring of the water services industry for the State of Negeri Sembilan. In 2008, he was involved in the same scope of work for the restructuring of the water services industry for the States of Malacca, Johor and Kelantan when he headed the Privatisation and Contract Management Unit at the Attorney General's Chambers.

He was later appointed as the Deputy Head II, Advisory Division of the Attorney General's Chambers, where he is responsible in managing, supervising and guiding legal officers in the Ministries and Departments under the responsibility of Advisory Division as well as entrusted to overlook into all contract negotiations in respect of Government projects.

Since 1987, Amirudin has held various positions including a Magistrate, Deputy Public Prosecutor, Legal Adviser to the then Ministry of Energy, Communications and Multimedia and Senior Director, Legal and Enforcement Department of the Energy Commission.

**Qualifications:**

- Bachelor of Law LL.B (Hons), International Islamic University Malaysia

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**DATUK SAAT ESA**

DIRECTOR

**Date of Appointment**  
23 MAY 2015

**Datuk Saat Esa** was the former Accountant General of Malaysia, a post he held between 2017 and 2019. He has more than 30 years of experience in accountancy in the public sector having started in 1983 with the Accountant General's Department of Malaysia.

Datuk Saat has held numerous positions from being an auditor, treasurer to director. Some of the posts he held include, Accountant in the Ministry of Home Affairs, Head of Accountant II in Ministry of Education, Auditor in Bintulu Port Authority, Director for Finance and Accounts Division in Fisheries Development Authority of Malaysia as well as being the Selangor State Treasurer from 2007-2009.

He returned to the Accountant General's Department of Malaysia in 2009 and climbed the ranks until reaching the post of Accountant General of Malaysia.

**Qualifications:**

- Bachelor of Honours Degree in Accounting from Universiti Kebangsaan Malaysia
- Masters Business Administration, Universiti Putra Malaysia
- Masters Business Administration, Aix-Marseille University, France

**Professional Memberships:**

- Member of the Malaysian Institute of Accountants

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**ANUAR MOHAMAD**

DIRECTOR

**Date of Appointment**  
6 NOV 2014

**Anuar Mohamad**, has more than 30 years of working experience in accounting and financial areas. He retired as the Financial Controller/ Bursar for University of Malaya in August 2010. Prior to this position, he has served in various capacities in the government departments and agencies such as the Foreign Investment Committee (FIC) and Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) at Prime Minister's Department, Ministry of Information and Accountant General's Department.

**Qualifications:**

- Chartered Accountant (CA)
- Master's Degree in Business Administration (Finance), Universiti Kebangsaan Malaysia (UKM)

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**DATUK ZURINAH PAWANTEH**

DIRECTOR

**Date of Appointment**  
11 MAR 2019

**Datuk Zurinah Pawanteh** has in-depth knowledge regarding government machinery having started her career in 1989 in the Administrative and Diplomatic Services and then continuing to hold various positions within the Ministry of Plantation Industries and Commodities; Economy planning Unit; Department of Women, Family and Community Development; and the Ministry of Human Resources.

**Qualifications:**

- Bachelor of Science Degree from Texas Tech University, United States
- Masters of Business Administration (MBA), at Universiti Teknologi MARA (UiTM)

# MANAGEMENT TEAM

MANAGEMENT TEAM



**ABDUL HADI ALI**  
CHIEF EXECUTIVE OFFICER

Abdul Hadi joined PAAB in April 2010 as an Assistant General Manager, Treasury under Finance Division and later was promoted to Chief Corporate Officer in 2013. He was designated as Chief Treasurer after an internal reorganisation in May 2018 which saw Treasury function been assigned to him.

He is now appointed as Acting Chief Executive Officer of PAAB effective from 18 August 2018.

Abdul Hadi has over 20 years of treasury experience both in corporate and banking environment. In 1989, he started his career with PETRONAS in money market and foreign exchange desk and later moved to fixed income portfolio management. He made his foray into banking industry by joining Aseambankers Berhad in 1994 and he became the Chief Dealer and

later promoted as the Head of Treasury in 1999. He moved to Hwang DBS Securities in 2002 to establish the private debt securities (PDS) trading desk and joined KAF Discount Berhad (later known as KAF Investment Bank), in 2003 as the Head of Sales. In 2008, Abdul Hadi left Malaysia to join the Islamic Development Bank, a multilateral development bank based in Jeddah, Kingdom of Saudi Arabia as a Financial Market Specialist. His main responsibility was in the area of liquidity and institution's currency basket management (Islamic Dinar) and investments.

Abdul Hadi graduated from University of Missouri at Kansas City, USA with Masters in Business Administration (Finance) and Bachelor of Business Administration (Finance) from Loyola University, New Orleans in USA.

Date of Appointment  
01 APR 2010



**HAJI KAMARUDDIN HAJI ABDUL RAZAK**  
HEAD OF SPECIAL PROJECTS DIVISION

Haji Kamaruddin is the Head of Special Projects Division since July 2014. Prior to this appointment, he was the Head of Project Management Division since 2012. He is responsible to established quality standards and efficient management of the project undertaken by the Company in every state. In 2008, he joined PAAB to take charge of Project Loji Rawatan Air Langat 2 (LRAL2).

He brings with him 30 years of experience in civil engineering, sewerage & drainage and infrastructure. He started his career in Dewan Bandaraya Kuala Lumpur in 1980 and continued his 3 years Bachelor degree study. Upon graduation, Hj Kamaruddin re-joined DBKL before he moved to KLCC Berhad in 1992. He developed and embarked his professional career as the General Manager of Technical Services

and subsequently the General Manager of Migration team to oversee the movement of Prime Minister's Offices to the new administrative capital, Wilayah Persekutuan Putrajaya. In 2006, he was the Project Director of WWE Holdings Berhad he spearheaded the design and build contract for the construction and completion of sewerage treatment plant in Jelutong, Pulau Pinang.

Haji Kamaruddin graduated from University of Strathclyde, Glasgow, Scotland, United Kingdom with Masters of Science in Public Health and Environmental Control Engineering and holds a Bachelor of Science in Civil Engineering from University of Glasgow in Scotland and Diploma in Civil Engineering from University Technology of Malaysia (UTM).

Date of Appointment  
21 APR 2008



**NOR IFUAN MD NOR**  
CHIEF OPERATING OFFICER

Nor Ifuan Md Nor was promoted to Chief Operating Officer in April 2013. He joined in 2009 as Head of Procurement and Corporate Services Department and was responsible for overseeing the management and co-ordination of all matters relating to tendering and awarding of contracts, central procurement contracts, Corporate Communications, ICT support services and office administration. He was redesignated as Head of Corporate Services in 2010 and subsequently as Head of Commercial Division in 2012.

Nor Ifuan started his career as consultant Quantity Surveyor with Baharuddin Ali & Low Sdn. Bhd. and later

specialised in contractual disputes and arbitration with CIC-QS Services Sdn. Bhd. He then moved to RHB Property Management Sdn. Bhd. as Head of Special Projects. Subsequently, he joined a project management company as Project Director before joining Ranhill Berhad as Project Control Advisor in Group COO's office.

Nor Ifuan graduated with a BSc (Hons) in Quantity Surveying from University Of Salford, United Kingdom and has over 20 years of experience in the areas of construction, project management, contracts management and costs control.

Date of Appointment  
03 AUG 2009



**IR. ZAINAL BIN NAGIN**  
HEAD OF FACILITY & PLANNING DIVISION

Ir. Zainal Nagin is the Head of Facility & Planning Division started January 2018. He was entrusted to lead and oversee the overall capital expenditure (CAPEX) implementation exclusively on CAPEX planning, approval process, budgetary as well as asset and land management. He joined PAAB in February 2010 as a Manager. In 2012, he was promoted as the Head of Department of Southern Region and later headed the Project Management Division in January 2015. To date, he has accumulated over 23 years of experience, especially in the water industry.

He started his career in 1991 as a project engineer in a contracting firm specialising in Power Plants and Water. In 2002 he joined a consultancy firm specializing in water as a senior mechanical engineer. He was involved in various projects focusing

on design, preparation of tender document and implementation of new water treatment plant, plant upgrading and refurbishment as well as distribution systems in various states of Malaysia. One of his main project involvements was Kepong II Water Treatment Plant and its distribution systems located in Kuala Terengganu. The project consists of 150 MLD Water Treatment plant, intake, 1400mm dia raw water pipeline and distribution to consumers within the vicinity of Kuala Terengganu and Marang demand areas.

Ir. Zainal graduated from the University of Canterbury, Christchurch, New Zealand with Bachelor of Engineering degree (B.E. Mech). He is a registered professional Engineer with Board of Engineers, Malaysia (BEM) and Institution of Engineers, Malaysia (IEM).

Date of Appointment  
22 FEB 2010

MANAGEMENT TEAM

MANAGEMENT TEAM



**MOHAMAD MOHAMAD NOR**  
HEAD OF COMMERCIAL DIVISION

Mohamad Mohamad Nor was promoted to Head of Commercial Division in Jan 2013. He has extensive experience in tender, contract and procurement. He started his career as a Project Engineer with Petra Resources Sdn Bhd in 1993. Subsequently, he joined Transwater Engineering Sdn Bhd and served the company from 1995 to 1998 in project management.

He joined Indah Water Konsortium and served in various departments within the Consortium namely Project Management and Contract Administration from 1998 to 2007 before seconded to PAAB in 2007 under the Tender and Contract Department.

Mohamad holds BSc (Hons) in Chemical Engineering from University of Technology Malaysia, Johor Bahru and has over 15 years of experience in the areas of construction, project management and contract administration.

As a professional, Mohamad has led assignments in performance improvement, project management and implementation. He has a wide range of experience in the government and utilities sectors as well as numerous involvement in oil & gas services.

Date of Appointment  
15 JULY 2008



**ZULHAYATI YAHYA**  
HEAD OF HUMAN RESOURCES & ADMINISTRATION

Zulhayati Yahya joined PAAB on 1 July 2008. She was promoted to Senior Manager, Human Resource on 1 January 2011 and was re-designated to the current position following the merger of the Human Resource Department and the Administration Department on 1 January 2012.

She holds a Degree in Business Administration from Eastern Washington University, USA and has with her over 25 years working experience in the Human Resource and Administration roles which she had

gained from her employment with several companies of various industries.

She started her first career with Uniphone Sdn Bhd before joining Coopers & Lybrand 2 years later. She stayed with Coopers & Lybrand for 4 years before moved on to join Bumiputra Merchant Bankers Berhad, which later merged with Amanah Merchant Bank to become Alliance Merchant Bank and later known as Alliance Investment Bank. She spent 13 years working with the banking services before joining PAAB.

Date of Appointment  
04 APR 2008



**ROZAIFEE ABU ZAHARIM**  
HEAD OF CORPORATE DIVISION

Rozaiffee Abu Zaharim is the Head of Corporate Division of PAAB. He joined PAAB in April 2017 as Head of Finance & Treasury Division and later redesignated as Head of Corporate Division in May 2018. As head, he is responsible for Financial Management, Corporate Communications, Information Technology and Risk Management & Quality Assurance functions of PAAB.

Prior to joining PAAB, Rozaiffee was the Head, Finance Operations of UEM Edgenta Berhad. He has diverse Finance and Treasury experience over his 20 years' tenure with UEM Group ranging from Highway

Concessionaire, Construction and Assets & Facilities Management Divisions. He also brings with him his experience in overseas assignment where he was the Head of Finance for one of UEM's subsidiary company in India.

Rozaiffee is a Chartered Accountant member of the Malaysian Institute of Accountants and also an Associate member of the Chartered Institute of Management Accountants (ACMA) as well as a member of the Chartered Global Management Accountant (CGMA).

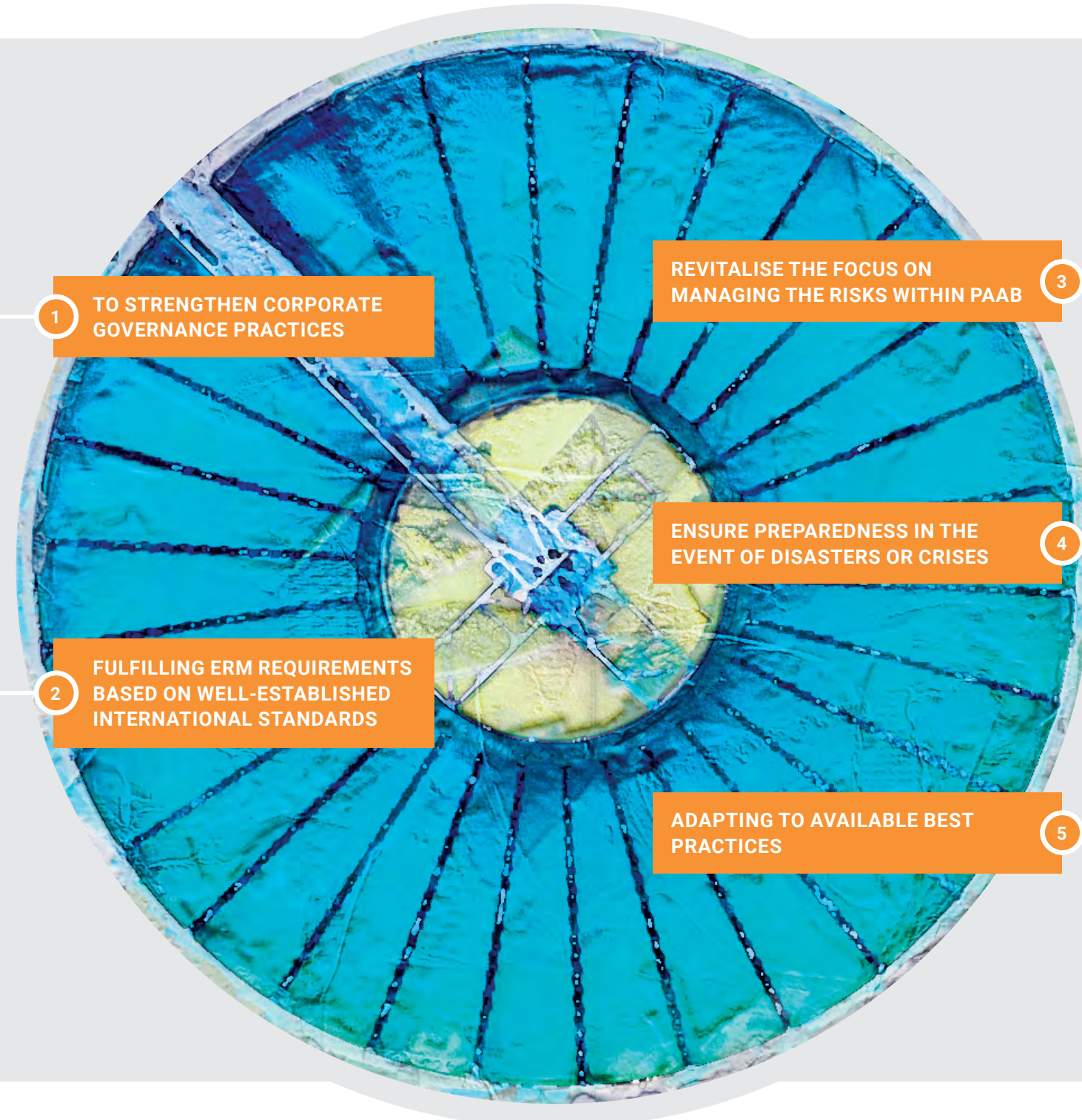
Date of Appointment  
03 APR 2017

# ENTERPRISE RISK MANAGEMENT STATEMENT

## ENTERPRISE RISK MANAGEMENT STATEMENT

As part of the requirements under the Malaysian Code of Corporate Governance ("MCCG"), risk management is one of the three principles that an organisation needs to adopt in order to strengthen their Corporate Governance practices. Thus, Enterprise Risk Management ("ERM") is an integral part of Pengurusan Aset Air Berhad's ("PAAB") governance process to ensure all inherent and emerging risks are identified, evaluated, assessed, mitigated and monitored as part of our organisational assurance to stakeholders.

PAAB has adopted the ISO 31000 ERM Guidelines to guide us towards fulfilling ERM requirements based on well-established international standards. PAAB's ERM structure covers the entire organisation, from the Board to its operational level. Through this approach, risks are being discussed and aggregated from the departmental and divisional levels, and presented to the Risk Management Committee ("RMC") prior to reporting to the Audit Committee ("AC") and Board on a quarterly basis. PAAB also uses specialised software to manage the organisation's ERM information such as risk identification, analysis, evaluation, assessment, mitigation and monitoring of key risks. The identified key risks are assessed for their likelihood and impact with established parameters outlined should the risk materialise.



**1 TO STRENGTHEN CORPORATE GOVERNANCE PRACTICES**

**3 REVITALISE THE FOCUS ON MANAGING THE RISKS WITHIN PAAB**

**2 FULFILLING ERM REQUIREMENTS BASED ON WELL-ESTABLISHED INTERNATIONAL STANDARDS**

**4 ENSURE PREPAREDNESS IN THE EVENT OF DISASTERS OR CRISES**

**5 ADAPTING TO AVAILABLE BEST PRACTICES**

As part of our continuous effort to revitalise the focus on managing the risks within PAAB, regular workshops, awareness and briefing sessions are conducted to enable all key management staff and risk owners to gather and discuss, highlight and propose risk mitigation strategies and also allow various issues related to risk to be debated and finalised.

