TALIWORKS CORPORATION BERHAD (Company No 6052-V)
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 2018 (UNAUDITED)

CONTENTS

This Report is authorised by the Board for public release on 28 February 2019

CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	31 Dec 2018 RM'000	31 Dec 2017 RM'000 Restated
ASSETS			
Property, plant and equipment		12,030	16,050
Investment properties		233	240
Intangible asset		1,100,762	1,129,152
Investment in joint venture		71,434	70,403
Investment in associates		181,818	200,355
Other investment		240	240
Goodwill on consolidation		129,385	129,385
Deferred tax assets		16,791	32,450
Long-term trade receivable	A1(b)	594,919	405,504
Deposits, cash and bank balances	B12	26,828	32,957
Total Non-Current Assets		**2,134,440**	**2,016,736**
Inventories		1,257	1,276
Amount due from contract customers		9,351	17,194
Trade receivables	A1(b)	132,524	137,711
Other receivables, deposits and prepayments		12,433	16,024
Tax recoverable		1,310	1,723
Investments designated at fair value through profit or loss ("FVTPL")	B12	61,905	69,770
Deposits, cash and bank balances	B12	89,835	111,490
Total Current Assets		**308,615**	**355,188**
TOTAL ASSETS		**2,443,055**	**2,371,924**
EQUITY AND LIABILITIES			
Share capital		438,354	438,561
Reserves		617,631	615,177
Total Equity Attributable to Owners of the Company		**1,055,985**	**1,053,738**
Non-controlling interests		265,443	274,336
Total Equity		**1,321,428**	**1,328,074**
LIABILITIES			
Long-term borrowings	B7	437,063	416,573
Long-term trade payables		1,535	8,671
Provision for heavy repairs		17,170	13,617
Deferred income		124,217	141,512
Deferred tax liabilities		235,249	236,162
Total Non-Current Liabilities		**815,234**	**816,535**
Amount due to contract customers		245	786
Trade payables		199,737	132,873
Other payables and accruals		53,923	51,176
Dividend payable	A6(b)	24,190	24,190
Short-term borrowings	B7	10,058	157
Deferred income		17,273	16,065
Tax liabilities		967	2,068
Total Current Liabilities		**306,393**	**227,315**
TOTAL LIABILITIES		**1,121,627**	**1,043,850**
TOTAL EQUITY AND LIABILITIES		**2,443,055**	**2,371,924**
Net assets per share attributable to owners of the Company (RM)		**0.5238**	**0.5227**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Note	3 Months Ended 31 Dec 2018 RM'000	3 Months Ended 31 Dec 2017 RM'000 Restated	12 Months Ended 31 Dec 2018 RM'000	12 Months Ended 31 Dec 2017 RM'000 Restated
Revenue	B1	**97,930**	**137,928**	**375,060**	**374,872**
Cost of operations		(55,834)	(39,120)	(222,064)	(214,280)
Gross profit		**42,096**	**98,808**	**152,996**	**160,592**
Other operating income		67,572	(12,861)	73,429	8,851
Administrative and other expenses		(12,057)	(34,175)	(46,369)	(70,813)
Operating profit		**97,611**	**51,772**	**180,056**	**98,630**
Finance costs		(5,632)	(5,299)	(21,369)	(22,584)
Share of results of joint venture		(503)	3,194	1,031	2,748
Share of results of associates		(13,999)	(5,764)	(16,341)	578
Profit before tax	B4	**77,477**	**43,903**	**143,377**	**79,372**
Income tax expense	B5	(21,319)	(7,943)	(34,983)	(14,833)
Profit for the financial period/year representing total comprehensive income for the financial period/year		**56,158**	**35,960**	**108,394**	**64,539**
Profit for the financial period/year representing total comprehensive income for the financial period/year attributable to:					
Owners of the Company		54,513	28,322	99,214	51,303
Non-controlling interests		1,645	7,638	9,180	13,236
		56,158	**35,960**	**108,394**	**64,539**
Basic and diluted earnings per share attributable to owners of the Company (sen per share)	B9	2.70	1.40	4.92	2.55

The Condensed Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital RM'000	Available-for-sale reserve RM'000	Merger deficit RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total Equity RM'000
		Attributable to owners of the Company						
As of 1 January 2018, as previously stated		**438,561**	**173**	**(71,500)**	**686,300**	**1,053,534**	**274,336**	**1,327,870**
Effects of adoption of MFRS 9	B13(c)	-	(173)	-	377	204	-	204
As of 1 January 2018, as restated		**438,561**	**-**	**(71,500)**	**686,677**	**1,053,738**	**274,336**	**1,328,074**
Profit for the financial year		-	-	-	99,214	99,214	9,180	108,394
Total comprehensive income for the financial year		-	-	-	99,214	99,214	9,180	108,394
Transactions with owners of the Company:								
Dividends paid		-	-	-	(72,570)	(72,570)	-	(72,570)
Dividends payable	A6(b)	-	-	-	(24,190)	(24,190)	-	(24,190)
Dividends paid by a subsidiary to non-controlling interest		-	-	-	-	-	(17,885)	(17,885)
Bonus Issues expenses		(211)	-	-	-	(211)	-	(211)
Proceeds from exercise of warrants		4	-	-	-	4	-	4
Capital distribution from liquidation of a subsidiary	A8(a)	-	-	-	-	-	(188)	(188)
Total transactions with owners of the Company		(207)	-	-	(96,760)	(96,967)	(18,073)	(115,040)
As of 31 December 2018		**438,354**	**-**	**(71,500)**	**689,131**	**1,055,985**	**265,443**	**1,321,428**

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital RM'000	Share premium RM'000	Available-for-sale reserve RM'000	Merger deficit RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total Equity RM'000
		Attributable to owners of the Company							
As of 1 January 2017, as previously stated		**241,898**	**196,663**	**(66)**	**(71,500)**	**753,977**	**1,120,972**	**277,270**	**1,398,242**
Effects of adoption of MFRS 9	B13(c)	-	-	66	-	(21,843)	(21,777)	-	(21,777)
As of 1 January 2017, as restated		**241,898**	**196,663**	**-**	**(71,500)**	**732,134**	**1,099,195**	**277,270**	**1,376,465**
Available-for-sale financial assets		-	-	239	-	-	239	239	478
Total comprehensive income for the financial year, as previously stated		-	-	239	-	-	239	239	478
Effects of adoption of MFRS 9	B13(b)	-	-	(239)	-	-	(239)	(239)	(478)
Total comprehensive income for the financial year, as restated		-	-	-	-	-	-	-	-
Profit for the financial year, as previously stated		-	-	-	-	29,083	29,083	12,997	42,080
Effects of adoption of MFRS 9	B13(b)	-	-	-	-	22,220	22,220	239	22,459
Profit for the financial year, as restated		-	-	-	-	**51,303**	**51,303**	**13,236**	**64,539**
Total comprehensive income for the financial year		-	-	-	-	51,303	51,303	13,236	64,539
Transactions with owners of the Company:									
Dividend payable						(24,190)	(24,190)	-	(24,190)
Dividends paid		-	-	-	-	(72,570)	(72,570)	-	(72,570)
Dividends paid by a subsidiary to non-controlling interest		-	-	-	-	-	-	(16,170)	(16,170)
Total transactions with owners of the Company		-	-	-	-	(96,760)	(96,760)	(16,170)	(112,930)
Transfer arising from no-par value regime	B15	196,663	(196,663)	-	-	-	-	-	-
As of 31 December 2017		**438,561**	**-**	**-**	**(71,500)**	**686,677**	**1,053,738**	**274,336**	**1,328,074**