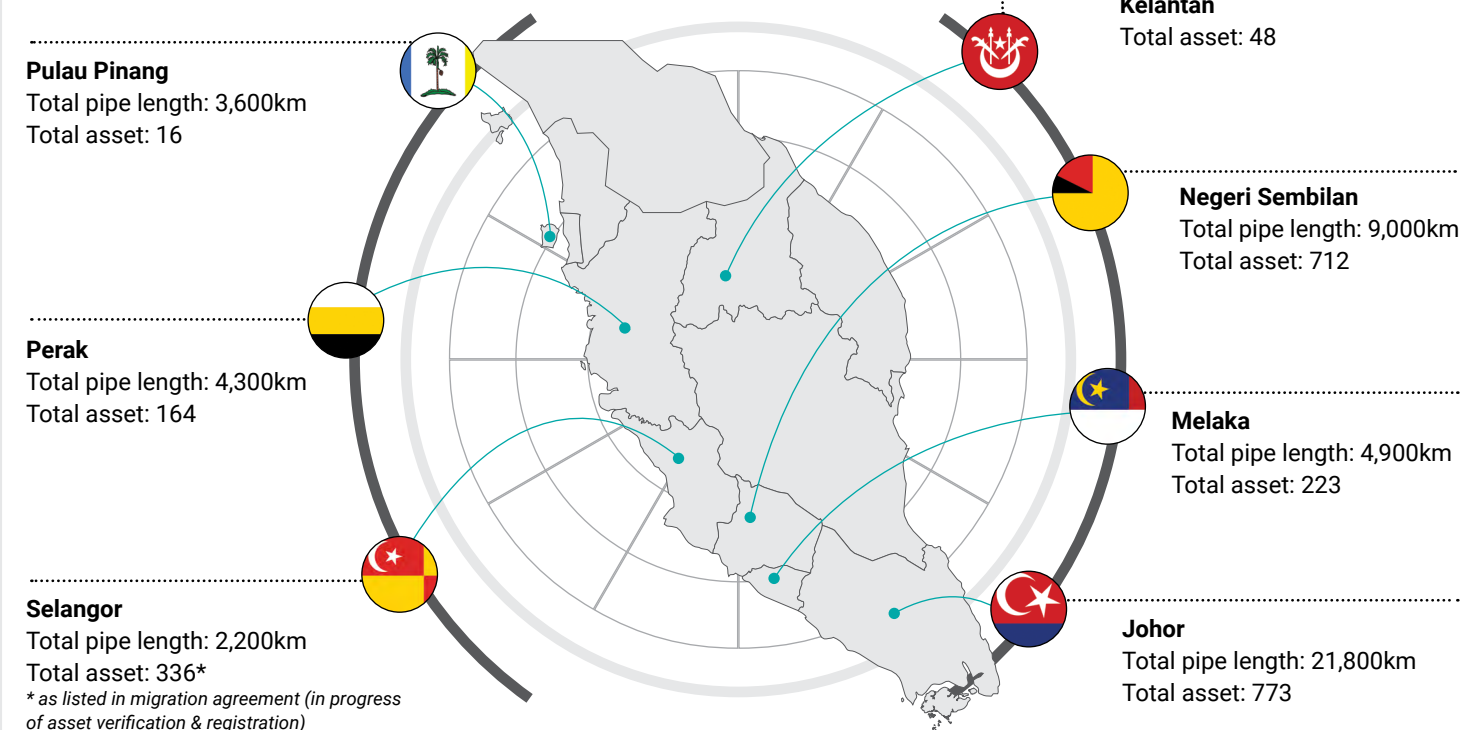
As for Business Continuity Management (BCM), periodical tests on our Business Continuity Plan are conducted within specific target groups to ensure preparedness in the event of disasters or crises. It is an annual exercise which is conducted based on various established plans, the outcome of which will be presented to our Risk Management Committee (RMC), Audit Committee (AC) and the Board.

ERM and BCM are key components of corporate governance and we continuously focus on achieving the desired result by using the best practices available to us. To ensure this, both of our ERM and BCM are based on internationally recognised guidelines. We believe that by adapting to available best practices, it will serve as a strong stepping stone for PAAB to fulfill its corporate governance objectives.

# ASSET MANAGEMENT

Asset Management helps PAAB to monitor and manage migrated and new water assets. Through asset management, which is a practice of effectively managing capital assets, PAAB benefits from insightful statistical data including the current state of its assets, spatial and non-spatial information and maintenance records.

## Water Assets Owned By PAAB



### WHAT MAKES UP OUR WATER STRUCTURE AND NETWORK ?

PAAB's capital assets are divided into two categories namely water structure and water network. Water structure consists of dams, water intakes, water treatment plants, pump houses and reservoirs while the water network consists of pipelines and fittings.

Today, PAAB has taken over 2,272 water assets under the water structure category and 45,800 km pipelines under the network category from various states in Peninsular Malaysia since the nation's water services industry restructuring initiative which started in 2008.

PAAB owns a total water treatment plant capacity of 3,696 million litre daily and a total reservoir water storage capacity of 3,516 million litre. PAAB's water assets book value has grown from RM2.5 billion in 2008 to RM23.1 billion as at 31 December 2019.

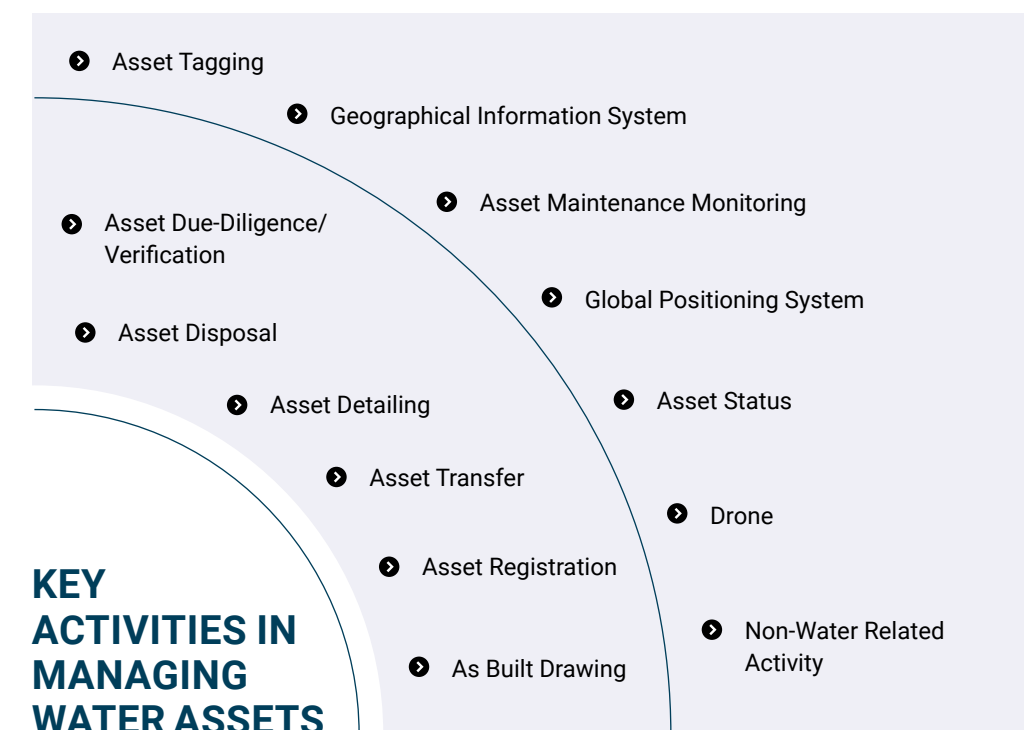
## HOW DO WE MANAGE OUR WATER ASSETS?

Monitoring and managing these assets is no easy feat. One of the major challenges facing in the water asset management is data and information. Through Asset Management, PAAB manages the water assets to ensure all the water assets are recorded, periodically updated, fulfill obligation in agreements and to keep related documents of the asset in proper arrangement.

PAAB has the capacity to collate and analyze historical information that has influence on water asset development projects and the design of new water infrastructure. We have our own asset database that helps us maintain updated data of water assets that have been acquired through migration and CAPEX works.

In 2019, PAAB has enhanced its asset database by introducing an information of Water Asset (i-WA) solution to manage its assets more efficient and effective. The data-driven solution enables information on asset record such as operational status of asset, design capacity, geographic location, project information of water asset and non-water related activities kept updated and monitored. Through i-WA, PAAB is able to implement a systematic approach to water asset management.

PAAB identifies the migrated and new water assets for each migrated state by assigning a unique identity tag number which is called as Asset Tagging. It provides a unique identifier, allows for accommodation of newly created assets and avoids complexity. The Asset Tagging ID carries information of state, district,



category of asset, running number and asset type or material. Other fundamental activities conducted towards asset management are Asset Verification, Asset Detailing and Asset Registration. Then, Asset Status is to capture the operational condition of the company assets while Asset Maintenance activity is to ensure company assets are well maintained. This activity is conducted by monitoring preventive maintenance schedules and works that have been carried out to comply with standard for efficient use of assets throughout its lifecycle. It is also to ensure that company assets and land are secured from trespassing, illegal activities including non-water related activities are not affecting the water supply operation. PAAB also uses drone technology that allows creation of digitized management solutions to monitor water assets over time.

For better reference and standardisation in the Geographical Information System (GIS) platform (@ArcGIS, @QGIS), PAAB have also simplified the GIS attribute table for geospatial data that could benefit water operators. Developed in 2012, PAAB has operated and updated GIS repository that stores spatial and non-spatial information together with visualization of location on the earth surface for capturing of information on all assets belongs to PAAB.

Information on asset records is shared with PAAB's internal departments especially Project Planning, Land Management, Project Management Division, Account, Treasury, Commercial Division as well as Risk Management and Quality Assurance for reference and analysis.

# NEGERI SEMBILAN MIGRATION JOURNEY

## NEGERI SEMBILAN MIGRATION JOURNEY

For more than 10 years, PAAB has proudly performed solid works to restructure water services industry in migrated states. We would like to highlight some of the great progress that have taken place in one of migrated states, Negeri Sembilan.

Since Negeri Sembilan water asset migration in 2008, various water infrastructure development projects have been implemented as part of the state government's plan to ensure sufficient water supply in the state. Federal loans worth RM1.2 billion from the state government were novated to PAAB. An equivalent amount of water assets was transferred to PAAB, and then leased back to Syarikat Air Negeri Sembilan (SAINS) for 45 years.

SAINS has completed three business operation periods with PAAB between 2009 and 2017. Various projects have been undertaken for each business operation period of over three years.

Some of the successes achieved over the three business operating periods are implementation of extension of the Kuala Jelai Water Treatment Plant (WTP); extension of phase two of the Sawah Raja WTP; upgrading of Jempol WTP; and water supply improvement to Seremban Barat.

Apart from upgrading existing water treatment plants, major pipe replacement projects have been undertaken as part of SAINS effort to reduce Non-Revenue Water (NRW) in the state.

Various projects initiated between 2010 and 2012 ensure sufficient water supply.

**2010**

On 4 March 2010, the first project, Kuala Jelai WTP was initiated with its design process starting. The construction works which commenced on 21 October 2011, were fully completed on 5 March 2015. The project added 45 million litre per day (MLD) to the existing WTP to cater to increasing water demand in agriculture-food production areas, Kuala Pilah and Jempol districts.

**2011**

Upgrading works of Jempol WTP began on 21 September 2011. The project, which involved new pumping mains laid from Jempol WTP to Taisho and Serting reservoirs for distribution of treated water to the respective areas. Upon completion on January 2015 the capacity of Jempol WTP increased from 36 MLD to 54 MLD to meet the increasing demand in Jempol and Serting areas.

Construction works of water supply improvement to Seremban Barat particularly to industrial areas, Bandar Enstek and Bandar Sri Sendayan commenced on 18 February 2013 following design process which kicked off on 19 August 2011. The projects that involved construction of suction tank, booster

station, laying of new pumping mains and a new reservoir at Gadong, was successfully completed on 11 June 2018.

The design process for pipe replacement project covering seven districts involving 275 km pipe length commenced on 16 May 2011 and the construction was completed on 7 July 2014.

Preliminary studies and detailed design for upgrading of the existing 10 water treatment plants in Negeri Sembilan started on 27 June 2011. The construction works which include rehabilitation of the water treatment process units commenced on 10 May 2012 and it completed on 6 June 2016.



○ Overview of Sawah Raja WTP Phase 1 & Phase 2, Chemicals Buildings, Clear Water Tank, Booster Station and Residual Treatment Facilities



○ Bukit Sembilan Balancing Reservoir (9ML)

**2012**

Pumping Main Rehabilitation project at Sg. Linggi, Rantau began in 2012. Construction works involved laying of pumping mains, replacement of existing pipes and provide interconnection works began on 28 March 2016. In addition, construction of reinforced concrete pier, steel truss girder for pipe crossing at Sungai Linggi and provision of river bank protection at affected area also form part of the contract. Project was successfully completed on 31 July 2017.

In August 2012, SAINS proposed to implement the extension of phase 2 Sawah Raja Water Treatment Plant project that supplies treated water to thousands of industrial and residential users in Port Dickson and Rembau areas that come under Malaysian Vision Valley (MVV). MVV is the state government long-term development project that is an extension of Greater Kuala Lumpur and part of the National Transformation agenda. Design works commenced on 28 December 2012 and the construction works started on 16 November 2015. On 11 September 2019, pipe laying and construction of the new Bukit Sembilan reservoir in Negeri Sembilan was completed.

These system facilitate the rehabilitation and upgrading interventions of water assets that require accurate data and information for necessary rectification works to be performed efficiently. Interventions entail assessing pipe linings and fittings and cutting down operational waste level in reservoirs.

On asset management, PAAB has enhanced its data system through the use of our data-driven technological solutions, the information of Water Asset (i-WA) and the Geographical Information System (GIS) platform (@ArcGIS), in which stakeholders can make proper assessments taking into consideration environmental, societal and business outlooks can be done by stakeholders.

For other projects under the third and fourth operating periods that are currently in progress in Negeri Sembilan for instance, i-WA and @ArcGIS could be used to provide the means for collecting relevant data to assist in implementing water infrastructure development works.

Summary projects under OP3 and OP4 (currently under design stage).

Project Title	Scope of Works	Benefits	Target Completion
Cadangan Menaiktaraf Dan Baikpulih Loji Rawatan Air, Rumah Pam Dan Muka Sauk Di Negeri Sembilan	Rehabilitation and Upgrading works at Sg. Terip WTP	Will cater for new developments at Bandar Ainsdale, Seremban 2 and Seremban 3 areas	2022
Cadangan Pembinaan Loji Rawatan Air Ngoi-Ngoi 2 (150 MLD)	Construction of new WTP, new pumping main and new Balancing Reservoir	Will supply water to Seremban, Vision Valley, Nilai and Sendayan areas	2023
Cadangan Kerja-Kerja Pengurangan Air Tidak Berhasil Di Negeri Sembilan	Establishment of new District Metering Zone (DMZ) and replacement of flowmeters	To reduce NRW	2023
Cadangan Pembinaan Tangki Baru, Kerja-Kerja Penggantian Tangki Lama, Membaikpulih dan Menaiktaraf Tangki Sediada Dan Lain-Lain Kerja Yang Berkaitan	Construction of new reservoirs and rehabilitation/upgrading and replacement of existing reservoirs	To improve water distribution system at Negeri Sembilan	2023
Cadangan Menaiktaraf dan Baikpulih Loji Rawatan Air Di Negeri Sembilan	Rehabilitation and Upgrading of Pantai WTP, Sg. Linggi WTP, Gemas Baru WTP and Batu 5 Reservoir	Improve water treatment plant efficiency, increase production of the WTP and improvement of distribution system	2023

# CAISSON METHOD - NEW CONSTRUCTION METHODOLOGY

During the year under review, work was well under way on the construction of Intake structure, an important element in the new Pagoh Water Treatment Plant (WTP) in Muar, Johor. When completed Pagoh WTP will have the capacity to supply up to 40 million litres of water per day to Pagoh Education Hub and vicinity areas in Muar district including Panchor, part of Jalan Bakri, Jalan haji Kosai, Jalan Bukit Mor, part of Jalan Muar – Batu Pahat and Sg Abong.

In 2019, PAAB introduced the Caisson method to construct Intake structure to replace the Cofferdam method that was used previously. The replacement was made because it was discovered during construction that using the Cofferdam method was not suitable to build the Intake due to extremely soft and unstable underground soil condition. Therefore, Caisson method was proposed which is used to construct the intake structure by precasting the reinforced concrete structure (caisson). The caisson is launched into position at existing

ground level and sunk into ground to the design depth and inner soil fully excavated. Subsequently, the Intake structures base slab will be constructed.

One of the advantages of the Caisson method is the reduction of construction time and facilitation of movement of machineries. Other advantages provided by the Caisson method are higher stability and flexibility as compared to Cofferdam. In addition, it is capable of preventing water seepage into caisson during construction. It is also much safer as excavation work can be performed from outside the caisson wall by using a long arm excavator.

Since the Caisson method is much safer and saves construction time, PAAB would recommend this method to be used for future construction of Intake structure where soil condition is unstable and weak.



Original construction using Cofferdam method



Construction of Intake Using Caisson Method

# CENTRAL PURCHASING CONTRACT

## CPC DEVELOPMENT IN PAAB

Since its introduction in 2010 PAAB Central Purchasing Contract (CPC) has supplied various types of pipes to 92 CAPEX projects for the development of water infrastructure worth approximately RM640 million.

The CPC started with the supply of Mild Steel pipes in Batu Pahat Pipe Rehabilitation projects in 2010 and Multi-Layered uPVC (MuPVC) pipes in Batu Pahat Pipe Rehabilitation projects (different packages) in 2013. Until 2019, PAAB had purchased RM139.27 million of Mild Steel pipe and Multi-Layered uPVC (MuPVC) size ranging from 100mm diameter to 2000mm diameter involved approximately 536km long of pipes.

The main objective of PAAB CPC are:

- 01 to cater huge demand of pipes in CAPEX projects
- 02 to ensure continuous supply of pipes
- 03 to control quality of product
- 04 to monitor product performance
- 05 to save cost by eliminating profit margin cost applied by "supply and lay" contractors'

Due to high demand, PAAB CPC has added new type of pipes i.e. PVC pipes in 2018 and High Density poly-ethylene (HDPE) pipes in 2019.

To date, PAAB has achieved an average cost savings of 22.6% worth RM32.38 million, resulting in reduction of CAPEX development cost. The cost saving is derived by comparing PAAB's contract rate with current market rate. PAAB could also help contractors financially under CPC as they are not required

to purchase pipe or other product via cash/ credit notes as usual practice.

To ensure quality of product can be controlled, product that are supplied under CPC have to conform to standard requirement set by PAAB. PAAB can monitor product performance since the appointed manufacturers or suppliers are responsible for their products, assured by warranty to PAAB.



Unloading of Mild Steel pipes at Kinta Perak site



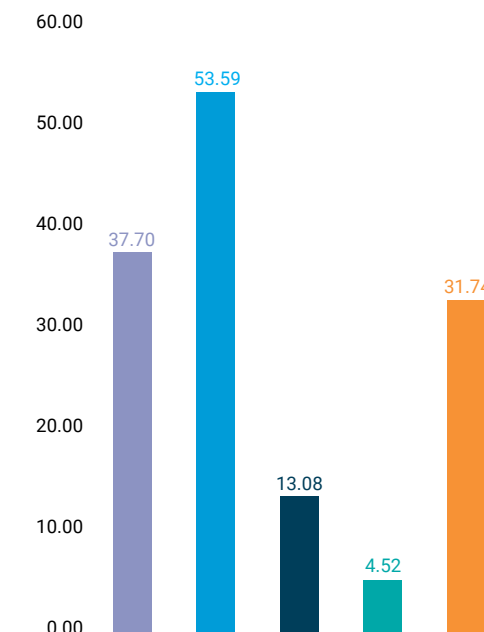
Unloading of MuPVC pipes at Batu Pahat site



HDPE pipe

## Purchased Value via CPC based on States/Project as at 2019 (RM Mill)

- Johor
- Melaka
- Negeri Sembilan
- Perak
- LRAL2



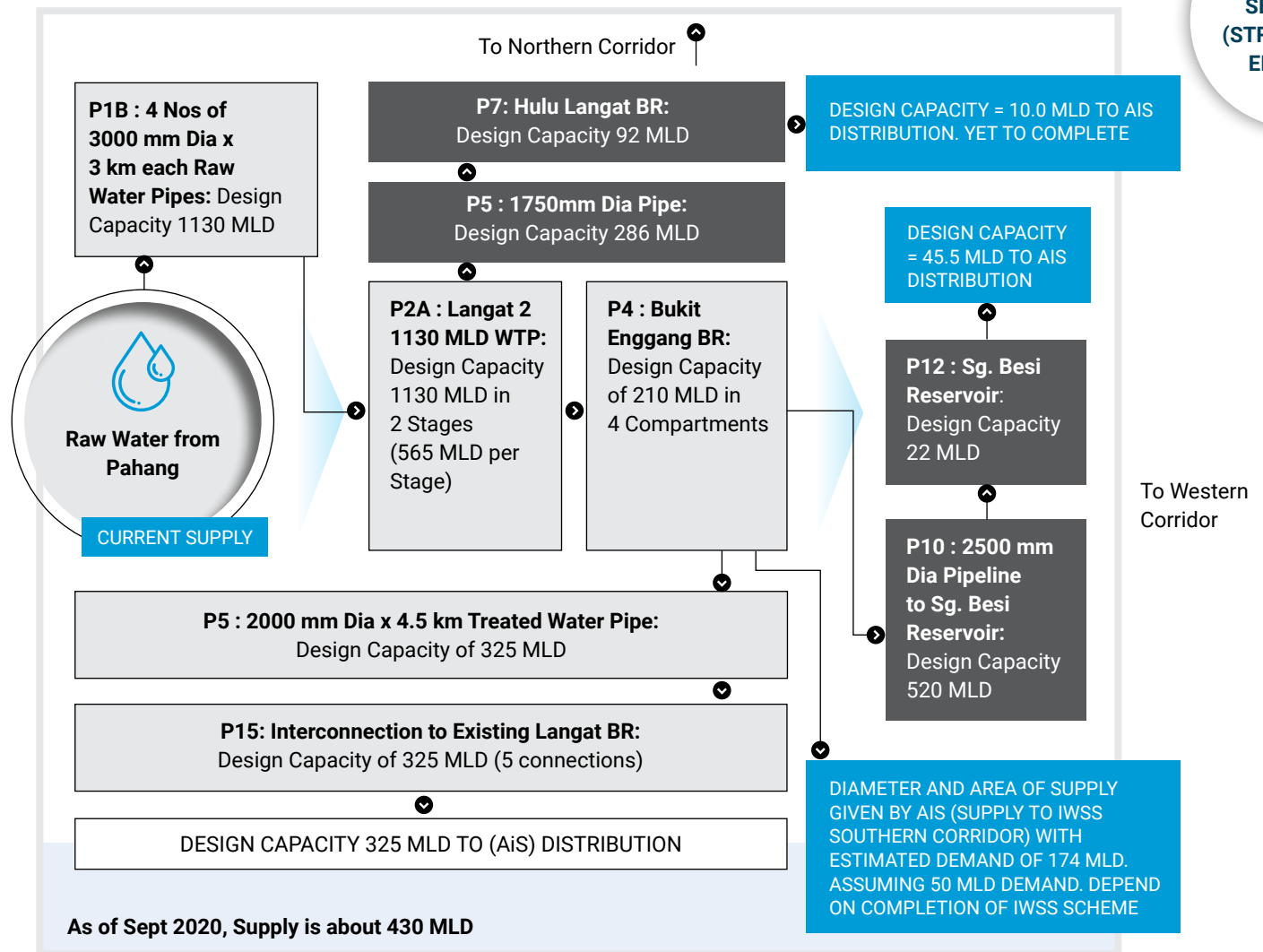
# THE HANDOVER OF LANGAT 2 STREAM B TO PENGURUSAN AIR SELANGOR SDN BHD (AiS)

THE HANDOVER OF LANGAT 2 STREAM B TO PENGURUSAN AIR SELANGOR SDN BHD (AiS)

We are on track to meet the viable completion date for Section 1 of Langat 2 Water Treatment Plant (WTP) with a further capacity of 565 million liters per day (MLD) set for 21 December 2019. Upon the handover of this section, AiS will have a higher water supply/demand

buffer capacity of 7% from 2%. Langat 2 WTP has more than doubled to its current capacity of about 430 MLD from its initial capacity of about 200 MLD.

## PACKAGE INVOLVED IN SUPPLYING OF TREATED WATER TO (AiS)'s SYSTEM



## BENEFITS OF SECTION 1 (STREAM B) TO END USER

LRA LANGAT 2 (325 MLD)

105 MLD



KUALA LUMPUR



PUDU ULU BARU RESERVOIR

- PANDAN PERDANA
- TAMAN CHERAS UTAMA
- TAMAN CHERAS BARU
- TAMAN MEGA JAYA
- TAMAN PANDAN INDAH
- PANDAN KOMERSIAL

220 MLD



HULU LANGAT



CHERAS HL RESERVOIR

- BALAKONG
- IMPIAN EHSAN
- BUKIT BELIMBING

- KAJANG
- KAJANG UTAMA
- KAJANG EAST

- SEMENYIH
- BERANANG BARU
- BERANANG LAMA

Info Source: AiS



2016



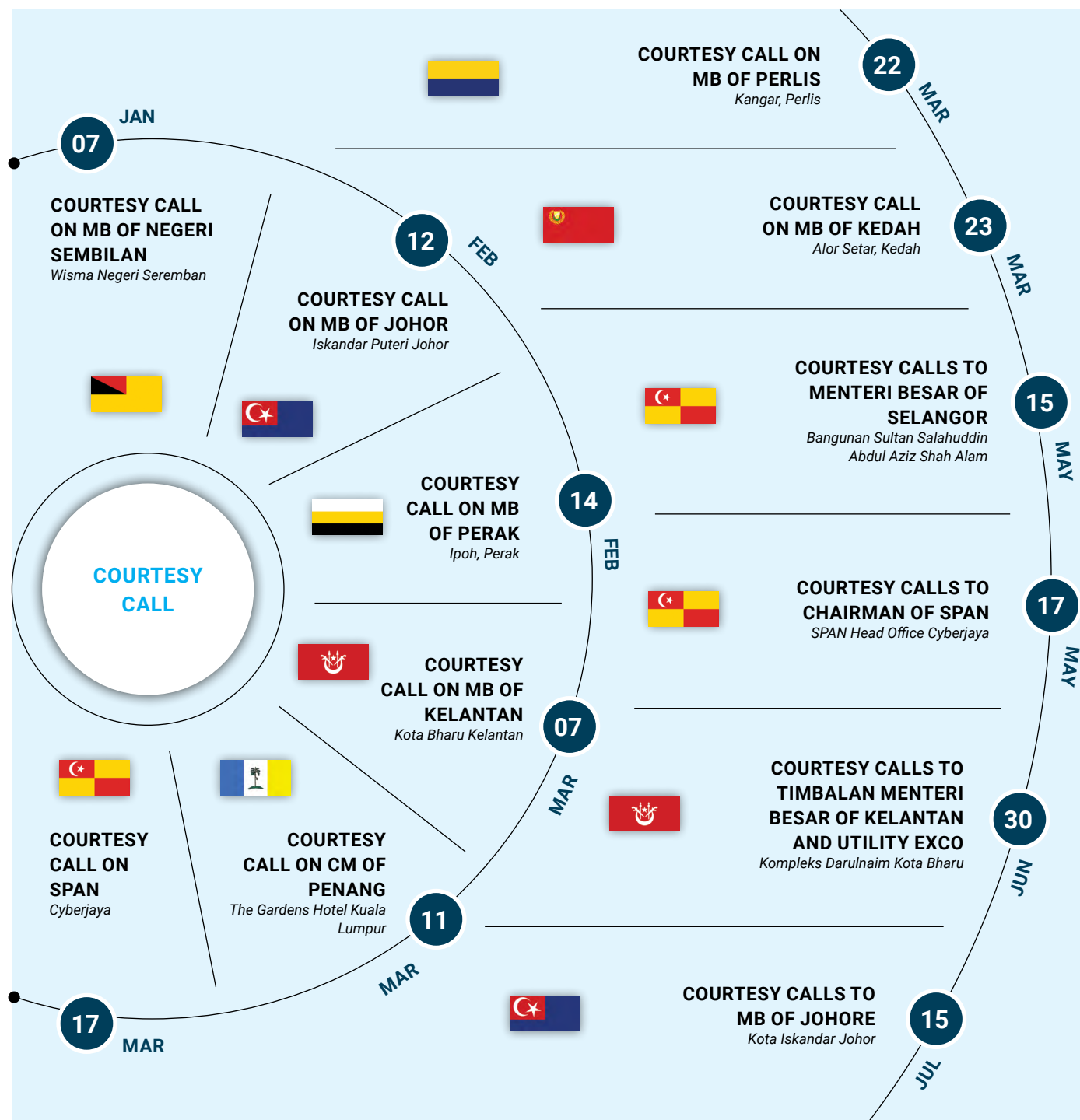
2018



2019

# 2019 STAKEHOLDER ENGAGEMENT

2019 STAKEHOLDER ENGAGEMENT



**23 MAR** Exhibition/Relationship with Govt/ Others Agencies



**HARI AIR SEDUNIA EXHIBITION**  
Pantai Merdeka Kuala Muda, Kedah

**03 MAY** Media Visit



**MEDIA VISIT TO NSTP GROUP**  
Balai Berita Bangsar

**02 MAY** CSR



**CSR SHOP & SHARE FOR PN. KATIJAH ABDUL KARIM**  
Bandar Kinrara, Puchong

**16 MAY** CSR



**CSR MAJLIS PENYERAHAN ZAKAT DAN SUMBANGAN OH SERONOKNYA RAYA 2019 TO PERTUBUHAN PERTUBUHAN KEBAJIKAN ASNAF AL-BARAKH**  
Tamu Hotel, Kuala Lumpur

2019 STAKEHOLDER ENGAGEMENT

2019 STAKEHOLDER ENGAGEMENT

**21-30 MAR** Media Visit



**RAMADAN MEDIA VISIT TO SINAR HARIAN GROUP, UTUSAN MALAYSIA & TV AL-HIJRAH**  
Shah Alam, Kuala Lumpur

**23 MAY** CSR Ramadan



**CSR RAMADAN AT LANGAT 2 WTP PROJECT AREA WITH KARIAH OF MASJID JAMI'UL HUDA**  
Kampung Melayu Ampang

**18 JUN** Exhibition/Relationship with Government/Others Agencies



**HARI RAYA OPEN HOUSE - OH SERONOKNYA RAYA!**  
The Majestic Kuala Lumpur

**18 JUN** Exhibition/Relationship with Government/Others Agencies



**PARTICIPATED IN MAJLIS SAMBUTAN KONGSI RAYA KATS & MAJLIS RAMAH MESRA BERSAMA YB MENTERI AIR, TANAH & SUMBER ASLI BY OPENING-UP THE BOOTH**  
KATS Putrajaya

**05 AUG** CSR



**CSR QURBAN : MAJLIS PENYERAHAN SUMBANGAN QURBAN & ZAKAT PAAB PRIHATIN 2019**  
Masjid Jami'ul Huda, Kg. Melayu Ampang

**19 NOV** Exhibition/Relationship with Govt./Others Agencies



**KOREA ENVIRONMENT CORPORATION (KECO) & KOREA WATER CLUSTER CONFERENCE (KWCC) VISIT TO MALAYSIA SITE VISIT TO PANTAI 2 STP**  
Indah Water Konsortium Sdn Bhd (IWK), Pantai 2 STP (Sewerage Treatment Plant), Bangsar South, KL

# FINANCIAL STATEMENTS

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## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are developing and managing the nation's water infrastructure in Peninsular Malaysia and the Federal Territories of Putrajaya and Labuan.

There has been no significant change in the nature of the principal activities during the financial year.

### IMMEDIATE HOLDING CORPORATION

The immediate holding corporation is Minister of Finance (Incorporated), incorporated in Malaysia under the Minister of Finance (Incorporation) Act 1957.

### SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 6 to the financial statements.

### RESULTS

	Group RM'000	Company RM'000
Profit for the year	221,464	184,192

### RESERVES AND PROVISIONS

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

### DIVIDENDS

Since the end of the previous financial year, the Company paid, in respect of the financial year ended 31 December 2018 as reported in the Director's report of the year, a final single tier ordinary dividend of 4.05 sen per ordinary share totalling RM29,562,525 on 10 July 2019.

A final single tier ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2019 is 3.03 sen per ordinary share totalling RM22,146,400, subject to the shareholder's approval at the forthcoming Annual General Meeting of the Company.

DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019

#### DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

Datuk Seri Dr. Nik Norzrul Thani bin Hassan Thani	
Dato' Dr. Halim bin Man	
Datuk Zurinah binti Pawanteh	- appointed on 11.03.2019 and resigned on 01.04.2020
Madam Wong Pek Yee	- appointed on 05.07.2019
Datuk Nik Azman bin Mohd Zain	- appointed on 12.04.2019
Dato' Jauhari bin Hamidi	- appointed on 23.10.2019
Madam Alice Loke Yee Ching	- appointed on 05.11.2019
Puan Salmiah binti Ramli	- appointed on 31.12.2019
Puan Zakiah Jaafar	- appointed on 16.01.2020
Dato' Dr Tan Yew Chong	- resigned on 10.02.2019
Encik Anuar bin Mohamad	- resigned on 20.06.2019
Ir Mohd Aminudin bin Md Amin	- resigned on 16.06.2019
Datuk Amirudin Abd Rahman	- resigned on 05.11.2019
Datuk Siti Zauyah Md Desa	- resigned on 15.11.2019
Datuk Saat bin Esa	- resigned on 30.10.2019

#### DIRECTORS' INTERESTS IN SHARES

None of the Directors holding office at 31 December 2019 had any interest in the shares of the Company and of its related corporations during the financial year.

#### DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received nor become entitled to receive any benefit (other than those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by the Directors or the fixed salary of a full time employee of the Company or of related corporations as shown in the financial statements) by reason of a contract made by the Company or of related corporations with the Directors or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

#### ISSUE OF SHARES

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

#### OPTIONS GRANTED OVER UNISSUED SHARES

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

#### INDEMNITY AND INSURANCE COSTS

During the financial year, the Company effected a Group Directors and Officers Liability Insurance Policy covering its subsidiaries. The aggregate amount of insurance premium paid was RM23,588.

#### OTHER STATUTORY INFORMATION

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

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019

#### OTHER STATUTORY INFORMATION (CONTINUED)

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

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, except for those disclosed in Note 23 and Note 36 to the financial statements, the financial performance of the Company for the financial year ended 31 December 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

#### SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR END

The significant events during and after the financial year end of the Group and of the Company are as disclosed in Note 34 and Note 35 respectively to the financial statements.

#### AUDITORS

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 23 to the financial statements.