The Condensed Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

	12 Months Ended 31 Dec 2018 RM'000	12 Months Ended 31 Dec 2017 RM'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax *(Note B13(d))*	143,377	79,372
Adjustments for:		
Non-cash items *(Note B13(d))*	(25,951)	32,133
Interest income	(3,555)	(4,146)
Finance costs	21,369	22,584
Operating Profit Before Working Capital Changes	135,240	129,943
Net increase in inventories, amount due from contract customers, trade and other receivables	(117,288)	(133,493)
Net increase in amount due to contract customers, trade and other payables and deferred income	60,957	53,564
Cash Generated From Operations	78,909	50,014
Income tax paid	(16,629)	(21,556)
Income tax refunded	635	288
Net Cash From Operating Activities	**62,915**	**28,746**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,090	4,333
Property, plant and equipment:		
- Proceeds from disposal	166	294
- Purchase	(1,184)	(1,883)
Consideration received from disposal of an associate *(Note A8(c))*	358	-
Compensation received from associate	-	17,087
Capital distribution from liquidation of a subsidiary *(Note A8(a))*	282	-
Dividend income from associates	4,194	15,180
Investments designated at FVTPL:		
- purchase	(13,800)	(63,500)
- proceeds from redemption	24,000	59,196
Withdrawal of deposits pledged as security	3,827	117,252
Decrease in deposits pledged as security	-	5,229
Net Cash From Investing Activities	**21,933**	**153,188**
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(21,041)	(22,699)
Drawdown from borrowings *(Note B7)*	30,000	-
Repayment of bank borrowings	(270)	(70,000)
Dividends paid by a subsidiary to non-controlling interest	(17,885)	(16,170)
Repayment of finance lease payables	(157)	(216)
Dividends paid *(Note A6(a))*	(96,759)	(72,570)
Capital distribution from liquidation of a subsidiary to non-controlling interest *(Note A8(a))*	(188)	-
Proceeds from conversion of warrant	4	-
Payment for bonus issues expenses	(211)	-
Net Cash Used In Financing Activities	**(106,507)**	**(181,655)**

CONDENSED STATEMENTS OF CASH FLOWS

	12 Months Ended 31 Dec 2018 RM’000	12 Months Ended 31 Dec 2017 RM’000 Restated
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(21,659)	279
Effects of foreign exchange rate changes	4	(2,365)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL YEAR	111,490	113,576
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	**89,835**	**111,490**

Cash and cash equivalents comprised the following amounts in the statements of financial position:		
Deposits with licensed banks	86,227	108,295
Cash and bank balances	30,436	36,152
Total deposits, cash and bank balances	116,663	144,447
Less: Deposits pledged as security	(26,828)	(32,957)
	89,835	**111,490**

The Condensed Statements of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying significant events and transactions attached to these interim financial statements.

PART A – DISCLOSURES PURSUANT TO MFRS 134: INTERIM FINANCIAL REPORTING

A1 – Basis of Preparation

(a) These interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board, Paragraph 9.22 of the Main Board Listing Requirements of Bursa Securities Sdn Bhd **("Bursa Securities")** and the guidance and recommendations set out in Issues Communication - Guidance on Disclosures in Notes to Quarterly Report ("ICN 1/2017") issued by Bursa Securities.

These interim financial statements should be read in conjunction with the latest audited financial statements of the Company and its subsidiaries **("Group")** for the financial year ended 31 December 2017. The significant events and transactions attached to these interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the previous financial year.

The significant accounting policies and methods of computation adopted in these interim financial statements are consistent with those adopted in the latest audited financial statements, except for the following: -

Adoption of new and revised Malaysian Financial Reporting Standards (MFRSs)

In the current financial year, the Group adopted all the new and revised MFRSs and amendments to MFRSs issued by the Malaysian Accounting Standards Board that are effective for annual financial periods beginning on or after 1 January 2018.

MFRSs, Amendments to MFRSs and IC Interpretation

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)
MFRS 15	Revenue from Contracts with Customers and the related Clarifications
Amendments to MFRS 2	Clarification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 140	Transfers of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to MFRSs 2014-2016 Cycle	

The application of these amendments to MFRSs and amendments to MFRSs did not result in significant changes in the accounting policies of the Group and of the Company and had no significant effect on the financial performance or position of the Group and of the Company except as disclosed below:-

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces MFRS 139 Financial Instruments: Recognition and Measurement.

(i) Classification of financial assets under MFRS 9

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

MFRS 9 contains three principal classification categories for financial assets: measured at amortised cost **("AC")**, Fair Value through Other Comprehensive Income **("FVTOCI")** and Fair Value through Profit or Loss **("FVTPL")**. The classification of financial assets under MFRS 9 is

A1 – Basis of Preparation (continued)

MFRS 9 Financial Instruments (continued)

(i) Classification of financial assets under MFRS 9 (continued)

generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous MFRS 139 categories of held-to-maturity **(“HTM”)**, loans and receivables **(“LAR”)** and available for sale **(“AFS”)**.

The table below illustrates the classification and measurement of financial assets and financial liabilities under MFRS 139 and MFRS 9 at the date of initial application on 1 January 2018.

Financial assets		**Original classification under MFRS 139**	**New classification under MFRS 9**	**Original carrying amount under MFRS 139 RM’000**	**New carrying amount under MFRS 9 RM’000**
Trade receivables	(a)	LAR	AC	501,291	543,215
Other receivables and deposits	(a)	LAR	AC	14,833	14,833
Deposits, cash and bank balances	(a)	LAR	AC	144,447	144,447
Investment in quoted unit trusts	(b)	AFS	FVTPL	69,770	69,770
Other investment	(c)	AFS	FVTPL	240	240
Investment in redeemable preference shares of a joint venture	(d)	AFS	FVTOCI	36,424	36,551
Financial liabilities					
Trade payables	(e)	AC	AC	141,544	141,544
Other payables and accruals	(e)	AC	AC	51,176	51,176
Borrowings	(e)	AC	AC	416,730	416,730
Dividend payables	(e)	AC	AC	24,190	24,190

There were no measurement impacts to the carrying amount upon the adoption of MFRS 9 at the date of initial application on 1 January 2018 except for the increase in trade receivables amounting to RM41.92 million as disclosed in Note B13(a). For those financial assets carried at FVTOCI and FVTPL, the Board considers that the carrying amounts recognised in the consolidated financial statements as approximating their fair values.

A1 – Basis of Preparation (continued)

MFRS 9 Financial Instruments (continued)

(i) <u>Classification of financial assets under MFRS 9 (continued)</u>

(a) Trade receivables, other receivables, deposits, cash and bank balances classified as loans and receivables under MFRS 139 are now classified as financial asset measured at amortised cost under MFRS 9. They will continue to be measured on the same basis as is previously adopted under MFRS 139 except for the trade receivables as disclosed in Note A1(a)(ii).

(b) Investment in quoted unit trust were previously classified as available-for-sale investments carried at fair value. Gains and losses arising from changes in fair value were recognised in other comprehensive income and accumulated in the available-for-sale reserve. Upon the disposal of investment, the cumulative gain or loss previously recorded in the available-for-sale reserve were recycled to profit or loss. In accordance with MFRS 9, the investments did not fulfil the Solely Payment of Principal and Interest **("SPPI")** test and as such, they will be measured at FVTPL. As of 1 January 2017, the first comparative year of initial application, the outstanding available-for-sale reserve amounting to RM66,000 was reclassified to retained earnings.

(c) Other investment represents investment in golf membership that was previously classified as AFS investments carried at cost less identified impairment losses. In accordance with MFRS 9, the investments did not fulfil the SPPI test and as such, they will be measured at FVTPL.

(d) Investment in redeemable preference shares of a joint venture were previously classified as AFS investments carried at cost less identified impairment losses. In accordance with MFRS 9, the investment did not fulfil the SPP1 test but it carries equity instrument characteristics, and as such, the Group made an irrevocable election to classify them as FVTOCI.

(e) There were no changes to the classification of financial liabilities upon adoption of MFRS 9. They will continue to be measured on the same basis as is previously adopted under MFRS 139.

(ii) <u>Impairment of financial assets</u>

MFRS 9 replaces the incurred loss model in MFRS 139 with an expected credit loss **("ECL")** model. The ECL model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The new impairment model applies to financial assets measured at AC and debt instruments measured at FVTOCI and contract assets under MFRS 15 but not to investments in equity instruments.

The Group applies the simplified approach to recognise lifetime ECL for its financial assets measured at amortised cost and contract assets under MFRS 15. The Group recognises the ECL by applying an ECL rate on its financial assets at the end of reporting period. The ECL rate reflects the historical time value loss rate which is computed based on the actual and projected amounts and timing of repayment from its financial assets on current year billings and the historical loss rate from past collection record.

The Group reviews the ECL rate at each reporting date to re-measure the loss allowance amount. Changes in the above variables could impact future ECL charges.

A1 – Basis of Preparation (continued)

MFRS 9 Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

The result of the assessment is as follows:

(a) Amount Due from SPLASH (as defined in Note A1(b)(vi))

The Group applies the simplified approach and recognises lifetime ECL for the Amount Due from SPLASH. The Group has recognised an accumulated ECL allowance of RM132.31 million as at 1 January 2018 and RM110.71 million as at 1 January 2017 respectively.

On the other hand, the Group has made a reversal of provision for discounting previously made under MFRS 139 of RM175.60 million as at 1 January 2018 and RM124.12 million as at 1 January 2017 respectively. This has resulted in a net increase in retained earnings of RM32.91 million and RM10.19 million as at 1 January 2018 and 2017 respectively as follows:-

	1 January 2017 RM'000	**1 January 2018 RM'000**
Reversal of provision for discounting made under MFRS 139	(124,116)	(175,604)
Accumulated ECL allowance made under MFRS 9	110,713	132,305
	(13,403)	(43,299)
Less: Effects of deferred tax	3,217	10,392
Net increase in retained earnings	**10,186**	**32,907**

(b) Others

Others represent the accumulated ECL allowance (net of deferred tax impact) in aggregate amounting to RM1.09 million as at 1 January 2018 and RM0.96 million as at 1 January 2017 from the Company and other subsidiaries of which the effect is considered immaterial individually. The amount is recognised against the Group's retained earnings on the respective dates.

(iii) Transition upon the adoption of MFRS 9

The Group has adopted the full retrospective method of transition to MFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2017.

The financial impact for each financial statement line item affected by the application of MFRS 9 for the current and prior years is disclosed in Note B13.

A1 – Basis of Preparation (continued)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. MFRS 15 superseded the previous revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related Interpretations when it became effective on 1 January 2018.

The core principle of MFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, MFRS 15 introduces a 5-step approach to revenue recognition:

(a) Step 1: Identify the contract(s) with a customer.
(b) Step 2: Identify the performance obligations in the contract.
(c) Step 3: Determine the transaction price.
(d) Step 4: Allocate the transaction price to the performance obligations in the contract.
(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in MFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by MFRS 15.

In June 2016, the MASB issued Clarification to MFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. The Group has adopted the full retrospective method of transition to MFRS 15.

The Board has specifically considered MFRS 15's guidance on contract modifications arising from variation orders, identifying performance obligations, and the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of services to the customer and the timing of the related payments.

The Board has assessed the following for its MFRS 15 adoption: -

*(a) The proposed development of Langat 2 water treatment plant and water reticulation system in Selangor and Wilayah Persekutuan Kuala Lumpur **("L2P7 Project")***

The Board has assessed that the sectional completion indicated in the contract represent a separate performance obligation for each section and accordingly, revenue will be recognised for each of these performance obligations when control over the corresponding services is transferred to the customer.

Based on the assessment of the above, the Board estimates that the impact of the revenue allocation to each section and timing of recognition of revenue and associated costs to fulfil the contract will not be significantly different from that currently determined.

*(b) The proposed construction and completion of the Ganchong water treatment works, main distribution pipeline, booster pump stations and associated works in Pekan, Pahang Darul Makmur **("GP3A Project")***

The Group received an upfront payment from the customer. To determine whether there is a significant financing component in the contract, the entity considers the nature of the service being offered and the purpose of the payment terms. The entity received a single upfront amount, not with the primary purpose of obtaining financing from the customer but, instead, to manage the risks associated with providing the service. Arising thereof, the transaction price of this project would not be adjusted.

A1 – Basis of Preparation (continued)

MFRS 15 Revenue from Contracts with Customers (continued)

In general, the Board has assessed that revenue from construction contracts should be recognised over time as the Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date and that the customer controls the assets during the course of construction by the Group. Furthermore, the Board considers that the input method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under MFRS 15.

Standards in issue but not yet effective

As at the date of authorisation of these interim financial statements, the new and revised MFRSs and amendments to MFRSs which were in issue but not yet effective and not early adopted by the Group are as listed below: -

MFRS 16	Leases
MFRS 17	Insurance Contracts
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 119	Plan Amendments, Curtailment or Settlement
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Payments
Annual Improvements to MFRSs 2015-2017 Cycle	
Amendments to References to the Conceptual Framework in MFRS Standards	

The Board anticipates that the abovementioned MFRSs and amendments to MFRSs will be adopted in the annual financial statements of the Group when they become effective and the Group are currently still in the process of assessing the impact of the new standards upon initial application of these standards.

(b) Critical Accounting Judgment and Key Sources of Estimation Uncertainty

The preparation of these interim financial statements requires the Board to make critical judgments, estimates and assumptions that may affect the application of accounting policies and the amounts recognised in these interim financial statements.

In these interim financial statements, critical judgments, estimates and assumptions were made to the classification and carrying amount of a trade receivable in Sungai Harmoni Sdn Bhd ("**SHSB**"), a wholly owned subsidiary of the Company, as follows: -

(i) In 2014, the Selangor state and Federal governments executed a heads of agreement for Pengurusan Air Selangor Sdn Bhd **("Air Selangor")**, an entity identified by the Selangor state government, to take over the water supply and distribution services in the state of Selangor and the Federal Territories of Kuala Lumpur and Putrajaya **("Supply Area")** by acquiring all the concessionaires **("Water Restructuring Exercise")** namely, Syarikat Pengeluar Air Sungai Selangor Sdn Bhd **("SPLASH")**, the concessionaire for the Sungai Selangor Water Supply Scheme Phase 1 and 3, Puncak Niaga (M) Sdn Bhd, the concessionaire for the Sungai Selangor Water Supply Scheme Phase 2, Syarikat Bekalan Air Selangor Sdn Bhd **("SYABAS")**, the concessionaire for the distribution of treated water in the Supply Area and Titisan Modal (M) Sdn Bhd, the holding company of Konsortium ABASS Sdn Bhd **("ABASS")**. ABASS operates and maintains the Sungai Semenyih Water Supply Scheme.

A1 – Basis of Preparation (continued)

(b) Critical Accounting Judgment and Key Sources of Estimation Uncertainty (continued)

(ii) The Selangor state government, through Air Selangor, completed the acquisitions of Puncak Niaga (M) Sdn Bhd and SYABAS in October 2015 and Titisan Modal (M) Sdn Bhd in January 2016. However, the proposed take-over of SPLASH did not proceed due to pricing disagreements. SPLASH has been given a one-year grace period until 7 October 2016 to re-negotiate terms with the Selangor state government but subsequent extensions were granted. As part of the Water Restructuring Exercise, all concession agreements related to the water supply and distribution in the Supply Area are to be terminated effective from the date to be determined by Air Selangor.