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



**Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani**  
Director



**Dato' Dr. Halim bin Man**  
Director

Date: 11 June 2020

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

STATEMENTS OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

	Note	Group			Company		
		31.12.2019 RM'000	31.12.2018 RM'000 (Restated)	1.1.2018 RM'000 (Restated)	31.12.2019 RM'000	31.12.2018 RM'000 (Restated)	1.1.2018 RM'000 (Restated)
<b>Assets Non-current assets</b>							
Plant and equipment	3	3,902	10,858	17,774	3,902	10,858	
Right-of-use assets	4	5,901	-	-	5,901	-	
Assets under construction	5	3,644,326	2,744,055	1,935,428	3,644,326	2,744,055	
Investment in subsidiary	6	-	-	-	1,000	1,000	
Finance lease receivables	7	22,943,410	12,505,998	13,440,769	22,943,410	12,505,998	
Trade receivables	8	244,449	166,038	146,468	244,449	146,468	
		<b>26,841,988</b>	15,426,949	15,540,439	<b>26,842,988</b>	15,427,949	
<b>Current assets</b>							
Trade receivables	8	5,879	76,344	158,129	5,879	76,344	
Finance lease receivables	7	118,042	1,167,064	410,113	118,042	410,113	
Other receivables	9	25,272	36,308	265,026	25,211	36,300	
Amount due from a subsidiary	10	-	-	-	5,265,621	5,403,031	
Other investments	11	586,038	6,814,084	6,727,943	586,038	631,277	
Cash and cash equivalents	12	562,270	206,546	573,968	483,323	205,756	
		<b>1,297,501</b>	8,300,346	8,135,179	<b>1,218,493</b>	7,382,362	
<b>Total assets</b>		<b>28,139,489</b>	23,727,295	23,675,618	<b>28,061,481</b>	22,810,311	

	Note	Group			Company		
		31.12.2019 RM'000	31.12.2018 RM'000 (Restated)	1.1.2018 RM'000 (Restated)	31.12.2019 RM'000	31.12.2018 RM'000 (Restated)	1.1.2018 RM'000 (Restated)
<b>Equity and liabilities</b>							
<b>Equity attributable to owners of the Company</b>							
Share capital	13	730,000	730,000	660,000	730,000	730,000	
Retained earnings/(Accumulated losses)		130,932	(60,969)	(322,694)	(821,301)	(975,930)	
Fair value reserve		19,601	8,040	9,534	19,601	8,040	
<b>Total equity</b>		<b>880,533</b>	677,071	346,840	<b>(71,700)</b>	(237,890)	
<b>Non-current liabilities</b>							
Deferred income	14	2,340,712	1,565,910	1,799,557	2,340,712	1,565,910	
Loans and borrowings	15	19,210,508	15,674,998	16,472,712	3,620,508	3,834,998	
Amount due to subsidiaries	16	-	-	-	15,590,000	11,840,000	
Deferred tax liabilities	18	2,703,042	2,647,678	2,605,497	2,703,042	2,647,678	
Lease liabilities		4,688	-	-	4,688	-	
		<b>24,258,950</b>	19,888,586	20,877,766	<b>24,258,950</b>	19,888,586	
<b>Current liabilities</b>							
Loans and borrowings	15	2,714,638	2,966,070	2,033,211	97,971	95,194	
Trade and other payables	17	281,391	194,597	394,969	280,799	194,494	
Amount due to subsidiaries	16	-	-	-	3,491,961	2,868,974	
Lease liabilities		1,486	-	-	1,486	-	
Provision for tax		2,491	971	22,832	2,014	953	
		<b>3,000,006</b>	3,161,638	2,451,012	<b>3,874,231</b>	3,159,615	
<b>Total liabilities</b>		<b>27,258,956</b>	23,050,224	23,328,778	<b>28,133,181</b>	23,048,201	
<b>Total equity and liabilities</b>		<b>28,139,489</b>	23,727,295	23,675,618	<b>28,061,481</b>	22,810,311	

The notes on pages 51-120 are an integral part of these financial statements.

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000 (Restated)	2019 RM'000 (Restated)	2018 RM'000 (Restated)
<b>Revenue</b>					
Lease income	19	667,231	541,493	667,231	541,493
Loss from waiver of lease rental		(1,094,187)	(340,444)	(1,094,187)	(340,444)
Gains from the loan waiver		1,086,111	379,555	1,086,111	379,555
Other income	20	43,987	1,803	44,651	2,372
Depreciation expenses		(8,962)	(8,023)	(8,962)	(8,023)
Personnel costs (excluding key management personnel)	25	(25,307)	(25,929)	(25,307)	(25,929)
Impairment loss on asset under construction		(111,970)	-	(111,970)	-
Amortisation of government grant		131,893	93,059	131,893	93,059
Investment income		256,791	368,083	-	-
Net reversal of/(loss on) impairment of financial instruments		16,475	(25,380)	16,475	(25,380)
Other expenses		(15,154)	(22,848)	(14,506)	(22,143)
<b>Operating profits</b>		<b>946,908</b>	961,369	<b>691,429</b>	594,560
Finance income	21	58,269	58,862	276,042	277,952
Finance costs	22	(725,936)	(701,195)	(725,936)	(701,190)
<b>Profit before tax</b>	23	<b>279,241</b>	319,036	<b>241,535</b>	171,322
Tax expenses	26	(57,777)	(23,281)	(57,343)	(45,187)
Profit for the year		221,464	295,755	184,192	126,135
<b>Other comprehensive income, net of tax items that are or may be reclassified subsequently to profit or loss</b>					
Other investments measured at fair value through other comprehensive income					
- gains/(loss) during the year		11,561	(1,494)	11,561	(1,494)
<b>Other comprehensive income for the year</b>		<b>11,561</b>	(1,494)	<b>11,561</b>	(1,494)
<b>Total comprehensive income for the year</b>		<b>233,025</b>	294,261	<b>195,753</b>	124,641

The notes on pages 51-120 are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	Non-distributable (Accumulated losses)/ Retained earnings			Fair value Reserve RM'000	Total equity RM'000
		Non-distributable Share capital RM'000	Non-distributable (Accumulated losses)/ Retained earnings RM'000	Non-distributable (Accumulated losses)/ Retained earnings RM'000		
<b>At 1 January 2018, as previously stated</b>		660,000	1,148,330	-	1,808,330	
Prior year adjustment	36	-	(1,471,024)	9,534	(1,461,490)	
<b>At 1 January 2018, restated</b>		660,000	(322,694)	9,534	346,840	
Other investments measured at fair value through other comprehensive income						
- loss during the year		-	-	(1,494)	(1,494)	
Profit for the year		-	295,755	-	295,755	
<b>Total comprehensive income for the year</b>		-	295,755	(1,494)	294,261	
<i>Contributions by and distributions to owners of the Company</i>						
- Issue of ordinary shares		70,000	-	-	70,000	
- Dividends to owners of the Company		-	(34,030)	-	(34,030)	
<b>Total transactions with owners of the Company</b>		70,000	(34,030)	-	35,970	
<b>At 31 December 2018/1 January 2019</b>		730,000	(60,969)	8,040	677,071	
Other investments measured at fair value through other comprehensive income						
- gains during the year		-	-	11,561	11,561	
Profit for the year		-	221,464	-	221,464	
<b>Total comprehensive income for the year</b>		-	221,464	11,561	233,025	
<i>Contributions by and distributions to owners of the Company</i>						
- Dividends to owners of the Company		-	(29,563)	-	(29,563)	
<b>Total transactions with owners of the Company</b>		-	(29,563)	-	(29,563)	
<b>At 31 December 2019</b>		<b>730,000</b>	<b>130,932</b>	<b>19,601</b>	<b>880,533</b>	

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019

Company	Note	Non-distributable	Non-distributable	Fair value	Total equity
		Share capital	(Accumulated losses)/ Retained earnings	Reserve	RM'000
		RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2018, as previously stated</b>		660,000	423,805	-	1,083,805
Prior year adjustment	36	-	(1,491,840)	9,534	(1,482,306)
<b>At 1 January 2018, restated</b>		660,000	(1,068,035)	9,534	(398,501)
Other investments measured at fair value through other comprehensive income					
- loss during the year		-	-	(1,494)	(1,494)
Profit for the year		-	126,135	-	126,135
<b>Total comprehensive income for the year</b>		-	126,135	(1,494)	124,641
<i>Contributions by and distributions to owners of the Company</i>					
- Issue of ordinary shares		70,000	-	-	70,000
- Dividends to owners of the Company		-	(34,030)	-	(34,030)
<b>Total transactions with owners of the Company</b>		70,000	(34,030)	-	35,970
<b>At 31 December 2018/1 January 2019</b>		730,000	(975,930)	8,040	(237,890)
Other investments measured at fair value through other comprehensive income					
- gains during the year		-	-	11,561	11,561
Profit for the year		-	184,192	-	184,192
<b>Total comprehensive income for the year</b>		-	184,192	11,561	195,753
<i>Contributions by and distributions to owners of the Company</i>					
- Dividends to owners of the Company		-	(29,563)	-	(29,563)
<b>Total transactions with owners of the Company</b>		-	(29,563)	-	(29,563)
<b>At 31 December 2019</b>		<b>730,000</b>	<b>(821,301)</b>	<b>19,601</b>	<b>(71,700)</b>

The notes on pages 51-120 are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
		(Restated)		(Restated)
<b>Cash flows from operating activities</b>				
Profit before tax	279,241	319,036	241,535	171,322
<i>Adjustments for:</i>				
Lease income	(667,231)	(541,493)	(667,231)	(541,493)
Amortisation of government grants	(131,893)	(93,059)	(131,893)	(93,059)
Depreciation of plant and equipment	7,664	8,023	7,664	8,023
Depreciation of right-of-use assets	1,298	-	1,298	-
Finance costs	725,936	701,195	725,936	701,190
Finance income	(58,269)	(58,862)	(276,042)	(277,952)
Management fee charged to subsidiary	-	-	(789)	(791)
Gain on disposals of plant and equipment	(32)	(25)	(32)	(25)
Foreign exchange gain or loss	(529)	1,599	(529)	1,599
Net (gain)/loss on impairment of financial instruments	(16,475)	25,380	(16,475)	25,380
Loss from waiver of lease rental	1,094,187	340,444	1,094,187	340,444
Gain from the loan waiver	(1,086,111)	(379,555)	(1,086,111)	(379,555)
Impairment loss on assets under construction	111,970	-	111,970	-
<b>Operating profit before working capital changes</b>	<b>259,756</b>	<b>322,683</b>	<b>3,488</b>	<b>(44,917)</b>
Change in lease receivables	69,617	40,942	69,617	40,942
Change in trade and other receivables	18,286	272,643	18,338	272,643
Change in trade and other payables	86,767	(222,238)	86,254	(200,307)
<b>Cash generated from operations</b>	<b>434,426</b>	<b>414,030</b>	<b>177,697</b>	<b>68,361</b>
Interest paid	(286)	(223)	(286)	(223)
Interest received	667,231	541,493	667,231	541,493
Tax paid	(3,007)	(3,006)	(3,007)	(3,006)
Tax refund	2,140	21,906	2,140	-
<b>Net cash generated from operating activities</b>	<b>1,100,504</b>	<b>974,200</b>	<b>843,775</b>	<b>606,625</b>

STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Cash flows from investing activities</b>					
Purchase of plant and equipment		(800)	(1,111)	(800)	(1,111)
Proceeds from disposal of plant and equipment		124	29	124	29
Purchase of investments		-	(87,635)	-	(76,438)
Interest received		228,751	58,862	112,842	58,862
Addition of asset under constructions		(1,059,027)	(903,846)	(1,059,027)	(903,846)
Cash proceeds for Selangor water assets migration	7.3	(2,565,389)	-	(2,565,389)	-
<b>Net cash used in investing activities</b>		<b>(3,396,341)</b>	<b>(933,701)</b>	<b>(3,512,250)</b>	<b>(922,504)</b>
<b>Cash flows from financing activities</b>					
Payment of lease liabilities		(1,486)	-	(1,486)	-
Proceeds from issuance of share capital		-	70,000	-	70,000
Advances from/to subsidiary		-	-	3,057,786	(62,363)
New issued IMTN		6,200,000	2,100,000	-	-
Repayment of debt instrument		(3,436,695)	(2,518,668)	-	-
Federal loan repayment		(80,695)	(25,223)	(80,695)	(25,223)
Dividend paid		(29,563)	(34,030)	(29,563)	(34,030)
<b>Net cash generated from/(used in) financing activities</b>		<b>2,651,561</b>	<b>(407,921)</b>	<b>2,946,042</b>	<b>(51,616)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>355,724</b>	<b>(367,422)</b>	<b>277,567</b>	<b>(367,495)</b>
Cash and cash equivalents at beginning of year		206,546	573,968	205,756	573,251
<b>Cash and cash equivalents at end of year</b>		<b>562,270</b>	<b>206,546</b>	<b>483,323</b>	<b>205,756</b>

**Significant non-cash transaction**

The Company entered into the following non-cash transaction with Government of Malaysia and the Company's subsidiaries:

- The Company received a Non-monetary government grant "Sungai Labu off river storage" from Ministry of Energy, Science, Technology, Environment and Climate Change (KeTTHA) during the financial year amounting to RM122 million.
- The debt instruments amounting to RM6.07 billion was redeemed by Pengurusan Air Selangor during the year by converting the bond investment redemption amount as part of the lease arrangement with the Company, thereby increasing the amount due to subsidiary during the year.

## RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

Group	Loans and borrowings		Lease liabilities
	2019 RM'000	2018 RM'000	2019 RM'000
<b>As at 1 January</b>	<b>18,641,068</b>	18,505,923	<b>7,199</b>
<b>Changes from financing activities</b>			
Repayment of loan from government	(80,695)	(25,223)	(1,486)
Repayment of debt instrument	(3,436,695)	(2,518,668)	-
Issuance of debt instruments ("IMTN")	6,200,000	2,100,000	-
<b>Total changes from financing cash flows</b>	<b>2,682,610</b>	(443,891)	<b>(1,486)</b>
<b>Other changes</b>			
Loan waiver granted by Government of Malaysia	(1,086,111)	(379,555)	-
New federal loan migrated to the Company	816,932	99,473	-
Finance cost	870,956	857,655	461
Foreign exchange differences	(309)	1,463	-
<b>Total liabilities related other changes</b>	<b>601,468</b>	579,036	<b>461</b>
<b>As at 31 December</b>	<b>21,925,146</b>	18,641,068	<b>6,174</b>

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO  
CASH FLOWS ARISING FROM FINANCING ACTIVITIES

Company	Note	Loans and borrowings		Amount due from and to subsidiaries		Lease liabilities
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000
<b>As at 1 January</b>		<b>3,930,192</b>	4,000,250	<b>9,443,353</b>	9,101,726	<b>7,199</b>
<b>Changes from financing activities</b>						
Repayment of loan from government		(80,695)	(25,223)	-	-	-
Payment of lease liabilities		-	-	-	-	(1,486)
Advances from/to subsidiary		-	-	3,057,786	(62,363)	-
<b>Total changes from financing cash flows</b>		<b>(80,695)</b>	(25,223)	<b>3,057,786</b>	(62,363)	<b>(1,486)</b>
<b>Other changes</b>						
Loan waiver granted by Government of Malaysia		(1,079,534)	(238,830)	-	-	-
New federal loan migrated to the Company		816,932	99,473	-	-	-
Finance cost		131,893	93,059	732,485	623,871	461
Finance income		-	-	(220,000)	(219,090)	-
Others		(309)	1,463	(788)	(791)	-
Redemption of bond investment	11.1	-	-	6,069,125	-	-
<b>Total liabilities related other changes</b>		<b>(131,018)</b>	(44,835)	<b>6,580,822</b>	403,990	<b>461</b>
<b>As at 31 December</b>		<b>3,718,479</b>	3,930,192	<b>19,081,961</b>	9,443,353	<b>6,174</b>

The notes on pages 51-120 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

Pengurusan Aset Air Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The addresses of the principal place of business and registered office of the Company are as follows:

### Principal place of business

Tingkat 24, Menara Multi-Purpose Capital Square  
No 8, Jalan Munshi Abdullah  
50100 Kuala Lumpur

### Registered office

Tingkat 7, Bangunan Setia 1  
No. 15, Lorong dungun  
Bukit Damansara  
50490 Kuala Lumpur

The consolidated financial statements as at and for the financial year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities").

The principal activities of the Company are developing and managing the nation's water infrastructure in Peninsular Malaysia and the Federal Territories of Putrajaya and Labuan.

The immediate holding corporation is Minister of Finance (Incorporated), incorporated in Malaysia under the Minister of Finance (Incorporation) Act 1957.

These financial statements were authorised for issue by the Board of Directors on 11 June 2020.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

**1. BASIS OF PREPARATION (CONTINUED)****(a) Statement of compliance (continued)*****MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020***

- Amendments to MFRS 3, Business Combinations – Definition of a Business
- Amendments to MFRS 101, Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
- Amendments to MFRS 9, Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement and MFRS 7, Financial Instruments: Disclosures – Interest Rate Benchmark Reform

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021 (IASB has announced the effective date of the standard deferred to annual periods beginning on or after 1 January 2023; MASB has yet to announce the deferment)***

- MFRS 17, Insurance Contracts

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2022***

- Amendments to MFRS 101, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed***

- Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2020 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2020, except for amendments and interpretation which are not applicable to the Group and Company.
- from the annual period beginning on 1 January 2021 for those amendments that are effective for annual periods beginning on or after 1 January 2021, except for amendments which are not applicable to the Group and Company.

The Group does not plan to apply MFRS 17, Insurance Contracts that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the Group.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and Company.

**1. BASIS OF PREPARATION (CONTINUED)****(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2 to the financial statements.

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgements**

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

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

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

- Note 2(g)(i), Note 7 and Note 8 - Measurement of expected credit loss (“ECL”) of trade receivables and finance lease receivables
- Preparation of the financial statements on going concern basis

As at 31 December 2019, the current liabilities of the Group and the Company have exceeded the current assets by RM1,702 million and RM2,656 million respectively. The validity of the going concern basis is dependent on the availability of RM20 billion government guaranteed Islamic Medium-Term Notes Programme (IMTN) with maturity date on 8 February 2041, the issuance of the sukuk available under the AAA RM20 billion IMTN Programme (2009/2039) and the continuous financial support from the immediate and ultimate holding corporation, Minister of Finance (Incorporated) to refinance the outstanding government guaranteed bonds which are due for repayment in the next twelve months.