(iii) On 3 August 2018, Syarikat Pengeluar Air Selangor Holdings Berhad (**"SPLASH Holdings"**), the holding company of SPLASH, received a letter of offer from Air Selangor in respect of Air Selangor's proposed purchase of 100% equity interest held by SPLASH Holdings in SPLASH for a sum of RM2.55 billion (**"SPLASH Offer"**). SPLASH Holdings had on 9 August 2018 accepted in principle the SPLASH Offer from Air Selangor. The conditional share purchase agreement was signed on 28 September 2018. Subsequently, both parties have mutually agreed to extend the Cut-Off Date to fulfil the Conditions Precedent in the sale purchase agreement from 27 December 2018 to 28 February 2019. On 27 February 2019, the parties mutually agreed to further extend the Cut-Off Date to 31 March 2019.

(iv) On 21 August 2018, SHSB received a letter of offer from Air Selangor **("SHSB Offer"**) setting out the (i) key terms of settlement between Air Selangor, SPLASH and SHSB relating to SHSB's outstanding receivables arising from the operations and maintenance of the Sungai Selangor Water Treatment Plant Phase 1 **("SSP1")** under its existing Operations and Maintenance Agreement for SSP1 **(" Existing OMA")** with SPLASH; and the (ii) key terms in respect of the new bulk water supply agreement for the continued operations and maintenance of SSP1 **("Sungai Harmoni BSWA ")** between Air Selangor and SHSB.

(v) On 27 August 2018, SHSB accepted the SHSB Offer. To facilitate the conclusion of the Water Restructuring Exercise, SHSB will amongst others:

(a) execute a termination and settlement agreement with Air Selangor and SPLASH in respect of the Existing OMA **("Termination and Settlement Agreement")**;

(b) execute the Sungai Harmoni BSWA; and

(c) terminate all other existing agreements relating to the Existing OMA.

(vi) As at the end of the financial period, the outstanding amount payable under the Existing OMA amounted to RM732.275 million (2017: RM616.299 million) **("Amount Due from SPLASH")**.

(vii) In respect of the key settlement term stated in the SHSB Offer, Air Selangor offered to settle Amount Due from SPLASH at an amount equal 90% of the outstanding receivables as at the date determined under the Termination and Settlement Agreement. Whilst the Termination and Settlement Agreement has yet to be executed at the date of these interim financial statements, the Board is confident that it is highly probable that the Termination and Settlement Agreement will be executed in due course. Negotiations are on-going for the parties to conclude the agreements. Based on this premise, the Group has re-measured the ECL based on the rate of 10%, which reflect the amount required to be written off on the outstanding amount of RM669.685 million as at the date of acceptance of the SHSB Offer. Based on the estimation, a reversal of over-provision for ECL allowance has been made in the current quarter and year-to-date as follows:-

A1 – Basis of Preparation (continued)

(b) Critical Accounting Judgment and Key Sources of Estimation Uncertainty (continued)

	3 Months Ended 31 Dec		12 Months Ended 31 Dec	
	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000 Restated
Reversal of discounting on receivables in:				
- revenue	8,967	48,094	-	-
- other operating income	-	(15,290)	-	-
- administrative and other expenses	1,020	-	-	-
	9,987	32,804	-	-
Reversal/(Recognition) of credit loss allowance in:				
- other operating income	65,337	-	65,337	-
- administrative and other expenses	-	(21,592)	-	(21,592)
	65,337	(21,592)	65,337	(21,592)
Adjustments to revenue in accordance with MFRS 15	(6,259)	-	(6,259)	-
Net impact to profit or loss for the period/year	**69,065**	**11,212**	**59,078**	**(21,592)**

(viii) It should be noted that the above critical judgment, estimate and assumption requires to be reassessed from time to time in light of on-going developments in the Water Restructuring Exercise as it may have a significant impact to amounts recognised in these interim financial statements. In this respect, the Board will re-assess its position before the release of the audited financial statements for the year ended 31 December 2018 and the next interim financial statements after taking into account of these developments.

A2 – Comments about the Seasonal or Cyclicality of Interim Operations

There are no significant seasonal or cyclical factors affecting the operations of the Group.

A3 – Unusual Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There are no items affecting the assets, liabilities, equity, net income or cash flows of the Group that were unusual because of their nature, size or incidence during the current quarter and financial year except arising from the re-measurement of the ECL allowance for the Amount Due from SPLASH.

A4 – Accounting Estimates

There were no changes in estimates of amounts reported in prior financial years of the Group that have had a material effect in the current quarter and financial year except for the re-measurement of the ECL allowance for the Amount Due from SPLASH and the change in the estimates for the amortisation of the concession rights in SWM Environment Holdings Sdn Bhd ("**SWMH**"), an associate of the Company.

A4 – Accounting Estimates (continued)

The results of SWMH is incorporated in the consolidated financial statements of the Group using the equity method of accounting. In arriving at the Group's share of the results in the associate, appropriate adjustments have been made to reflect the fair value of the identifiable assets and liabilities recognised at the then acquisition date and subsequent recognition of income and expenses in respect of these assets and liabilities. These adjustments involve significant estimates by the Group, especially the amortisation of intangible asset comprising the concession rights of the associate using the volume method as disclosed in Note 4(ii)(j) of the Audited Financial Statements – Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

During the financial year, the Group changed the method of amortisation of the concession rights from a volume method which the associate is no longer able to estimate reliably; to a straight-line method and such change is accounted for as a change in estimates by adjusting the current and future periods. The change in the estimates is applied prospectively with effect from 1 January 2018 and accounted for in the current quarter. This resulted in a higher share of losses from SWMH by RM7.97 million in the current quarter and financial year.

A5 – Issuance, Repurchases and Repayments of Debt and Equity Securities

During the current quarter and financial year, there was no issuance, repurchase and repayment of debt and equity securities by the Company except for the issuance of 3,335 new ordinary shares at RM1.02 per share from exercise of Warrants 2015/2018 ("**Warrants**"). The proceeds received from the exercise of Warrants was RM3,402. The Warrants had expired on 11 November 2018 and a total of 403,159,275 unexercised Warrants lapsed and were subsequently delisted on 12 November 2018.

A6 – Dividends Paid

(a) The total dividends paid to shareholders during the financial year amounted to RM96,759,120 (2017: RM72,569,340) as follows:

(i) On 28 November 2017, the Board declared a third interim single-tier dividend of 2.0 sen per share *(or 1.2 sen adjusted for the Bonus Issue)* on 1,209,489,000 ordinary shares, amounting to RM24,189,780 in respect of the financial year ended 31 December 2017. The dividends were paid on 10 January 2018.

(ii) On 28 February 2018, the Board declared a fourth interim single-tier dividend of 2.0 sen per share *(or 1.2 sen adjusted for the Bonus Issue)* on 1,209,489,000 ordinary shares, amounting to RM24,189,780 in respect of the financial year ended 31 December 2017. The dividends were paid on 13 April 2018.

(iii) On 22 May 2018, the Board declared a first interim single-tier dividend of 2.0 sen per share *(or 1.2 sen adjusted for the Bonus Issue)* on 1,209,489,000 ordinary shares, amounting to RM24,189,780 in respect of the financial year ended 31 December 2018. The dividends were paid on 13 July 2018.

(iv) On 27 August 2018, the Board declared a second interim single-tier dividend of 2.0 sen per share *(or 1.2 sen adjusted for the Bonus Issue)* on 1,209,489,000 ordinary shares, amounting to RM24,189,780 in respect of the financial year ended 31 December 2018. The dividends were paid on 26 October 2018.

(b) On 26 November 2018, the Board declared a third interim single-tier dividend of 1.2 sen per share *(adjusted for the Bonus Issue)* on 2,015,817,574 ordinary shares, amounting to RM24,189,811 in respect of the financial year ended 31 December 2018. The dividends were subsequently paid on 31 January 2019 and these have been included as dividends payable in these interim financial statements.

A7 – Material Subsequent Events

There were no material events subsequent to the end of the financial period that have not been reflected in these interim financial statements.

A8 – Changes in Composition of the Group

There were no changes to the composition of the Group during the financial period, including business combination, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinued operations except arising from the following:

(a) On 26 February 2018, Taliworks Meruan (Sarawak) Sdn Bhd, a 60% owned subsidiary, was placed under members' voluntary winding-up pursuant to Section 439(1)(b) of the Companies Act, 2016. The liquidator distributed the capital of the company equivalent to RM0.94 per share amounting to RM282,000 and RM188,000 respectively to the Group and to the non-controlling interest;

(b) On 2 March 2018, Air Kedah Sdn. Bhd., a 60% owned subsidiary of the Company, has been struck off from the register of companies pursuant to Section 308(4) of the Companies Act, 1965 (now under Section 551(3) of Companies Act, 2016); and

(c) On 12 July 2018, Hydrovest Sdn Bhd, a 40% associate of the Company was dissolved pursuant to Section 459(5) of the Companies Act, 2016. The difference between the disposal consideration of RM358,000 and the Group's proportionate share of the carrying amount of the net assets in Hydrovest at the date of disposal resulted in a loss on disposal to the Group amounting to RM13,000.

A9 – Other Significant Events and Transactions

Other than disclosed elsewhere in these interim financial statements, there are no other transactions and events that are significant to an understanding of the changes in the financial position and performance of the Group since the end of the last annual reporting period.

A10 - Operating Segments

Segmental information is presented in respect of the Group’s business segments, which reflect the Group’s management structure and the way financial information is internally reviewed by the Group’s chief operating decision makers.

	Water treatment, supply and distribution		Waste management		Construction		Toll highway		Others		Total		Reconciliation		Amount as per Statement of comprehensive income	
3 months ended 31 Dec	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
		Restated		Restated		Restated		Restated		Restated		Restated		Restated		Restated
Income Statement																
Revenue	63,331	58,233	78,573	76,121	9,725	10,874	15,951	18,529	1,334	1,316	168,914	165,073	(70,984)	(27,145)	97,930	137,928
Operating profit	22,361	22,011	18,098	22,150	469	3,301	5,363	14,739	(3,045)	(4,018)	43,246	58,183	54,365	(6,411)	97,611	51,772
Profit/(Loss) before tax	22,361	22,011	11,466	13,483	466	3,299	1,720	11,036	(3,333)	(4,018)	32,680	45,811	44,797	(1,908)	77,477	43,903
Profit/(Loss) after tax	14,504	19,769	8,573	7,592	468	2,889	1,591	11,486	(2,889)	(4,018)	22,247	37,718	33,911	(1,758)	56,158	35,960
Other Financial Information																
Depreciation and amortisation	(208)	(232)	(12,145)	(11,454)	(118)	(89)	(6,694)	(4,869)	(344)	(448)	(19,509)	(17,092)	10,781	10,575	(8,728)	(6,517)
EBITDA	22,569	22,243	24,939	33,604	587	3,390	12,057	19,608	(2,701)	(3,570)	57,451	75,275	48,888	(16,986)	106,339	58,289
EBDA	14,712	20,001	15,414	19,046	586	2,978	8,285	16,355	(2,545)	(3,570)	36,452	54,811	28,434	(12,334)	64,886	42,477
CAPEX	48	72	963	7,141	-	12	15	363	30	-	1,056	7,588				

A10 - Operating Segment (continued)

(i) EBITDA is defined as earnings before finance costs, taxation, depreciation and amortisation (and excludes share of results of associates and joint venture).
(ii) EBDA is defined as earnings before depreciation and amortisation.
(iii) CAPEX is defined as capital expenditure based on the Group's proportionate share on capital expenditure incurred for the financial period.

Notes

1. *The Group monitors the performance of its business by four main business divisions namely water treatment, supply and distribution, waste management, construction and toll highway. Others refer to investment holding and other non-core businesses.*

2. *The revenue and profit performance represent the Group's proportionate share of interest in each of the subsidiaries (instead of full consolidation) and includes a proportionate share of the interest of joint ventures or associates (instead of being equity accounted). The total is then reconciled to the revenue and profit performance in the Statements of Profit or Loss and Other Comprehensive Income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.*

3. *The segmental information on the water treatment, supply and distribution division excludes the effects of adoption of MFRS 9 and MFRS 15 as disclosed in Note A1(b)(vii) above to better assess the operational performance of the division.*

4. *The income statement in the waste management division are solely from the concession business, excludes the fair value measurement adjustments made at the Group level. This is to better assess the operational performance of the division. The calculation of EBITDA and EBDA are arrived at after the proportionate deduction of the dividend on the cumulative preferences shares held by parties other than the Group.*

	Water treatment, supply and distribution		Waste management		Construction		Toll highway		Others		Total	
As at 31 Dec	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
		Restated		Restated		Restated						Restated
Segment assets	761,750	588,057	171,775	189,875	43,603	51,411	1,435,239	1,465,801	33,692	76,780	2,446,059	2,371,924
Segment liabilities	(207,689)	(136,896)	-	-	(28,295)	(34,096)	(823,151)	(836,466)	(65,496)	(36,392)	(1,124,631)	(1,043,850)
Net segment assets	**554,061**	**451,161**	**171,775**	**189,875**	**15,308**	**17,315**	**612,088**	**629,335**	**(31,804)**	**40,388**	**1,321,428**	**1,328,074**

PART B – DISCLOSURES PURSUANT TO PARAGRAPH 9.22 OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 – Overall Review of Group's Financial Performance

Part A – Review of Statement of Financial Position

The high trade receivables particularly the amount owing by SPLASH continues to be a major concern as it has been long outstanding. However, the Group is fairly optimistic that the Termination and Settlement Agreement will be executed in due course which will mitigate this significant risk to the Group. During the current quarter, the investment in associates decreased from RM200.4 million to RM181.8 million mainly attributable to share of losses in SWMH arising from the lower PAT of RM139.5 million (2017: RM146.7 million (as restated) recorded by SWMH from the recognition of ECL allowances on its trade receivable balances, higher depreciation charges and payroll costs and the change in the estimates for the amortisation of concession assets of SWMH by the Group.

The Group's trade payables increased from RM141.5 million as at the last audited financial statements to RM201.3 million mainly due to the increase in trade payables in SHSB, owing to the partial payments received from SPLASH which limits the ability of SHSB to pay its creditors in full. However, in light of the issue of the high trade receivables being addressed, the trade payables are expected to be reduced over time. During the current quarter, the Group had drawdown RM30.0 million from a revolving facility to finance working capital requirements and dividend payments.

Investments designated at FVTPL, deposits, bank and cash balances totalled RM178.6 million, down from RM214.2 million principally from dividend and interest payments offset by net cash generated from operations and investing activities.

Part B – Review of Income Statement

	3 Months Ended 31 Dec 2018 RM'000	3 Months Ended 31 Dec 2017 RM'000	12 Months Ended 31 Dec 2018 RM'000	12 Months Ended 31 Dec 2017 RM'000
Revenue		Restated		Restated
Water treatment, supply and distribution	63,330	58,233	246,530	232,221
Construction	8,365	8,393	42,520	51,690
Toll highway	22,193	21,893	86,987	85,647
Others	1,334	1,315	5,282	5,314
	95,222	89,834	381,319	374,872
Add/(Less) Effects of adoption of:				
- MFRS 9 (N*ote A1(b)(vii))*	8,967	48,094	-	-
- MFRS 15 (N*ote A1(b)(vii))**	(6,259)	-	(6,259)	-
Total revenue	**97,930**	**137,928**	**375,060**	**374,872**

**This amount represents adjustment by 10% on the billings to SPLASH (from the date of acceptance SHSB Offer to the end of the financial year) which is deemed to be uncollectable and hence accountable for in accordance with MFRS 15.*

B1 – Overall Review of Group's Financial Performance (continued)

Part B – Review of Income Statement (continued)

Profit Before Tax

Water treatment, supply and distribution	91,358	33,268	152,090	65,542
Construction	160	2,789	71	2,656
Toll highway	9,179	19,732	41,435	49,197
Others	(3,086)	(4,017)	(13,540)	(18,765)
Operating profit	**97,611**	**51,772**	**180,056**	**98,630**
Finance cost	(5,632)	(5,299)	(21,369)	(22,584)
Share of results of joint venture	(503)	3,194	1,031	2,748
Share of results of associates	(13,999)	(5,764)	(16,341)	578
Profit before tax for the period/year	**77,477**	**43,903**	**143,377**	**79,372**

(a) Current Quarter vs. Preceding Year's Corresponding Quarter

Overall Summary

Before the impact from effects of adoption of MFRS 9 and MFRS 15, the Group recorded an increase in revenue of RM5.4 million from RM89.8 million to RM95.2 million mainly due to higher revenue contribution from the water treatment, supply and distribution business. However, after accounting for the effects of the adoption of MFRS 9 and MFRS 15, the Group revenue stood at RM97.9 million compared to RM137.9 million in the corresponding quarter.