At the date of this report, there is no reason for the Directors to believe that the preparation of financial statements of the Group on a going concern basis is inappropriate.

Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

**(a) Basis of consolidation****(i) Subsidiaries**

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Potential voting rights are considered when assessing control only when such rights are substantive.

The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

**(ii) Business combinations**

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of consolidation (continued)****(ii) Business combinations (continued)**

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**(iii) Acquisitions of non-controlling interests**

The Group accounts all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

**(iv) Loss of control**

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as a financial asset depending on the level of influence retained.

**(v) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates and joint venture are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(b) Foreign currency****(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income or a financial instrument designated as a cash flow hedge, which are recognised in other comprehensive income.

**(c) Financial instruments****(i) Recognition and initial measurement**

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

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

**(ii) Financial instrument categories and subsequent measurement*****Financial assets***

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)*****Financial assets (continued)*****(a) Amortised cost**

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets where the effective interest rate is applied to the amortised cost.

**(b) Fair value through other comprehensive income****(i) Debt investments**

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investment, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)****Financial assets (continued)****(c) Fair value through profit or loss**

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

**(d) Amortised cost**

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

**(iii) Derecognition**

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Financial instruments (continued)****(iii) Derecognition (continued)**

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**(iv) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

**(d) Plant and equipment****(i) Recognition and measurement**

Items of plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) Plant and equipment (continued)****(ii) Subsequent costs**

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use. Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• Office equipment	20%
• Furniture and fittings	20%
• Computer equipment	20%
• Motor vehicles	20%
• Renovations	20%

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period and adjusted as appropriate.

**(e) Leases**

The Group has applied MFRS 16 using the modified retrospective approach, under which lease were measured at the present value of the remaining lease payment with no adjustment to retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, Leases and related interpretations.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Leases (continued)****Current financial year****(i) Definition of a lease**

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

**(ii) Recognition and initial measurement****(a) As a lessee**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Leases (continued)****Current financial year (continued)****(ii) Recognition and initial measurement (continued)****(a) As a lessee (continued)**

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**(b) As a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

The Group recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. The Group uses the interest rate implicit in the lease to measure the net investment in the lease.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Leases (continued)****Previous financial year****As a lessee****Operating lease**

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

Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals were charged to profit or loss in the reporting period in which they were incurred.

**(f) Cash and cash equivalents**

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

**(g) Impairment****(i) Financial assets**

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets and lease receivables. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime expected credit loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Impairment (continued)****(i) Financial assets (continued)**

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery amounts due.

**(ii) Other assets**

The carrying amounts of other assets (except for lease receivables, deferred tax asset, and non-current assets classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) Equity instruments**

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

**(i) Issue expenses**

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

**(ii) Ordinary shares**

Ordinary shares are classified as equity.

**(i) Employee benefits****(i) Short-term employee benefits**

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(ii) Defined contribution plans**

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group makes contributions to the Employees' Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

**(j) Provisions**

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(k) Revenue and other income****(i) Government grants**

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

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

**(ii) Interest income**

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

**(iii) Rental income**

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

**(iv) Management fee**

Management fee income is recognised in the profit or loss when management services are rendered using cost plus method.

**(l) Borrowing costs**

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Borrowing costs (continued)**

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

**(m) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## NOTES TO THE FINANCIAL STATEMENTS

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) Income tax (continued)**

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

**(n) Contingencies****(i) Contingent liabilities**

Where it is not probable that an outflow of economic benefit will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(o) Fair value measurement**

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

**3. PLANT AND EQUIPMENT**

Group and Company	Office renovation RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computer equipment RM'000	Motor vehicles RM'000	Others RM'000	Plant and equipment under construction RM'000	Total RM'000
<b>Cost</b>								
At 1 January 2018	2,890	380	756	35,756	735	31	2,500	43,048
Additions	67	39	44	613	-	3	345	1,111
Disposals	(172)	(26)	(32)	(41)	-	-	-	(271)
Reclassification	74	(20)	-	2,476	-	20	(2,550)	-
At 31 December 2018/ 1 January 2019	<b>2,859</b>	<b>373</b>	<b>768</b>	<b>38,804</b>	<b>735</b>	<b>54</b>	<b>295</b>	<b>43,888</b>
Additions	119	9	19	531	118	4	-	800
Disposals	(8)	-	-	(144)	-	-	-	(152)
Reclassification	-	-	-	295	-	-	(295)	-
At 31 December 2019	<b>2,970</b>	<b>382</b>	<b>787</b>	<b>39,486</b>	<b>853</b>	<b>58</b>	<b>-</b>	<b>44,536</b>
<b>Accumulated depreciation</b>								
At 1 January 2018	2,507	297	592	21,610	237	31	-	25,274
Depreciation	224	53	58	7,519	146	23	-	8,023
Disposals	(172)	(26)	(32)	(37)	-	-	-	(267)
At 31 December 2018/ 1 January 2019	<b>2,559</b>	<b>324</b>	<b>618</b>	<b>29,092</b>	<b>383</b>	<b>54</b>	<b>-</b>	<b>33,030</b>
Depreciation	127	31	53	7,313	136	4	-	7,664
Disposal	-	-	-	(60)	-	-	-	(60)
At 31 December 2019	<b>2,686</b>	<b>355</b>	<b>671</b>	<b>36,345</b>	<b>519</b>	<b>58</b>	<b>-</b>	<b>40,634</b>
<b>Carrying amounts</b>								
At 1 January 2018	383	83	164	14,146	498	-	2,500	17,774
At 31 December 2018/ 1 January 2019	<b>300</b>	<b>49</b>	<b>150</b>	<b>9,712</b>	<b>352</b>	<b>-</b>	<b>295</b>	<b>10,858</b>
At 31 December 2019	<b>284</b>	<b>27</b>	<b>116</b>	<b>3,141</b>	<b>334</b>	<b>-</b>	<b>-</b>	<b>3,902</b>

## NOTES TO THE FINANCIAL STATEMENTS

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**4. RIGHT-OF-USE ASSETS**

Group and Company	Building RM'000
At 1 January 2019	7,199
Depreciation	(1,298)
At 31 December 2019	5,901

The Group and the Company lease a number of offices that run between 1 year to 3 years, with an option to renew the lease after that date.

**(a) Extension options**

Some leases of office buildings contain extension options exercisable by the Group and the Company up to one year before the end of the non-cancellable contract period. Where applicable, the Group and the Company seek to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and the Company, and not by the lessors. The Group and the Company assess at lease commencement whether it is reasonably certain to exercise the extension options. The Group and the Company reassess whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As of 31 December 2019, the Group and the Company have included all potential future cash flows of exercising the extension options in the lease liability.

**5. ASSETS UNDER CONSTRUCTION**

Group and Company	Water assets under construction RM'000
<b>At cost</b>	
At 1 January 2018	1,935,428
Additions	903,846
Capitalisation of borrowing cost	15,963
Reclassification to finance lease receivables	(111,182)
At 31 December 2018/1 January 2019	2,744,055
Additions	1,059,027
Capitalisation of borrowing cost	139,190
Reclassification to finance lease receivables	(185,976)
At 31 December 2019	<b>3,756,296</b>
<b>Impairment loss</b>	
At 1 January 2018/31 December 2018/1 January 2019	
Impairment loss during the year	111,970
At 31 December 2019	<b>111,970</b>
<b>Carrying amounts</b>	
At 1 January 2018	1,935,428
At 31 December 2018/1 January 2019	2,744,055
At 31 December 2019	<b>3,644,326</b>

The water assets under construction comprise water assets that are to be leased to state water operators upon completion of construction under finance lease.

## NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT IN SUBSIDIARY

	Company	
	2019 RM'000	2018 RM'000
At cost		
Unquoted shares	1,000	1,000

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

Name of subsidiaries	Principal activities	Effective ownership interest and voting interest	
		2019 %	2018 %
Pengurusan Air SPV Berhad	6.1	100	100
Acqua SPV Berhad	6.2	100	100

Principal activities of the subsidiaries:

- 6.1** Special purpose entity incorporated by the Company for the purpose of issuing islamic debt instruments for the Company to develop and manage the nation's water assets and related infrastructure in Peninsular Malaysia and the Federal Territories of Putrajaya and Labuan.
- 6.2** Special purpose entity incorporated by the Company for the purpose of acquisition of a portfolio of debt instruments from the water operators in Selangor as part of the Company planned acquisition of water assets in Selangor.

The debt instrument amounting to RM6.1 billion has been transferred and settled vide the Settlement Agreement entered between the Acqua SPV Berhad, a subsidiary and Pengurusan Air Selangor Sdn. Bhd. on 11 September 2019. The subsidiary has become dormant since the date.

## 7. FINANCE LEASE RECEIVABLES

	Group and Company	
	2019 RM'000	2018 RM'000 (Restated)
<b>Non-current</b>		
Lease receivables	22,949,220	12,513,088
Expected credit loss	(5,810)	(7,090)
	22,943,410	12,505,998
<b>Current</b>		
Lease receivables	118,042	1,167,064
	23,061,452	13,673,062

**7.1** The Group and the Company lease water assets to state water operators. The lease receivables include Ranhill Saj Sdn Bhd, Syarikat Air Melaka Berhad, Syarikat Air Negeri Sembilan Sdn. Bhd., Air Kelantan Sdn. Bhd., Lembaga Air Perak, Pengurusan Air Selangor Sdn. Bhd. and Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd collectively known as the state water operators.

**7.2** In the assessment of leases to conclude whether there are finance or operating leases, the Directors exercised significant judgment and considered the following:

These leases transfer substantially all the risk and rewards incidental to ownership of the water assets.

- The Group and the Company expect the residual value of the water assets at the end of the lease term to be minimal.

Each of the lease contains an initial non-cancellation period of 45 years. Subsequent renewals are negotiated with the lessees and on average renewal period are 45 years.

While there is no indicator of impairment, the Group and the Company have recognised impairment loss on the assets under construction as it is uncertain whether certain capitalised borrowing costs can be recoverable from the state water operators. The carrying amount of the assets under construction is written to an amount where the Directors believe they can be recoverable.

**7.3** The finance lease increased substantially during the year due to the completion of the Selangor water asset migration amounting to RM10.5 billion. Included in the migration amount are:

- Consideration amounting to RM1.9 billion paid by the Company in connection to the acquisition of Syarikat Pengeluar Air Sungai Selangor Sdn. Bhd. by Air Selangor; and
- Settlement of Bank Pembangunan Malaysia Berhad's loan amounting to RM665,389,218 on behalf of Syarikat Bekalan Air Selangor Sdn. Bhd.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

## 7. FINANCE LEASE RECEIVABLES (CONTINUED)

## 7.4 The lease payments to be received are as follows:

	Group and Company	
	2019 RM'000	2018 RM'000 (Restated)
Less than one year	1,089,885	735,808
One to two years	1,101,136	1,089,885
Two to three years	1,108,093	1,101,136
Three to four years	1,115,188	1,108,093
Four to five years	1,122,425	1,115,188
More than five years	44,961,924	46,084,349
	<b>50,498,651</b>	<b>51,234,459</b>

## 8. TRADE RECEIVABLES

	Group and Company	
	2019 RM'000	2018 RM'000 (Restated)
<b>Non-current</b>		
Trade receivables	426,591	363,375
Allowance for impairment	(182,142)	(197,337)
	<b>244,449</b>	<b>166,038</b>
<b>Current</b>		
Trade receivables	5,879	76,344
	<b>250,328</b>	<b>242,382</b>

The trade receivables represent the lease rentals due and payable by state water operators; Ranhill Saj Sdn Bhd, Syarikat Air Melaka Berhad, Syarikat Air Negeri Sembilan Sdn. Bhd., Air Kelantan Sdn. Bhd., and Lembaga Air Perak.

The non-current trade receivables mainly comprise Syarikat Air Negeri Sembilan Sdn. Bhd. (SAINS) and Air Kelantan Sdn. Bhd. (AKSB). SAINS has restructured the outstanding amount to be repaid over 36 years whereas the amount owing by AKSB is within the five years moratorium period. Consequently, the amounts due are classified as non-current.

## 9. OTHER RECEIVABLES

	Group	
	2019 RM'000	2018 RM'000 (Restated)
Deposits	23,518	15,062
Interest receivables	673	352
Prepayments and other receivables	912	20,736
Advances to employees	169	158
	<b>25,272</b>	<b>36,308</b>

	Company	
	2019 RM'000	2018 RM'000 (Restated)
Deposits	23,518	15,062
Interest receivables	673	344
Prepayments and other receivables	851	20,736
Advances to employees	169	158
	<b>25,211</b>	<b>36,300</b>

## 10. AMOUNT DUE FROM A SUBSIDIARY

	Company	
	2019 RM'000	2018 RM'000
<b>Current</b>		
Amount due from a subsidiary	-	5,265,621

In prior year, the amount due from a subsidiary mainly relates to management fee charged by the Company and interest expense paid on behalf by the Company in relation to the debt securities issued by a related company. The amount due from a subsidiary is unsecured, interest bearing and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

## 11. OTHER INVESTMENTS

	Note	Group	
		2019 RM'000	2018 RM'000 (Restated)
<b>Current</b>			
<i>Fair value through profit or loss</i>			
- Investment in debt securities issued by Pengurusan Air Selangor Sdn. Bhd.	11.1	-	6,182,807
<i>Fair value through other comprehensive income</i>			
- Debt securities		586,038	631,277
		<b>586,038</b>	6,814,084

	Note	Company	
		2019 RM'000	2018 RM'000 (Restated)
<b>Current</b>			
<i>Fair value through other comprehensive income</i>			
- Debt securities		586,038	631,277
		<b>586,038</b>	631,277

## 11.1 Fair value through profit or loss

Included in prior year's fair value investment through profit or loss were bond investments amounting to RM6,069,125. The Company, via a wholly owned subsidiary, Acqua SPV Berhad, acquired conventional bonds and islamic debt instrument assets from the existing water operators in Selangor as part of the Company's planned acquisition of the water assets in Selangor.

Upon completion of the migration of water assets of Selangor during the financial year, these bonds have been redeemed.

## 12. CASH AND CASH EQUIVALENTS

	Note	Group	
		2019 RM'000	2018 RM'000 (Restated)
Short term deposits		550,564	197,334
Cash and bank balances		11,706	9,212
	12.1	<b>562,270</b>	206,546

	Note	Company	
		2019 RM'000	2018 RM'000 (Restated)
Short term deposits		474,564	197,298
Cash and bank balances		8,759	8,458
	12.2	<b>483,323</b>	205,756

**12.1** The Group short term deposits and bank balances amounting to RM498,911,000 (2018: RM161,101,000) are held with government-related entities.

**12.2** The Company short term deposits and bank balances amounting to RM420,229,000 (2018: RM160,588,000) are held with government-related entities.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

## 13. SHARE CAPITAL AND RESERVE

	Group and Company			
	Amount 2019 RM'000	Number of shares 2019 '000	Amount 2018 RM'000	Number of shares 2018 '000
Issued and fully paid shares with no par value classified as equity instruments:				
Ordinary shares				
At 1 January	730,000	730,000	660,000	660,000
Issued during the year	-	-	70,000	70,000
At 31 December	730,000	730,000	730,000	730,000

**Ordinary shares**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of debt securities designated at fair value through other comprehensive income until the assets are derecognised or impaired.

## 14. DEFERRED INCOME

	Note	Group and Company	
		2019 RM'000	2018 RM'000 (Restated)
<b>Non-current</b>			
Deferred income from:			
Government grant arising from interest free loan	14.1	2,219,148	1,565,910
Non-monetary government grant	14.2	121,564	-
		2,340,712	1,565,910

## 14. DEFERRED INCOME (CONTINUED)

- 14.1** The government grant is arising from the differences between the present value of future cash flows and the nominal value of the loans, discounted at the Malaysia Government Securities (MGS) coupon rate between 3.73% to 4.16%.
- 14.2** The Company received a Sungai Labu off river storage from Ministry of Energy, Science, Technology, Environment and Climate Change (KeTTHA) during the financial year. The fair value of the asset was based on the land acquisition cost and construction cost incurred by KeTTHA on the date of the transfer. The grant will be amortised over 45 years.

## 15. LOANS AND BORROWINGS

	Note	Group		Company	
		2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
<b>Non-current</b>					
Loans from the Government of Malaysia ("GoM")	15.1	3,620,508	3,834,998	3,620,508	3,834,998
Islamic Medium Term Notes ("IMTN")	15.2	15,590,000	11,840,000	-	-
		19,210,508	15,674,998	3,620,508	3,834,998
<b>Current</b>					
Loans from the Government of Malaysia ("GoM")	15.1	97,971	95,194	97,971	95,194
Islamic Medium Term Notes ("IMTN")	15.2	2,616,667	2,870,876	-	-
		2,714,638	2,966,070	97,971	95,194
		21,925,146	18,641,068	3,718,479	3,930,192

**15.1 Loan from Government of Malaysia ("GoM")**

Loans from GoM are unsecured, non-interest bearing and are expected to be repayable over the approximate periods of 25 years commencing from the date of each loan agreement. These loans represent federal loans taken over from the States of Melaka, Negeri Sembilan, Johor, Pulau Pinang, Perak, Kelantan and Selangor as part of the Company's acquisition of the nation's water assets.

During the financial year, the Company have received loan waiver amounting to RM1,086,111,312 from GoM. The nominal value of the loan at the end of the reporting period was RM5.9 billion (2018:RM5.5 billion). The initial recognition of the outstanding loans provided by GoM were determined based by discounting future cash flows at rates ranging from 3.73% to 4.16%. The corresponding government grant has been recognised and disclosed in Note 14.