On the Group's profit before taxation **("PBT")**, the Group registered a higher PBT of RM77.48 million compared to RM43.9 million in the corresponding quarter. However, excluding the effects of adoption of MFRS 9 and MFRS 15, the Group's PBT was stood at RM8.8 million compared to RM32.8 million in the corresponding quarter attributable to the following:-

(a) higher share of losses from an associate, SWMH arising from lower PAT and the change in the estimates for the amortisation of concession asset;

(b) higher profit contribution from Toll Division in the corresponding quarter due to the write-back of over-provision for heavy repairs; and the compensation from the Government of Malaysia for the non-increase in scheduled toll rate hike on 1 January 2016 ("**Toll Compensation**") amounting to RM8.125 million in a joint-venture company. The compensation was in respect of the year 2016 and 2017; and

(c) the Group recognising the entire loss on one of the ongoing projects due to additional costs to be incurred on staffing and overheads for maintaining site facilities arising from the extension of time.

Water treatment, supply and distribution

Revenue from the water treatment, supply and distribution segment registered an increase due to higher contribution with the increase in bulk sales rate ("**BSR Increase**") and higher electricity rebates from the higher electricity costs in both treatment plants, Sungai Selangor Water Treatment Works Phase I ("SSP1") and Langkawi operations.

Metered Sales – (million m3)	Q4 -2018	Q4 - 2017	Increase
SSP1	94.0	91.7	2.50%
Langkawi	4.87	4.86	0.21%

B1 – Overall Review of Group's Financial Performance (continued)

<u>Part B – Review of Income Statement (continued)</u>

(a) <u>Current Quarter vs. Preceding Year's Corresponding Quarter–(continued)</u>

<u>Water treatment, supply and distribution (continued)</u>

The operating profit (excluding the effects of adoption of MFRS 9 and MFRS 15) was almost similar at RM22.4 million compared to RM22.0 million achieved a year ago on account of higher unit electricity costs due to increase in TNB's Special Industrial Tariff in January 2018 and penalty charges on TNB bills remaining unpaid in SSP1 amounting to RM1.65 million (2017: RM0.44 million), coupled with higher rehabilitation and maintenance costs incurred in both water treatment operations in the current quarter.

<u>Construction</u>

The construction revenue was almost similar at RM8.4 million for the both periods. The construction revenue in the current quarter were mainly from the Langat 2 -Package 7 Balancing Reservoir Project ("L2P7 Project") which commenced since the fourth quarter of last year and mitigated by downward revision of the Mengkuang Dam Expansion Project contract sum arising from the finalisation of account in the current quarter.

During the current quarter, the segment recorded an operating profit of RM0.2 million compared to an operating profit of RM2.8 million in the corresponding quarter due to recognition of the entire net loss from one of the projects, namely GP3A Project. However, the lower operating profit was mitigated by the increase of profit margin from the Mengkuang Dam Expansion Project arising from the finalisation of account. Currently, the Group is in discussion with a client on a Variation of Pricing amounting to a maximum of RM5.6 million which can potentially be recognised in the subsequent quarters.

<u>Toll highway - Subsidiary</u>

The revenue contribution from Grand Saga Sdn. Bhd **("Grand Saga"**); the operator of the Cheras-Kajang highway, was higher by RM0.3 million as compared to the corresponding quarter with higher Average Daily Traffic **("ADT")** of 2.1% i.e. 147,290 vehicles per day compared to 144,319 vehicles per day recorded in the corresponding quarter.

However, the segment's operating profit was lower by RM10.5 million compared to RM19.7 million a year ago. This is mainly due to write back of over provision for heavy repairs recognised in last year arising from deferment of major heavy repairs scheduled in 2018 to 2021 and higher amortisation expenses arising from the revision of the projections traffic volume growth in the current quarter.

<u>Toll highway – Share of results of joint venture</u>

Despite the higher ADT by 4.8% to 91,546 vehicles per day from 87,386 vehicles per day, the Group's share of results in Grand Sepadu Sdn Bhd ("**Grand Sepadu**"), the operator of the Grand Sepadu Highway, was lower compared to the corresponding quarter due to Toll Compensation received in corresponding quarter.

<u>Waste management – Associate</u>

The Group's share of results of associates was mainly contributed by SWMH. The Group's share of losses from SWMH is RM14.0 million compared to RM5.7 million a year ago due to lower PAT recorded by SWMH coupled with the change in the estimates for the amortisation of concession asset.

B1 – Overall Review of Group's Financial Performance (continued)

Part B – Review of Income Statement (continued)

(b) Current Year-to-date vs. Preceding Year-to-date

Overall Summary

For the current financial year, the Group revenue (excluding the effects of adoption of MFRS 15) increased from RM374.9 million to RM381.3 million mainly attributable to the water treatment, supply and distribution business. However, the higher revenue was mitigated by lower contribution from construction business due to upward revision was made to the estimated contract sum in the Mengkuang Dam Expansion Project a year ago.

The Group registered a higher PBT of RM143.4 million compared to RM79.4 million in the corresponding period. Excluding the effects of adoption of MFRS 9 and MFRS 15, the Group's PBT stood at RM84.7 million compared to RM101.1 million mainly attributable to the following: -

(a) higher share of losses from SWMH;

(b) the write-back of over-provision for heavy repairs and the receipt of the Toll Compensation by Grand Sepadu; and

(c) downward revision of the estimated construction costs of Mengkuang Dam Expansion Project in corresponding period,

but the decrease in PBT was mitigated by:-

(a) effects from the BSR Increase; and

(b) lower financing costs coupled with higher foreign exchange losses in the corresponding period.

Water treatment, supply and distribution

At the operating level, revenue from water treatment, supply and distribution business (excluding the effects of adoption of MFRS 15) recorded an increase from RM232.2 million to RM246.5 million due to the BSR Increase and higher electricity rebates in SSP1.

Metered Sales (million m3)	2018	2017	Increase/ (Decrease)
SSP1	362.3	363.9	(0.44%)
Langkawi	20.33	19.78	2.78%

The segment operating profit (after stripping out the effects of adoption of MFRS 9 and MFRS 15) was higher by RM6.0 million at RM93.1 million due to the BSR Increase and lower rehabilitation and maintenance costs incurred in the Langkawi operations during the period. However, the higher profit was mitigated by the late penalty charges on outstanding TNB bills remaining unpaid in SSP1 amounting to RM5.1 million (2017: RM1.4 million).

Construction

The revenue from construction decreased to RM42.5 million compared to RM51.7 million due to the upward revision in the estimated contract sum in the Mengkuang Dam Expansion Project a year ago. However, the dip in revenue in the current financial period was mitigated by higher contribution from the L2P7 Project. The segment recorded a lower operating profit in the current period mainly due to recognition of the entire net loss from GP3A Project and mitigated by the increase of the profit margin recorded in the Mengkuang Dam Expansion Project arising from the finalisation of account in the current quarter.

B1 – Overall Review of Group's Financial Performance (continued)

Part B – Review of Income Statement (continued)

(b) Current Year-to-date vs. Preceding Year-to-date (continued)

Toll operations-Subsidiary

The revenue contribution from Cheras-Kajang highway decreased by RM1.4 million to RM87.0 million from RM85.6 million due to the higher ADT growing by 2.7% from 145,709 vehicles per day to 141,883 vehicles per day. The company's operating profit was lower by RM7.8 million due to the write back of over-provision for heavy repairs in last year and higher of amortisation expenses arising from the revision of the projections traffic volume growth in current quarter.

Toll operations -Share of results of joint venture

The Group's share of results in Grand Sepadu was lower compared to the corresponding period mainly arising from receipt of Toll Compensation in last year. In terms of overall ADT, there was a slight increase of 3.6% i.e. 90,823 vehicles per day from 87,691 vehicles per day recorded in the previous year.

Waste management –Share of results of associate

The Group recorded a share of losses of RM18.1 million from SWMH compared to RM0.8 million share of losses in the corresponding period due to lower PAT recorded by SWMH in the current year and the change in the estimates for the amortisation of concession asset.

(c) Material Change in Financial Performance for the Current Quarter Compared with Preceding Quarter

Revenue

	3 Months Ended 31 Dec 2018 RM'000	3 Months Ended 30 Sep 2018 RM'000
Water treatment, supply and distribution	63,330	61,935
Construction	8,365	12,966
Toll highway	22,193	22,144
Others	1,334	1,316
	95,222	**98,361**
Add/(Less): Effects of adoption of		
- MFRS 9 (N*ote A1(b)(vii))*	8,967	-
- MFRS 15 (N*ote A1(b)(vii))*	(6,259)	-
Total revenue	**97,930**	**98,361**

B1 – Overall Review of Group's Financial Performance (continued)

Part B – Review of Income Statement (continued)

(c) Material Change in Financial Performance for the Current Quarter Compared with Preceding Quarter (continued)

Profit Before Tax

	3 Months Ended 31 Dec 2018 RM'000	3 Months Ended 30 Sep 2018 RM'000
Water treatment, supply and distribution	91,358	22,835
Construction	160	226
Toll highway	9,179	11,360
Others	(3,086)	(3,073)
Operating profit	**97,611**	**31,348**
Finance cost	(5,632)	(5,372)
Share of results of joint venture	(503)	1,443
Share of results of associate	(13,999)	186
Profit before tax for the period	**77,477**	**27,605**

Excluding the effects of adoption of MFRS 9 and MFRS 15, the Group recorded a decrease in revenue from RM98.4 million to RM95.2 million primarily from construction business. However, the lower revenue was mitigated by higher contribution from water treatment, supply and distribution business.

The Group's PBT (excluding the effects of adoption of MFRS 9 and MFRS 15) decreased to RM8.8 million compared to RM27.6 million in the previous quarter mainly as a result of higher share of losses from SWMH, lower contribution from toll business due to higher repair and maintenance incurred in the current quarter, and lower share of results of joint venture due to the receipt of the Toll Compensation amounting to RM4.130 million in the previous quarter. This was in respect of the balance of the compensation receivable for the year 2017.

Part C – Review of Statement of Cash Flow

The cash and cash equivalents (excluding the effects of foreign exchange rate changes) decreased by RM21.7 million during the financial year.

Net Cash Generated from Operating Activities for the financial year was recorded at RM62.9 million compared to RM28.7 million a year ago due to the continued partial payments from SPLASH and delayed payments to trade payables.

Net Cash from Investing Activities totalled RM21.9 million compared to RM153.2 million a year ago due to withdrawal of deposits pledged as security RM122.5 million, dividend income from SWMH and compensation received in the previous year as disclosed in Note 46(b) of the Audited Financial Statements - Significant Events.

Net Cash Used in Financing Activities totalled RM106.5 million as compared to RM181.7 million a year ago due to the repayments on the bank borrowings.

B2 – Current Year Prospects

The operating profit of the Group is largely driven by the performance of the water treatment, supply and distribution business and to a certain extent the toll division as these segments contribute the bulk of the profits to the Group. The Group expects that the SSP1 operations, which is the main contributor to the revenue and profit to the Group, will continue to run its production above its design capacity of 950 MLD due to continuous increase in demand for treated water in the Klang Valley. The Group is optimistic that the Water Restructuring Exercise which involves Air Selangor taking over the water supply and distribution services in the state of Selangor and the Federal Territories of Kuala Lumpur and Putrajaya will complete by this year and that the Amount Due from SPLASH will be repaid in accordance with the terms of the Termination and Settlement Agreement.

In the construction segment, the GP3A Project which commenced work in 2016 has been granted an extension of time to complete until fourth quarter of 2019. The L2P7 Project which commenced in the fourth quarter of last year, is the main construction activity currently underway and it has been granted an extension of time to complete by second quarter of 2019. In the current quarter, the Group, via its wholly-owned subsidiary, was awarded the Proposed Construction and Completion Including Handing Over To Authority Of 76ML R.C Reservoir R4 and Related Ancillary Works at Cyberjaya Flagship Zone, Mukim Dengkil, Daerah Sepang, Selangor Darul Ehsan at a contract sum of RM42.356 million, to be completed with 36 months from the date for possession of the site. The Group is continuing with its efforts to tender for more infrastructure projects.

In the toll highway division, the growth in ADT at both the Cheras-Kajang Highway and the Grand Sepadu Highway is expected to be moderate. For the twelve months ended 31 December 2018, the ADT at the Cheras-Kajang Highway grew by 2.7% whereas at Grand Sepadu Highway, ADT grew by about 3.6%. The impact on the ADT at the Cheras-Kajang Highway arising from the commencement of the Klang Valley Mass Rapid Transit Line 1 in July 2017 continue to diminish. The completion of the new access to the Grand Sepadu Highway at Jalan Haji Sirat to provide a direct access into the expressway for residents and business owners from the surrounding industrial areas, is expected to further contribute to the uptrend in the projected toll revenue.

In the waste management division, SWMH is expected to grow its business with the increasing servicing areas as well as improving its operational efficiency to deal with the escalating costs in managing solid waste in the concession areas where is it currently serving. However, challenges continue to be faced by this division which is reflected by the lower PAT recorded by the company. Nevertheless, SWMH is currently in the process of reviewing its tariff on its solid waste collection and public cleansing management services with the Federal Government and this is expected to be completed by first half of next year.

The Group will continue with its strategy to focus on mature operational cash-generating utilities/infrastructure businesses with a view of generating new income stream and provide a recurring and stable source of cash flow to the Group to support the Company’s dividend policy.

B3 – Profit Forecasts or Profit Guarantees

Not applicable as no profit forecasts or guarantees were issued or published.