## 15. LOANS AND BORROWINGS (CONTINUED)

## 15.2 Islamic Medium-Term Notes ("IMTN")

	2019 RM'000	2018 RM'000 Restated
<b>Non-current</b>		
<b>Government guaranteed</b>		
Islamic Medium-Term Notes	9,760,000	11,210,000
<b>Non-government guaranteed</b>		
Islamic Medium-Term Notes	5,830,000	630,000
	<b>15,590,000</b>	11,840,000
<b>Current</b>		
<b>Government guaranteed</b>		
Islamic Medium-Term Notes	2,558,114	2,210,198
<b>Non-government guaranteed</b>		
Islamic Medium-Term Notes	58,553	660,678
	<b>2,616,667</b>	2,870,876
	<b>18,206,667</b>	14,710,876

The IMTNs were issued by a subsidiary, Pengurusan Air SPV Berhad. The purpose of issuance the Islamic debt instruments were made solely to finance the operation of the Company's for the purpose of acquisition of national water assets and to finance the Company's development and construction of new water assets and related working capital requirement.

## 15. LOANS AND BORROWINGS (CONTINUED)

## 15.2 Islamic Medium Term Notes ("IMTN") (continued)

The IMTNs were issued in two structures:

In respect of the Sukuk Ijarah

- The Sukukholders, through a subsidiary, Pengurusan Aset Air SPV Berhad ("the issuer") purchases certain Ijarah Assets from time to time from the Company, by way of transfer of the beneficial ownership of the Ijarah Assets pursuant to an Asset Purchase Agreement.
- The Issuer (on behalf of the Sukukholders) (in such capacity, the "Lessor") shall then, from time to time, lease the Ijarah Assets to the Company (in such capacity, the "Lessee") for a predetermined rental and tenure pursuant to the Ijarah Agreement. The Issuer declares a trust over the Ijarah Assets, the present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking and the proceeds of the foregoing (collectively the "Ijarah Trust Assets") in favour of the Sukukholders, and shall issue the Sukuk Ijarah to the Sukukholders to represent the Sukukholders' undivided beneficial ownership in the Ijarah Trust Assets.

In respect of the Sukuk Musyarakah

- Investors shall from time to time form a Musyarakah amongst themselves and subscribe to the Sukuk Musyarakah issued by the Issuer which represent their proportionate and undivided interest in the pool of Musyarakah Assets (as defined below) to be managed by the Company.
- The Musyarakah Assets shall form part of the Musyarakah Venture. The Musyarakah Assets will consist of at least 1/3 of Existing Assets and will be identified at or around the time of issuance of the Sukuk Musyarakah. The Issuer, on behalf of the Sukukholders (in its capacity as the "Lessor"), shall then lease the Existing Assets in the Musyarakah Venture to the Company for a pre-determined Rentals and tenure pursuant to the Ijarah Agreement.
- The Issuer shall declare a trust over the Musyarakah Assets, its present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking and the proceeds of the foregoing (collectively the "Musyarakah Trust Assets") in favour of the Sukukholders, and the Sukuk Musyarakah shall represent the Sukukholders' undivided beneficial ownership in the Musyarakah Trust Assets.
- The Sukukholders shall share any returns from the Musyarakah Venture (i.e. Rentals from the Ijarah Agreement between the Issuer and the Company with respect to the Existing Assets in the Musyarakah Venture and any Shariah-compliant income generated from the investments).

## NOTES TO THE FINANCIAL STATEMENTS

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## 15. LOANS AND BORROWINGS (CONTINUED)

## 15.2 Islamic Medium Term Notes ("IMTN") (continued)

In respect of the Sukuk Musyarakah (continued)

- Future Assets and Assets To Be Acquired which may include among others, the rental proceeds received from third parties via the lease of completed Future Assets or from delivered Assets To Be Acquired in proportion to their respective holdings of the Sukuk Musyarakah while losses shall be borne by and limited to each Sukukholder's respective capital contribution to the Musyarakah Venture.
- Returns generated from the Musyarakah Venture shall be distributed to the Sukukholders as expected return of the Musyarakah Venture in the form of one-off or periodic distributions. The Sukukholders shall agree that any returns in excess of the expected return shall be paid to the Manager as incentive fees.
- Pursuant to the Purchase Undertaking, PAAB shall purchase the Musyarakah Assets from the Issuer, by way of transfer of the beneficial ownership, at the Exercise Price upon the occurrence of certain events.

## 16. AMOUNT DUE TO SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000 (Restated)
<b>Non-Current</b>		
Amount due to subsidiaries	15,590,000	11,840,000
<b>Current</b>		
Amount due to subsidiaries	3,491,961	2,868,974
	19,081,961	14,708,974

The amount due to subsidiaries is unsecured, interest bearing and repayable by the Company as and when the subsidiary's Islamic debt instruments' principals and profit amounts are due for payments.

## 17. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
<b>Trade</b>				
Trade payables	57,106	13,438	57,106	13,438
Retention sum	121,670	110,009	121,670	110,009
Accruals for project related cost	49,777	37,062	49,777	37,062
Advance rental payment by state water operators	34,767	3,731	34,767	3,731
	263,320	164,240	263,320	164,240
<b>Non-trade</b>				
Other accruals	14,859	18,300	14,859	18,300
Other payables	3,212	12,057	2,620	11,954
	18,071	30,357	17,479	30,254
	281,391	194,597	280,799	194,494

## 18. DEFERRED TAX LIABILITIES

## Recognised deferred tax liabilities

	Assets		Liabilities		Net	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
<b>Group and Company</b>						
Property, plant and equipment	3,889	2,126	-	-	3,889	2,126
Right-of-use assets	65	-	-	-	65	-
Assets under construction	-	-	(10,364)	(3,831)	(10,364)	(3,831)
Finance lease receivables	961,314	290,874	(3,705,976)	(2,988,493)	(2,744,662)	(2,697,619)
Trade receivables	43,714	47,361	-	-	43,714	47,361
Trade and other payables	2,626	2,595	-	-	2,626	2,595
Tax loss carry-forwards	1,690	1,690	-	-	1,690	1,690
Tax assets/(liabilities)	1,013,298	344,646	(3,716,340)	(2,992,324)	(2,703,042)	(2,647,678)
Set off of tax	(34)	(24)	34	24	-	-
Net tax assets/(liabilities)	1,013,264	344,622	(3,716,306)	(2,992,300)	(2,703,042)	(2,647,678)

## NOTES TO THE FINANCIAL STATEMENTS

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**18. DEFERRED TAX LIABILITIES (CONTINUED)****Movement in temporary differences during the year**

Group and Company	At	At	At	Recognised	At
	1 January 2018 RM'000	Recognised in profit or loss (Note 26) RM'000	31 December 2018/ 1 January 2019 RM'000	in profit or loss (Note 26) RM'000	31 December 2019 RM'000
Property, plant and equipment	519	1,607	<b>2,126</b>	1,763	<b>3,889</b>
Right-of-use assets	-	-	-	65	<b>65</b>
Assets under construction	-	(3,831)	<b>(3,831)</b>	(6,533)	<b>(10,364)</b>
Finance lease receivables	(2,653,203)	(44,416)	<b>(2,697,619)</b>	(47,043)	<b>(2,744,662)</b>
Trade receivables	42,971	4,390	<b>47,361</b>	(3,647)	<b>43,714</b>
Trade and other payables	2,526	69	<b>2,595</b>	31	<b>2,626</b>
Tax loss carry-forwards	1,690	-	<b>1,690</b>	-	<b>1,690</b>
	(2,605,497)	(42,181)	<b>(2,647,678)</b>	(55,364)	<b>(2,703,042)</b>

The Inland Revenue Board of Malaysia (IRB), in its letter dated 8 May 2020 highlighted preliminary review findings in respect of the Company's tax computation for the Year of Assessment (YA) 2014 to YA 2018 as follows:

- The sale and leaseback transactions entered into by the Company have the characteristics of a finance lease. Therefore, the difference between the total lease rental and the cost of the lease assets should be treated as interest income and taxed separately as a non-business source income under Section 4(c) of the Income Tax Act, 1967 (MITA). This is contrary to the current tax treatment adopted by the Company to recognise the lease rental income as business source income under Section 4(a) of the MITA; and
- The Company therefore should not be entitled to claim capital allowances in relation to the water assets that migrated from state owned water operators/the states to the Company as the Company did not fulfil the condition under Schedule 3 of the MITA.

The Company has obtained an extension of time until 15 June 2020 to submit additional information and supporting evidence to support its position on the preliminary findings.

**18. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**

Additional tax and penalties may be imposed by the IRB arising from the findings. The potential additional tax and penalties cannot be reliably measured at this stage pending the resolution of the matter with the IRB, as well as verification of amounts in the IRB's letter.

Notwithstanding the above, in the event that the IRB's position prevails, the deferred tax liabilities arising from the taxable temporary differences on finance lease receivables will be reversed to mitigate the non-eligibility of capital allowance claim. The management does not expect the non-eligibility of capital allowance claim will have a material financial impact to the profit or loss of the Group and the Company during the financial year.

**19. REVENUE**

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
Finance lease income	<b>667,231</b>	541,493	<b>667,231</b>	541,493
	<b>667,231</b>	541,493	<b>667,231</b>	541,493

**20. OTHER INCOME**

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
Miscellaneous	<b>8,458</b>	1,803	<b>9,122</b>	2,372
Recovery of sukuk issuance cost from Pengurusan Air Selangor Sdn Bhd	<b>35,000</b>	-	<b>35,000</b>	-
Unrealised foreign exchange gain from government loan	<b>529</b>	-	<b>529</b>	-
	<b>43,987</b>	1,803	<b>44,651</b>	2,372

## NOTES TO THE FINANCIAL STATEMENTS

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## 21. FINANCE INCOME

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
Interest income of financial assets calculated using the effective interest method that are:				
- at amortised cost				
Placement in licensed banks and other corporations	2,506	2,112	279	2,112
Amount due from subsidiary, Acqua SPV Berhad	-	-	220,000	219,090
- at fair value through other comprehensive income				
Other investment managed by external fund managers	55,763	56,750	55,763	56,750
	<b>58,269</b>	<b>58,862</b>	<b>276,042</b>	<b>277,952</b>

## 22. FINANCE COSTS

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
Interest expense of financial liabilities that are not at fair value through profit or loss				
Government loans	131,893	93,059	131,893	93,059
Islamic Medium Term Notes	732,485	623,871	-	-
Amount due to subsidiary, Pengurusan Air SPV Berhad	-	-	732,485	623,871
Lease interest charges	462	-	462	-
Other finance related costs	286	228	286	223
	<b>865,126</b>	<b>717,158</b>	<b>865,126</b>	<b>717,153</b>
Interest expense of financial liabilities that are not at fair value through profit or loss capitalised into qualifying assets:				
- assets under construction	(139,190)	(15,963)	(139,190)	(15,963)
	<b>725,936</b>	<b>701,195</b>	<b>725,936</b>	<b>701,190</b>

**Capitalised Borrowing costs**

The borrowing costs are capitalised at 4.21% (2018: 4.28%), which is the weighted average interest rate applicable to the entity's general borrowings during the year.

## 23. PROFIT FOR THE YEAR

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
<b>Profit for the year is arrived at after charging/(crediting):</b>				
Auditors' remunerations:				
- Audit fees				
KPMG PLT	280	-	200	-
Other auditors	-	273	-	183
- Non-audit fees KPMG PLT	55	-	35	-
<b>Material expenses/(income)</b>				
Depreciation of property, plant and equipment	7,664	8,023	7,664	8,023
Depreciation of right-of-use assets	1,298	-	1,298	-
Impairment loss on assets under construction	111,970	-	111,970	-
Wages, salaries and bonus	17,835	19,098	17,835	19,098
<b>Net (reversal)/loss on impairment of financial instruments</b>				
Financial assets at amortised cost				
- Trade receivables	(15,195)	18,290	(15,195)	18,290
- Lease receivables	(1,280)	7,090	(1,280)	7,090

## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

**24. PERSONNEL COSTS (KEY MANAGEMENT PERSONNEL)**

	Group and Company	
	2019 RM'000	2018 RM'000
Executive director:		
Basic salaries, bonus and allowances	-	573
Defined contribution plan	-	58
	-	631
Estimated value of benefit-in-kind	-	34
	-	665
Non-executive director:		
Fees	349	414
Other emoluments	172	200
	521	614
Other key management personnel:		
Remuneration	654	672
	654	672
Total short term employee benefits	1,175	1,951

**25. PERSONNEL COSTS (EXCLUDING KEY MANAGEMENT PERSONNEL)**

	Group and Company	
	2019 RM'000	2018 RM'000
Wages and salaries	15,606	14,625
Bonus	2,229	4,473
Contributions to defined contribution plans	2,748	2,733
Other employee benefits	4,724	4,098
	25,307	25,929

**26. INCOME TAX EXPENSE****26.1 Recognised in profit or loss**

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
<b>Current tax expenses</b>				
- Current financial year	5,454	(18,900)	5,020	3,006
- Over provision in respect of prior years	(3,041)	-	(3,041)	-
	2,413	(18,900)	1,979	3,006
<b>Deferred income tax</b>				
- Origination and reversal of temporary differences	55,364	42,181	55,364	42,181
	57,777	23,281	57,343	45,187

**26.2 Reconciliation of tax expense**

	Group		Company	
	2019 RM'000	2018 RM'000 (Restated)	2019 RM'000	2018 RM'000 (Restated)
Profit before tax	279,241	319,036	241,535	171,322
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	67,018	76,569	57,968	41,117
Expenses not deductible for tax purposes	2,563	4,215	2,416	4,070
Income not subject to tax	(8,763)	(35,597)	-	-
Over provision in prior years	(3,041)	(21,906)	(3,041)	-
Total tax expenses	57,777	23,281	57,343	45,187

Refer to Note 18 on potential tax expenses arising from preliminary tax findings from an audit by IRB.

## NOTES TO THE FINANCIAL STATEMENTS

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## 27. DIVIDEND

	Sen per share	Total amount RM'000	Date of payment
<b>2019</b>			
Final 2018 ordinary	4.05	29,563	10 July 2019
<b>2018</b>			
Final 2017 ordinary	5.16	34,030	8 May 2018

The Directors recommend the payment of a final single-tier dividend of 3.03 sen per ordinary share on 730,000,000 shares amounting to RM22,146,400 in respect of the financial year ended 31 December 2019, subject to the shareholder's approval at the forthcoming Annual General Meeting of the Company.

## 28. FINANCIAL INSTRUMENTS

## 28.1 Categories of financial instruments

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

- Amortised cost ("AC");
- Fair value through profit or loss ("FVTPL");
- Fair value through other comprehensive income ("FVOCI"); and
- Financial liabilities measured at amortised cost ("FL").

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.1 Categories of financial instruments (continued)

Group	Carrying amount RM'000	AC RM'000	FVTPL RM'000	FVOCI RM'000
<b>2019</b>				
<b>Financial assets</b>				
Trade receivables	250,328	250,328	-	-
Other receivables (exclude prepayment)	24,360	24,360	-	-
Other investments	586,038	-	-	586,038
Cash and bank balances	562,270	562,270	-	-
	<b>1,422,996</b>	<b>836,958</b>	-	<b>586,038</b>
<b>Financial liabilities</b>				
Trade and other payables	(281,391)	(281,391)	-	-
Lease liabilities	(6,174)	(6,174)	-	-
Loans and borrowings	(21,925,146)	(21,925,146)	-	-
	<b>(22,212,711)</b>	<b>(22,212,711)</b>	-	-
<b>2018</b>				
<b>Financial assets</b>				
Trade receivables	242,382	242,382	-	-
Other receivables (exclude prepayment)	15,572	15,572	-	-
Other investments	6,814,084	-	6,182,807	631,277
Cash and bank balances	206,546	206,546	-	-
	<b>7,278,584</b>	<b>464,500</b>	<b>6,182,807</b>	<b>631,277</b>
<b>Financial liabilities</b>				
Trade and other payables	(194,597)	(194,597)	-	-
Loans and borrowings	(18,641,068)	(18,641,068)	-	-
	<b>(18,835,665)</b>	<b>(18,835,665)</b>	-	-

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.1 Categories of financial instruments (continued)**

	Carrying amount RM'000	AC RM'000	FVOCI RM'000
<b>Company</b>			
<b>2019</b>			
<b>Financial assets</b>			
Trade receivables	250,328	250,328	-
Other receivables (exclude prepayment)	24,360	24,360	-
Other investments	586,038	-	586,038
Cash and bank balance	483,323	483,323	-
	<b>1,344,049</b>	<b>758,011</b>	<b>586,038</b>
<b>Financial liabilities</b>			
Loans and borrowings	(3,718,479)	(3,718,479)	-
Lease liabilities	(6,174)	(6,174)	-
Amount due to subsidiaries	(19,081,961)	(19,081,961)	-
Trade and other payables	(280,799)	(280,799)	-
	<b>(23,087,413)</b>	<b>(23,087,413)</b>	-
<b>2018</b>			
<b>Financial assets</b>			
Trade receivables	242,382	242,382	-
Other receivables (exclude prepayment)	15,564	15,564	-
Other investments	631,277	-	631,277
Cash and bank balance	205,756	205,756	-
Amount due from a subsidiary	5,265,621	5,265,621	-
	<b>6,360,600</b>	<b>5,729,323</b>	<b>631,277</b>
<b>Financial liabilities</b>			
Loans and borrowings	(3,930,192)	(3,930,192)	-
Amount due to subsidiaries	(14,708,974)	(14,708,974)	-
Trade and other payables	(194,494)	(194,494)	-
	<b>(18,833,660)</b>	<b>(18,833,660)</b>	-

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.2 Net gains/(losses) arising from financial instruments**

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net gains/(losses) on:				
Financial assets at fair value through profit or loss				
- Debt securities	257,320	368,083	529	(1,599)
Financial assets at fair value through other comprehensive income				
- Other investment	55,763	56,750	55,763	56,750
Financial assets at amortised cost	134,399	95,171	352,172	314,261
Financial liabilities at amortised cost	(725,936)	(701,195)	(725,936)	(701,190)
	<b>(278,454)</b>	<b>(181,191)</b>	<b>(317,472)</b>	<b>(331,778)</b>

**28.3 Financial risk management**

The Group and the Company have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors regularly reviews and agrees policies and procedures for the management of these risks.

The following sections provide details on the Group's and Company's exposure to the above mentioned financial risks and the objectives and policies for the management of these risks.

**28.4 Credit risk**

Credit risk is the risk of a financial loss if a counterparty to a financial instrument fails to meet its obligations. The Group's and the Company's exposure to credit risk arises principally from trade and lease receivables, other investments and cash and bank balances. The Company has exposure to credit risk arises from amount due from subsidiaries. There are no significant changes as compared to prior periods.

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.4 Credit risk (continued)****Trade receivables and lease receivables***Risk management objectives, policies and processes for managing the risk*

The Group manages its credit risk by establishing credit controls with the view to ensuring that overdue debts are within an acceptable level.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables are represented by the carrying amounts in the statements of financial position. The credit risk of the trade receivables of the Group and the Company are deemed low because they are due from the state water operators who are managing the water supply of the states. Indication of impairment may arise when there is delay in instalments from the state water operators. The Group and the Company do not impose penalty on default payments. It is expected that the Group and the Company will enter into a new payment schedule with state water operators when there is a delay in payment from the state water operators. Consequently, the Group will obtain deferment of federal government loans caused by the delay of payment from the state water operators.

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.4 Credit risk (continued)****Trade receivables and lease receivables (continued)***Concentration of credit risk*

The exposure of credit risk for trade receivables as at the end of the reporting period by geographic region was:

	Group and Company		
	Trade receivables RM'000	Lease receivables RM'000	Total RM'000
<b>2019</b>			
Negeri Sembilan	<b>369,030</b>	<b>1,494,515</b>	<b>1,863,545</b>
Kelantan	<b>55,208</b>	<b>573,415</b>	<b>628,623</b>
Johor	<b>1,409</b>	<b>6,657,653</b>	<b>6,659,062</b>
Melaka	<b>6,823</b>	<b>1,029,462</b>	<b>1,036,285</b>
Perak	-	<b>679,170</b>	<b>679,170</b>
Pulau Pinang	-	<b>538,760</b>	<b>538,760</b>
Selangor	-	<b>12,094,287</b>	<b>12,094,287</b>
	<b>432,470</b>	<b>23,067,262</b>	<b>23,499,732</b>
<b>2018</b>			
Negeri Sembilan	373,096	1,788,429	2,161,525
Kelantan	38,573	583,177	621,750
Johor	16,949	6,847,614	6,864,563
Melaka	8,587	1,199,545	1,208,132
Perak	2,514	1,070,127	1,072,641
Pulau Pinang	-	553,321	553,321
Selangor	-	1,637,939	1,637,939
	439,719	13,680,152	14,119,871

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## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.4 Credit risk (continued)

## Trade receivables and lease receivables (continued)

*Recognition and measurement of impairment loss*

The Group and the Company assessed the risk of loss of each state water operator individually based on their financial information and past trend of payment where applicable. The Group and the Company considered the expected timing of cash flows to be received by the Group and the Company to recover the receivables in determining the allowance of impairment.

The expected credit loss has been measured based on differences between the discounted expected cash flow to be received from the state water operator and carrying amount of the trade receivables at the end of the reporting period. Similar expected credit loss measurement approach is applied for finance lease receivables.

The following discount rates were used in measuring the present value of cashflows expected from the trade receivables. The discount rate used is the weighted average cost of capital to finance the purchase of the water assets.

	Group and Company	
	2019 %	2018 %
Discount rate	4.22	4.28

The following table provides information about the exposure to credit risk and ECLs for trade receivables and lease receivables which are group together as they are expected to have similar risk nature.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.4 Credit risk (continued)

## Trade receivables and lease receivables (continued)

*Recognition and measurement of impairment loss (continued)*

	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
<b>Group/Company</b>			
<b>2019</b>			
Current not past due	23,071,490	(5,810)	23,065,680
Past due 61-120 days	3,815	-	3,815
Past due 121-180 days	2,267	-	2,267
Past due more than 180 days	422,160	(182,142)	240,018
	23,499,732	(187,952)	23,311,780
Trade receivables	432,470	(182,142)	250,328
Lease receivables	23,067,262	(5,810)	23,061,452
	23,499,732	(187,952)	23,311,780
<b>2018</b>			
Current not past due	13,687,259	(7,090)	13,680,169
Past due 61-120 days	12,432	-	12,432
Past due 121-180 days	15,164	-	15,164
Past due more than 180 days	405,016	(197,337)	207,679
	14,119,871	(204,427)	13,915,444
	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
<b>Group/Company</b>			
<b>2018</b>			
Trade receivables	439,719	(197,337)	242,382
Lease receivables	13,680,152	(7,090)	13,673,062
	14,119,871	(204,427)	13,915,444

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.4 Credit risk (continued)***Recognition and measurement of impairment loss (continued)*

The movements in the allowance for impairment in respect of trade receivables and lease receivables for the year as shown below.

	Trade receivables RM'000	Lease receivables RM'000	Total RM'000
Balance as at 1 January 2018	179,047	-	179,047
Net remeasurement of allowance	18,290	7,090	25,380
Balance at 31 December 2018	197,337	7,090	204,427
Net remeasurement of allowance	(15,195)	(1,280)	(16,475)
Balance at 31 December 2019	<b>182,142</b>	<b>5,810</b>	<b>187,952</b>

The significant reversal of impairment mainly arising from the reduction in the expected cash flows to be paid by Syarikat Air Negeri Sembilan Sdn. Bhd. and Air Kelantan Sdn. Bhd. as a result of the loan waiver granted by Government of Malaysia which took effect at 1 January 2019.

**Other investments***Risk management objectives, policies and processes for managing the risk*

Investments are allowed only in liquid securities and only with counterparties that have an investment grade credit rating.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the Group or the Company is mainly invested in debt securities. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

The investments are unsecured.

The Group and the Company are of the views that the loss allowance is not material and hence, it is not provided for.

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.4 Credit risk (continued)****Other investments (continued)**

The following table presents an analysis of the credit quality of debt securities FVOCI and FVTPL.

	FVOCI		FVTPL
	2019 RM'000	2018 RM'000	2018 RM'000
<b>Debt securities</b>			
A to AAA	<b>499,156</b>	523,708	6,182,807
BB+	<b>21,887</b>	31,077	-
GG	<b>64,995</b>	76,492	-
Total debt securities	<b>586,038</b>	631,277	6,182,807

**Cash and cash equivalents***Risk management objectives, policies and processes for managing the risk*

Cash and cash equivalents are placed with financial institutions which are regulated.

*Exposure to credit risk, credit quality and collateral*

As at the end of the reporting period, the maximum exposure to credit risk of the Group and the Company are represented by the carrying amounts in the statement of financial position.

**Other receivables**

Credit risks on other receivables are mainly arising from projects deposits paid to state water operators for assets under construction. These deposits will be refunded at the end of each construction.

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

The Company considers deposits placed with the state water operators have low credit risk as the state water operators will restructure the repayment schedule with the Company when there is a delay in instalment. Consequently, the Company will request for deferment of loan payment from the Government of Malaysia for the delay in instalment by the state water operators. As at the end of the reporting period, the Company did not recognise any allowance for impairment losses.

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.4 Credit risk (continued)****Inter-company loans and advances***Risk management objectives, policies and processes for managing the risk*

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

*Exposure to credit risk, credit quality and collateral*

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

The Company does not specifically monitor the ageing of current advances to the subsidiaries.

*Recognition and measurement of impairment loss*

Generally, the Company considers advances to subsidiaries have low credit risk as the Company is able to determine the timing of payments of the advances when they are payable.

The Company is of the views that the loss allowances is not material and did not recognise any allowance for impairment losses.

**28.5 Liquidity risk**

Liquidity risk is the risk that the Group's and the Company's will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arise principally from various payables, loans and borrowings.

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

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.5 Liquidity risk (continued)***Maturity analysis*

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon/ discount rate	Contractual cash flows RM'000	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000
<b>Group</b>						
<b>2019</b>						
<b>Financial liabilities</b>						
Loans from the Government of Malaysia	3,718,479	3.73% - 4.16%	5,937,627	99,591	565,145	5,272,890
Islamic medium term notes	18,206,667	3.60% - 4.63%	21,282,454	3,177,753	11,359,041	6,745,660
Lease liabilities	6,174	6.85%	7,223	1,486	5,737	-
Trade and other payables	281,391	-	281,391	281,391	-	-
<b>Total undiscounted financial liabilities</b>	<b>22,212,711</b>		<b>27,508,695</b>	<b>3,560,221</b>	<b>11,929,923</b>	<b>12,018,550</b>
<b>2018</b>						
<b>Financial liabilities</b>						
Loans from the Government of Malaysia	3,930,192	3.73% - 4.16%	5,496,102	88,308	582,926	4,824,868
Islamic medium term notes	14,710,876	3.72% - 5.05%	16,660,062	3,315,523	9,830,036	3,514,503
Trade and other payables	194,597	-	194,597	194,597	-	-
<b>Total undiscounted financial liabilities</b>	<b>18,835,665</b>		<b>22,350,761</b>	<b>3,598,428</b>	<b>10,412,962</b>	<b>8,339,371</b>

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate/ coupon/ discount rate	Contractual cash flows RM'000	On demand or within one year RM'000	One to five years RM'000	Over five years RM'000
<b>Company</b>						
<b>2019</b>						
<b>Financial liabilities</b>						
Loans from the Government of Malaysia	3,718,479	3.73% - 4.16%	5,937,626	99,591	565,145	5,272,890
Trade and other payables	280,799	-	280,799	280,799	-	-
Lease liabilities	6,174	6.85%	7,223	1,486	5,737	-
Amount due to subsidiaries	19,081,961	3.60% - 4.63%	21,596,662	3,491,961	11,359,041	6,745,660
Total undiscounted financial liabilities	23,087,413		27,822,310	3,873,837	11,929,923	12,018,550
<b>2018</b>						
<b>Financial liabilities</b>						
Loans from the Government of Malaysia	3,930,192	3.73% - 4.16%	5,496,102	88,308	582,926	4,824,868
Trade and other payables	194,494	-	194,494	194,494	-	-
Amount due to subsidiaries	14,708,974	3.72% - 5.05%	16,213,513	2,868,974	9,830,036	3,514,503
Total undiscounted financial liabilities	18,833,660		21,904,109	3,151,776	10,412,962	8,339,371

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices that will affect the Group's financial position or cash flows.

## 28.6.1 Currency risk

The Group is exposed to foreign currency risk on loans from the Government of Malaysia that are denominated in a currency other than RM. The currency giving rise to this risk is primarily U.S. Dollar ("USD").

*Risk management objectives, policies and processes for managing the risk*

The Group's and the Company's policy are to borrow in RM to minimise the exposure to foreign currency risk. At the end of the reporting period, the loan denominated in USD is 1.31% (2018: 1.54%) of the total loans from the Government of Malaysia.

*Exposure to foreign currency risk*

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period are as follows:

	Denominated in USD 2019 RM'000	Denominated in USD 2018 RM'000
<b>Group and Company</b>		
<b>Balances recognised in the statement of financial position</b>		
Loans from the Government of Malaysia	77,576	80,916

*Currency risk sensitivity analysis*

Foreign currency risk arises from the Company which have a RM functional currency.

A 10% (2018: 10%) strengthening of the USD against RM at the end of the reporting period would have decreased equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.6 Market risk (continued)****28.6.1 Currency risk (continued)**

	Equity		Profit or loss	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Group and Company</b>				
USD	<b>5,896</b>	5,896	<b>6,150</b>	6,150

A 10% (2018: 10%) weakening of USD against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

**28.6.2 Interest rate risk**

The Group's investments in fixed rate debt securities and its fixed rate Islamic Medium Term Notes are exposed to a risk of change in their fair value due to changes in interest rates. Investments in debt securities and short-term receivables and payables are not significantly exposed to interest rate risk.

*Risk management objectives, policies and processes for managing the risk*

The Group's and the Company's policy are to manage interest cost using a mix of fixed rate debts. The Group and the Company place their surplus fund in long term debt securities and short-term deposits that carry fixed-rated interests.

**28. FINANCIAL INSTRUMENTS (CONTINUED)****28.6 Market risk (continued)****28.6.2 Interest rate risk (continued)***Exposure to interest rate risk*

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<b>Fixed rate instruments</b>				
Other investment	<b>586,038</b>	6,814,084	<b>586,038</b>	631,277
Lease receivables	<b>23,061,452</b>	13,673,062	<b>23,061,452</b>	13,673,062
Fixed deposit	<b>442,779</b>	146,747	<b>366,779</b>	146,747
Loans and borrowings	<b>21,925,146</b>	18,641,068	<b>3,718,479</b>	3,930,192
Amount due to subsidiary	-	-	<b>19,081,961</b>	14,708,974
	<b>46,015,415</b>	39,274,961	<b>46,814,709</b>	33,090,252

*Interest rate risk sensitivity analysis**Fair value sensitivity analysis for fixed rate instruments*

The Group and the Company do not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

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## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.7 Fair value information

The carrying amounts of cash and cash equivalents, trade receivables, payables and short-term borrowings reasonably approximate fair values due to the relatively short-term nature of these financial instruments.

The tables below analyse other financial instruments at fair value.

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
<b>2019</b>										
<b>Financial assets</b>										
Other investments	-	586,038	-	586,038	-	-	-	-	586,038	586,038
<b>Financial liabilities</b>										
Loans from the Government of Malaysia	-	-	-	-	-	-	(3,695,555)	(3,695,555)	(3,695,555)	(3,718,479)
Islamic medium-term notes	-	-	-	-	-	(18,532,916)	-	(18,532,916)	(18,532,916)	(18,206,667)
	-	-	-	-	-	(18,532,916)	(3,695,555)	(22,228,471)	(22,228,471)	(21,925,146)

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.7 Fair value information (continued)

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
<b>2018</b>										
<b>Financial assets</b>										
Other investments	-	6,814,084	-	6,814,084	-	-	-	-	6,814,084	6,814,084
<b>Financial liabilities</b>										
Loans from the Government of Malaysia	-	-	-	-	-	-	(3,624,901)	(3,624,901)	(3,624,901)	(3,930,192)
Islamic medium-term notes	-	-	-	-	-	(14,720,207)	-	(14,720,207)	(14,720,207)	(14,710,876)
	-	-	-	-	-	(14,720,207)	(3,624,901)	(18,345,108)	(18,345,108)	(18,641,068)

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.7 Fair value information (continued)

Company	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
<b>2019</b>										
<b>Financial assets</b>										
Other investments	-	586,038	-	586,038	-	-	-	-	586,038	586,038
<b>Financial liabilities</b>										
Loans from the Government of Malaysia	-	-	-	-	-	-	(3,695,555)	(3,695,555)	(3,695,555)	(3,718,479)
Amount due to subsidiaries	-	-	-	-	-	(16,041,668)	-	(16,041,668)	(16,041,668)	(15,590,000)
	-	-	-	-	-	(16,041,668)	(3,695,555)	(19,737,223)	(19,737,223)	(19,308,479)
<b>2018</b>										
<b>Financial assets</b>										
Other investments	-	631,227	-	631,227	-	-	-	-	631,227	631,227
<b>Financial liabilities</b>										
Loans from the Government of Malaysia	-	-	-	-	-	-	(3,624,901)	(3,624,901)	(3,624,901)	(3,930,192)
Amount due to subsidiaries	-	-	-	-	-	(11,962,132)	-	(11,962,132)	(11,962,132)	(11,840,000)
	-	-	-	-	-	(11,962,132)	(3,624,901)	(15,587,033)	(15,587,033)	(15,770,192)

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

## 28.7 Fair value information (continued)

**Level 2 fair value***Other investments*

The fair values of debt securities and money market were obtained from financial institutions and are determined based on market observable inputs at reporting date.

*Islamic medium-term notes*

Fair value, which is determined for disclosure purposes, was derived based on market observable inputs at reporting date.

## Amount due to subsidiaries

The non-current amount due to subsidiaries are in relation to the proceeds from issuance of IMTN owing to a subsidiary upon maturity date of the IMTN. Hence, the fair value of non-current amount due to subsidiaries follow the fair value of the IMTN that will be matured after 12 months.

**Level 3 fair value****Financial instruments not carried at fair value***Loans from the Government of Malaysia*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the Malaysia Government Securities (MGS) 10 years coupon rate at the end of the reporting period.

The Group and the Company have an established control framework in respect to the measurement of fair values of financial instruments. This includes the regular monitoring by the Treasury Team on the fair value of the instruments.

## 29. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to have sufficient capital to finance and develop new water infrastructure. The water infrastructures will be leased to the state water operators for operation and maintenance. The Group and the Company obtain Federal Government loans at favourable financing rate and issue government guaranteed IMTN as part of their capital management strategy.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

**29. CAPITAL MANAGEMENT (CONTINUED)**

The Group manages capital using a gearing ratio, which is net debt divided by total capital being the equity attributable to equity holders of the Company plus net debt. Included within net debts of the Group are loans and borrowings.

	Group	
	2019 RM'000	2018 RM'000
Loans and borrowings	21,925,146	18,641,068
Lease liabilities	6,174	-
Less: Cash and cash equivalents	(562,270)	(206,546)
Net debt	21,369,050	18,434,522
Total equity	880,533	677,071
Debt-to-equity ratio	24	27

**30. CAPITAL AND OTHER COMMITMENTS**

Capital and other commitments as at the reporting date is as follows:

	Group and Company	
	2019 RM'000	2018 RM'000
<b>Assets under construction</b>		
Contracted but not provided for	368,305	272,063

**31. CONTINGENT LIABILITIES****Contingent liabilities not considered remote***Preliminary review findings by IRB*

The Inland Revenue Board of Malaysia (IRB), in its letter dated 8 May 2020 highlighted preliminary review findings in respect of the Company's tax computation for the Year of Assessment (YA) 2014 to YA 2018 as follows:

- The sale and leaseback transactions entered into by the Company have the characteristics of a finance lease. Therefore, the difference between the total lease rental and the cost of the lease assets should be treated as interest income and taxed separately as a non-business source income under Section 4(c) of the Income Tax Act, 1967 (MITA). This is contrary to the current tax treatment adopted by the Company to recognise the lease rental income as business source income under Section 4(a) of the MITA; and
- The Company therefore should not be entitled to claim capital allowances in relation to the water assets that migrated from state owned water operators / the states to the Company as the Company did not fulfil the condition under Schedule 3 of the MITA.

The Company has obtained an extension of time until 15 June 2020 to submit additional information and supporting evidence to support its position on the preliminary findings.

In the event that the IRB's position of non-business income prevails, additional tax and penalties may be imposed by the IRB. The potential additional tax and penalties cannot be reliably measured at this stage pending the resolution of the matter with the IRB, as well as verification of amounts in the IRB's letter. As the ultimate outcome and quantum of taxes (plus penalties, if any) cannot be determined, no provisions have been made.

**32. RELATED PARTIES****Identity of related parties**

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

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

**32. RELATED PARTIES (CONTINUED)****Government-related entities**

The Group related parties also include the Government of Malaysia and its related entities as the Company is a wholly-owned entity of Ministry of Finance "MoF" Incorporated which is in turn owned by the MoF. The entities directly controlled by the Government of Malaysia are collectively referred to as government-related entities to the Group and Company.

Apart from the individually significant transactions and balances as disclosed in this note and elsewhere in the financial statements, the Group and Company have collectively, but not individually significant transactions with related parties. Such transactions include but not limited to interest income placed with financial institutions that are government-related entities.

**Significant related party transactions**

Related party transactions have been entered into in the normal course of business. The significant related party transactions of the Group and the Company are shown below. The balances related to material transactions appended below are shown in Notes 7, 8, 10, 12, 15, and 16 to the financial statements. The balance related to the investment in bonds issued by a state water operator, Pengurusan Air Selangor Sdn. Bhd. are disclosed in Note 11 and the compensation of key management personnel are disclosed in Note 24.

	Company	
	2019 RM'000	2018 RM'000
<b>Government of Malaysia:</b>		
Federal loan waiver received	1,086,111	379,555
Repayment of federal loan	80,695	25,223
Non-monetary government grant	121,564	-
<b>Government-related entities:</b>		
Lease income received from state water operator	667,231	541,493
Recovery of sukuk issuance cost from state water operator	35,000	-
<b>Subsidiaries:</b>		
Management fees charged by holding company	789	791
Interest income charged on amount due from subsidiaries	220,000	219,090
Investment in bonds through the subsidiary, Acqua SPV Berhad	-	6,182,807

**33. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS**

During the year, the Group and the Company adopted MFRS 16.

**Definition of a lease**

On transition to MFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases.

**As a lessor**

The leases of water assets to state water operators were being accounted for as operating leases and the water assets were being recognised as investment properties in the prior years' financial statements. During the year, the management performed a reassessment of the leases and determined that the leases transferred substantially all the risks and rewards of ownership of the water assets to the state water operators. Consequently, these leases should have been accounted as finance leases in the prior years. Adjustments have been made retrospectively to correct the errors. The correction of these errors in prior years is summarised in Note 36.1.

**As a lessee**

Where the Group and the Company are a lessee, the Group applied MFRS 16 using the modification retrospective approach, into which the Group has chosen to measure the right-of-use asset equals to the lease liability at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated.

1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of remaining lease payments, discounted at the Group entities' incremental borrowing rate as at 1 January 2019. The weighted-average rate applied is 6.85%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying MFRS 16 to lease previously classified as operating lease under MFRS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics.
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- used hindsight when determining the lease term if the contract contains option to extend or terminate the lease.

**33. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)****33.1 Impacts on financial statements**

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	RM'000
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	8,970
Discounted using the incremental borrowing rate at 1 January 2019	7,199
Lease liabilities recognised at 1 January 2019	<b>7,199</b>

**34. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

During the financial year:

## i) Selangor water assets migration

The migration of Selangor has accomplished with the signing of Supplemental Facility Agreement 2 (SFA 2) and Supplemental Settlement Agreement 2 (SSA 2) on 13 September 2019. A total of RM10.5 billion worth of water assets have been transferred to the Group and the invoicing for lease rental has been issued accordingly.

The debt instrument subscribed by Acqua SPV Berhad (Acqua), a subsidiary of the Company, for the purpose of this migration amounting to RM6.1 billion has been transferred and settled vide the Settlement Agreement entered between Acqua and Pengurusan Air Selangor Sdn. Bhd. on 11 September 2019. The subsidiary has become dormant since the date.

**35. SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END**

The World Health Organization (WHO) declared Coronavirus (e.g. Covid-19) a 'Pandemic' on 11 March 2020 and on 16 March 2020 the Prime Minister of Malaysia has issued an order for the restriction of movements pursuant to the Prevention and Control of Disease Act 1988 (PCDA). The Malaysia economy is in a recession as the hit to economic activity from the Covid-19 coronavirus pandemic has become more widespread in the country. The fair values of the investment portfolio held by the Group or the Company may have changed significantly subsequent to financial year end due to volatility in the market. The Group and the Company consider this outbreak as a non-adjusting post balance sheet event. As the situation continues to be fluid and rapidly evolving, the Group and the Company do not consider it practicable to provide a quantitative estimate of the potential impact of these economic conditions on the Group and the Company.

**36. CORRECTION OF ERRORS IN PRIOR YEARS**

There were few errors identified in previous financial years which resulted change in comparatives. The effects of correction of the errors are disclosed below:

	As at 31 December 2018		As at 1 January 2018		Note
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000	
<b>Statements of financial position</b>					
<b>Group</b>					
<b>Non-current assets</b>					
Investment properties	-	14,247,632	-	13,341,861	36.1
Assets under construction	2,744,055	-	1,935,428	-	36.1
Finance lease receivables	12,505,998	-	13,440,769	-	36.1
Trade receivables	166,038	1,484,994	146,468	1,325,140	36.1
<b>Current assets</b>					
Finance lease receivables	1,167,064	-	410,113	-	36.1
Trade receivables	76,344	142,557	158,129	262,991	36.1
Other receivables	36,308	203,474	265,026	345,395	36.2
Other investments	6,814,084	6,120,518	6,727,943	6,109,945	36.3
Cash and cash equivalents	206,546	815,339	573,968	1,120,767	36.3
<b>Equity</b>					
Retained earnings/(Accumulated losses)	(60,969)	1,409,925	(322,694)	1,148,330	
Fair value reserve	8,040	-	9,534	-	36.3
<b>Non-current liabilities</b>					
Deferred income	1,565,910	1,702,896	1,799,557	1,795,955	36.4
Deferred tax liabilities	2,647,678	-	2,605,497	-	36.5
Loans and borrowings	15,674,998	16,090,069	16,472,712	16,153,632	36.4
<b>Current liabilities</b>					
Loans and borrowings	2,966,070	2,861,705	2,033,211	2,452,143	36.4
Trade and other payables	194,597	229,824	394,969	290,981	36.2

## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

## 36. CORRECTION OF ERRORS IN PRIOR YEARS (CONTINUED)

	As at 31 December 2018		As at 1 January 2018		Note
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000	
<b>Company</b>					
<b>Non-current assets</b>					
Investment properties	-	14,247,632	-	13,341,861	36.1
Assets under construction	2,744,055	-	1,935,428	-	36.1
Finance lease receivables	12,505,998	-	13,440,769	-	36.1
Trade receivables	166,038	1,484,994	146,458	1,325,140	36.1
<b>Current assets</b>					
Lease receivables	1,167,064	-	410,113	-	36.1
Trade receivables	76,344	142,557	158,129	262,991	36.1
Other receivables	36,300	117,599	265,018	270,717	36.2
Other investments	631,277	-	556,333	-	36.3
Cash and cash equivalents	205,756	814,548	573,251	1,120,050	36.3
<b>Equity</b>					
Retained earnings/(Accumulated losses)	(975,930)	505,209	(1,068,035)	423,805	
Fair value reserve	8,040	-	9,534	-	36.3
<b>Non-current liabilities</b>					
Deferred income	1,565,910	1,702,896	1,799,557	1,795,955	36.4
Deferred tax liabilities	2,647,678	-	2,605,497	-	36.5
Loans and borrowings	3,834,998	4,181,382	3,982,707	4,091,722	36.4
Amount due to subsidiaries	11,840,000	11,872,964	12,490,000	12,027,174	36.6
<b>Current liabilities</b>					
Trade and other payables	194,494	229,700	394,827	290,839	36.2
Amount due to subsidiaries	2,868,974	2,766,511	2,014,757	2,434,599	36.6

## 36. CORRECTION OF ERRORS IN PRIOR YEARS (CONTINUED)

	As at 31 December 2018		Note
	As restated RM'000	As previously stated RM'000	
<b>Statement of profit or loss and other comprehensive income</b>			
<b>Group</b>			
Revenue	541,493	627,952	36.1
Loss from reduction of lease income	(340,444)	-	36.8
Gains from the loan waiver	379,555	-	36.8
Other income	1,803	93,595	36.1
Depreciation	(8,023)	(239,089)	36.1
Administrative expenses	(17,387)	(37,241)	36.7
Amortisation of government grant	93,059	-	36.4
Investment income	368,083	-	36.10
Personnel costs	(25,929)	-	36.7
Other expenses	(5,461)	(24,611)	36.7
Net loss on impairment of financial instruments	(25,380)	-	36.9
Finance income	58,862	530,576	36.3, 36.10
Finance costs	(701,195)	(674,456)	36.4, 36.6
Income tax expense	(23,281)	18,899	36.5

**36. CORRECTION OF ERRORS IN PRIOR YEARS (CONTINUED)**

	As at 31 December 2018		Note
	As restated RM'000	As previously stated RM'000	
<b>Statement of profit or loss and other comprehensive income</b>			
<b>Company</b>			
Revenue	541,493	627,952	36.1
Loss from reduction of lease income	(340,444)	-	36.8
Gains from the loan waiver	379,555	-	36.8
Other income	2,372	94,164	36.1
Depreciation	(8,023)	(239,089)	36.1
Administrative expenses	(16,682)	(36,530)	36.7
Amortisation of government grant	93,059	-	36.4
Personnel costs	(25,929)	-	36.7
Other expenses	(5,461)	(24,611)	36.7
Net loss on impairment of financial instruments	(25,380)	-	36.9
Finance income	227,952	461,027	36.3
			36.4,
Finance costs	(701,190)	(674,456)	36.6
Income tax expense	(45,187)	(3,007)	36.5

**36.1 Recognition of lease arrangements with state water operators as finance lease**

The leases of water assets to state water operators were being accounted for as operating leases and the water assets were being recognised as investment properties in the prior years' financial statements. During the year, the management performed a reassessment of the leases and determined that the leases transferred substantially all the risks and rewards of ownership of the water assets to the state water operators. Consequently, these leases should have been accounted as finance leases in the prior years. Adjustments have been made retrospectively to correct the errors.

**36.2 Being reversal of unreconciled prepaid expenses, other accruals and interest receivables**

Being reversal of prior year unreconciled prepaid expenses, other accruals and interest receivables against the opening retained earnings as of 1 January 2018.

**36. CORRECTION OF ERRORS IN PRIOR YEARS (CONTINUED)****36.3 Classification of investments as fair value through other comprehensive income (FVOCI) and reversal of unreconciled investment balances**

- (a) With effective from 1 January 2018, the Group adopted MFRS 9, Financial Instruments. The Group invested in a portfolio of investments comprise of debt securities where the Group manages and assesses its performance on a fair value basis with intention to collect contractual cash flows and sale. These investments were erroneously being classified as cash equivalents and measured at amortised cost. These debt securities have been corrected to be measured at FVOCI and reclassified from cash equivalents to other investments.
- (b) There were unreconciled balances for debt securities in a subsidiary's book where the debt securities have been fully redeemed by the subsidiary. An adjustment has been made against the finance income to reverse the unreconciled balances.

**36.4 Adjustment on loans and borrowings and deferred income**

- (a) Being recognition of deferred income in relation to the interest free loan borrowed from Government of Malaysia and amortise the government grant over the loan period;
- (b) Being correction of overstatement of loan from Government of Malaysia;
- (c) Correction on translation of loan from Government of Malaysia denominated in USD.

**36.5 Recognition of deferred tax liabilities**

Restatement was made to recognise deferred tax liabilities for the timing differences arising from the finance lease receivables and other items that have not been recognised in the prior years.

**36.6 Understatement of finance cost**

- (a) There was an understatement of finance cost of Islamic Medium Term Notes to be reimbursed from the Company to Pengurusan Air SPV Berhad, a subsidiary of the Company amounting to RM43 million.
- (b) Being correction of unreconciled prior year fair value adjustment posted in finance cost and loan and borrowing balance amounting to RM26 million.

**36.7 Reclassification of license fee**

Being reclassification of license fee from other expense to administrative expense.

## NOTES TO THE FINANCIAL STATEMENTS

**36. CORRECTION OF ERRORS IN PRIOR YEARS (CONTINUED)****36.8 Recognition of gain/loss from modification of cash flow**

- (a) Being recognition of loss from the substantial modification of cash flow arising from the reduction of lease receivables; and
- (b) Being recognition of gain from the substantial modification of cash flow arising from the loan waiver granted by Government of Malaysia.

**36.9 Reclassification of impairment loss from other expenses**

Being reclassification of impairment loss from other expenses to be presented as a line item in the statement of profit or loss in accordance with the requirement of paragraph 82(ba) of MFRS 101, *Presentation of Financial Statements*.

**36.10 Reclassification of investment income**

Reclassification of interest income of investment measured at fair value through profit or loss to investment income from finance income.

**STATEMENT BY DIRECTORS**

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

In the opinion of the Directors, the financial statements set out on pages 42-120 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2019 and of their financial performance and cash flows for the financial year then ended.

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



**Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani**  
Director



**Dato' Dr. Halim bin Man**  
Director

Kuala Lumpur

Date: 11 June 2020

# STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

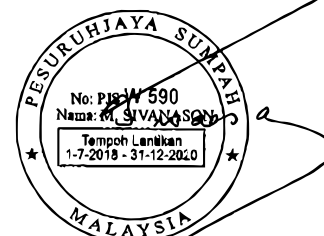
I, **Rozaifee bin Abu Zaharim** (MIA membership number: CA23871), the officer primarily responsible for the financial management of Pengurusan Aset Air Berhad, do solemnly and sincerely declare that the financial statements set out on pages 42-120 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Rozaifee bin Abu Zaharim, NRIC: 691201-06-5261, at Kuala Lumpur in the Federal Territory on 11 June 2020.



**Rozaifee bin Abu Zaharim**

commissioner of oath attestation  
Before me: 11 June 2020



Lot LG 27B, Lower Ground Floor,  
Wilayah Complex  
No 2, Jalan Munim Abdullah  
50100 Kuala Lumpur

# INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PENGURUSAN ASET AIR BERHAD

(COMPANY NO. 200601012793 (732544-D)) (INCORPORATED IN MALAYSIA)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Pengurusan Aset Air Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 42-120.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### Basis for Opinion

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

### Emphasis of Matter

#### *Comparative information*

We draw attention to Note 36 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. Our opinion is not modified in respect of this matter.

#### *Case review findings issued by Inland Revenue Board of Malaysia*

We draw attention to Note 18 and Note 31 to the financial statements which describe the preliminary tax findings issued by Inland Revenue Board of Malaysia on the tax position of the Group and of the Company for years of assessment from 2014 to 2018. Our opinion is not qualified in respect of this matter.

### Independence and Other Ethical Responsibilities

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PENGURUSAN ASET AIR BERHAD  
(COMPANY NO. 200601012793 (732544-D)) (INCORPORATED IN MALAYSIA)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PENGURUSAN ASET AIR BERHAD  
(COMPANY NO. 200601012793 (732544-D)) (INCORPORATED IN MALAYSIA)

### Information Other than the Financial Statements and Auditors' Report Thereon

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

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

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Statements

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

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

### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PENGURUSAN ASET AIR BERHAD  
(COMPANY NO. 200601012793 (732544-D)) (INCORPORATED IN MALAYSIA)

#### Other Matters

1. The financial statements of Pengurusan Aset Air Berhad as at and for the years ended 31 December 2018 and 31 December 2017 (from which the statement of financial position as at 1 January 2018 has been derived), excluding the adjustments described in Note 36 to the financial statements were audited by another firm of Chartered Accountants who expressed an unmodified opinion on those financial statements on 5 March 2019.

As part of our audit of the financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in Note 36 that were applied to restate the comparative information presented as at and for the year ended 31 December 2018 and the statements of financial position as at 1 January 2018. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2018 or 31 December 2017 (not presented herein) or to the statements of financial position as at 1 January 2018, other than with respect to the adjustments described in Note 36 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 36 are appropriate and have been properly applied.

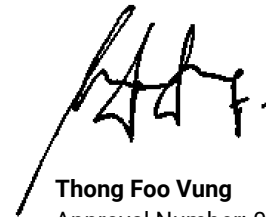
2. This report is made solely to the member of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



**KPMG PLT**  
(LLP0010081-LCA & AF 0758)  
Chartered Accountants

Petaling Jaya

Date: 11 June 2020



**Thong Foo Vung**  
Approval Number: 02867/08/2020 J  
Chartered Accountant



Pengurusan Aset Air

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