B4 – Profit before tax

Included in the profit before tax are the following items: -

	3 Months Ended 31 Dec		12 Months Ended 31 Dec	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
		Restated		Restated
Revenue				
Reversal of discounting on receivables *(Note A1(b)(vii))*	8,967	48,094	-	-
Other operating income:				
Interest income on fixed deposits with licensed banks	1,106	1,210	3,555	4,146
Dividend from investments designated at FVTPL	616	746	2,102	1,925
Rental income	143	185	566	553
Reversal of discounting of receivables *(Note A1(b)(vii))*	-	(15,290)	-	-
Reversal of ECL allowance *(Note A1(b)(vii))*	65,337	-	65,337	-
Gain on redemption of investments designated at FVTPL	-	1	20	43
Gain on foreign exchange (unrealised)	-	-	4	-
Fair value gain from investments designated at FVTPL	(34)	(122)	219	510
Rental and maintenance fee	118	66	118	66
Cost of operations, administrative and other expenses:				
Depreciation and amortisation	(8,728)	(6,517)	(33,398)	(32,581)
Imputed interest on borrowing	(138)	(138)	(548)	(548)
Loss on redemption of investments designated at FVTPL	2	-	(4)	-
Fair value loss from investments designated at FVTPL	(2)	(32)	(2)	(32)
Loss on disposal of an associate *(Note A8(c))*	-	-	(13)	-
Loss on foreign exchange (unrealised)	(1)	(158)	(1)	(2,365)
Realised foreign exchange losses	-	(1,215)	(730)	(5,364)
Reversal of discounting of receivables *(Note A1(b)(vii))*	1,020	-	-	-
ECL allowance	(353)	(21,714)	(353)	(21,714)
Reversal of interest income imputed on retention sum	(128)	14	(678)	(460)

Save as disclosed above, the other items required under Chapter 9, Appendix 9B, Part A (16) of the Listing Requirements of Bursa Securities are not applicable.

B5 – Income Tax Expense

	3 Months Ended 31 Dec		12 Months Ended 31 Dec	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Income tax:				
-Current year tax	3,877	5,766	21,062	20,697
-Over-provision in prior years	(272)	688	(849)	301
Deferred tax expense^	17,714	1,489	14,770	(6,165)
Total income tax expense	**21,319**	**7,943**	**34,983**	**14,833**

^ *Included in the amount is the deferred tax effects of adoption of MFRS 9.*

The income tax expense is in respect of the estimated Malaysian income tax charges and deferred tax expenses. The effective tax rate of the Group varied from the statutory tax rate principally due to non-deductibility of certain expenses and/or non-taxability of certain income, as the case maybe, tax effect of share of profits/loss of joint venture and associate and losses incurred by certain subsidiaries which were not available to be set-off against taxable profits in other companies within the Group.

B6 – Status of Corporate Proposals Announced but not Completed

As at 21 February 2019 (being a date not earlier than 7 days from the date of these interim financial statements), there were no corporate proposals announced but not completed as at end of the reporting period.

B7 – Group Borrowings and Debt Securities

Included in the borrowings of the Group are borrowings denominated in Ringgit Malaysia as follows: -

	←------------Short Term--------------→			←--------------Long Term--------------→		
	Secured RM'000	Unsecured RM'000	Total RM'000	Secured RM'000	Unsecured RM'000	Total RM'000
Finance lease liabilities	58	-	58	-	-	-
Revolving credit	-	10,000	10,000	-	20,000	20,000
IMTN	-	-	-	417,063	-	417,063
As at 31 Dec 2018	**58**	**10,000**	**10,058**	**417,063**	**20,000**	**437,063**
As at 31 Dec 2017	**157**	**-**	**157**	**416,573**	**-**	**416,573**

During the current quarter, the Company had drawdown RM30.0 million from a revolving credit facility. The revolving credit is unsecured and repayable over three equal instalments of RM10.0 million a year over a duration of three years commencing from the date of drawdown.

B8 – Changes in Material Litigations

As disclosed in Note 47 to the Audited Financial Statements – Subsequent Event, SHSB received two writs of summons together with the corresponding statements of claim dated 1 March 2018 filed by Tenaga Nasional Berhad ("TNB") in relation to the outstanding payment of electricity bills to TNB. The next hearing for the suits has been fixed for 27 May 2019.

B9 – Earnings Per Share ("EPS")

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the financial period/year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the reporting date.

	3 Months Ended 31 Dec 2018	3 Months Ended 31 Dec 2017 Restated	12 Months Ended 31 Dec 2018	12 Months Ended 31 Dec 2017 Restated
Profit for the financial period/year attributable to owners of the Company (RM'000)	54,513	28,322	99,214	51,303
Weighted average number of ordinary shares in issue ('000)	2,015,814	2,015,814	2,015,814	2,015,814
Basic EPS (sen)	2.70	1.40	4.92	2.55

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit for the financial period/year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial period adjusted for potential dilutive ordinary shares from the exercise of Warrants.

The diluted earnings per share is the same as basic earnings per share calculated above as the Warrants were excluded from the calculation of the diluted earnings per share as they were anti-dilutive.

B10 – Dividends

The Board is pleased to declare a fourth interim single-tier dividend of 1.2 sen per share on 2,015,817,574 ordinary shares amounting to approximately RM24,189,811, in respect of the financial year ended 31 December 2018, to be payable on 27 May 2019.

For the financial year ended 31 December 2018, the Board has declared a total single-tier dividend of 4.8 sen (adjusted for the Bonus Issue) to shareholders amounting to RM96,759,120 (2017: 4.8 sen per share adjusted for the Bonus Issue) amounting to RM96,759,120).

B11 – Auditors' Reports

The auditors' report on the financial statements of the Group and the Company for the most recent audited financial statements were not subject to any qualification. However, an emphasis of matter had been included by the Group's auditors to draw attention on the uncertainty over the collectability of amounts owing by SPLASH.

B12 – Investment Designated at FVTPL, Deposits, Bank and Cash Balances

(a) As at the end of the financial period, included in the investment designated at FVTPL, deposits, bank and cash balances totalling RM178.6 million are approximately: -

(i) RM26.8 million held as securities for banking facilities secured by the Group,

(ii) RM103.7 million held in a subsidiary that is subject to restrictions imposed under an IMTN program; and

(iii) RM24.2 million for the third interim single-tier dividend payable in respect of the financial year ended 31 December 2018.

(b) Included in deposits, bank and cash balances held by the Group were the following: -

Foreign currency	31Dec 2018	30 Sep 2018	31 Dec 2017
US Dollars (‘000)	17	17	5,455

The principal closing rates used in translation of foreign currency amounts were as follows:

	RM	RM	RM
1 US Dollar (USD)	4.1360	4.1204	4.0620

Source: Bank Negara Malaysia's website at http://www.bnm.gov.my/index.php?ch=statistic&pg=stats_exchangerates

B13 – Restatement of Comparatives

The table below show the amount of adjustment for each financial statement line item affected by the application of MFRS 9 for the prior years.

	As previously reported RM'000	MFRS 9 adjustments RM'000	As restated RM'000
(a) Impact on Condensed Statements of Financial Position			
As at 31 Dec 2017			
Available-for-sale financial assets	69,770	(69,770)	-
Investments designated at FVTPL	-	69,770	69,770
Investments in associates*	231,972	(31,617)	200,355
Long-term trade receivables *(Note A1(a)(i))*	362,318	43,186	405,504
Short-term trade receivables *(Note A1(a)(i))*	138,973	(1,262)	137,711
Deferred tax assets	42,553	(10,103)	32,450
Reserves	614,973	204	615,177

* SWMH applies the simplified approach and recognises lifetime ECL for the outstanding trade receivables. The accumulated ECL allowance, net of deferred tax, of RM90.34 million as at 1 January 2018 has been recognised against the company's retained earnings.

B13 – Restatement of Comparatives (continued)

(b) ***Impact on Condensed Statements of Comprehensive Income***

3 months ended 31 Dec 2017			
Revenue	131,696	6,232	137,928
Other operating income	(12,784)	77	(12,861)
Administrative and other expenses	(57,640)	23,465	(34,175)
Share of results of associates	(5,157)	(607)	(5,764)
Income tax expense	(757)	(7,186)	(7,943)
Net fair value gain on available-for-sale financial assets	(154)	154	-
12 months ended 31 Dec 2017			
Revenue	368,640	6,232	374,872
Other operating income	8,296	555	8,851
Administrative and other expenses	(94,278)	23,465	(70,813)
Share of results of associates	1,185	(607)	578
Income tax expense	(7,647)	(7,186)	(14,833)
Net fair value gain on available-for-sale financial assets	478	(478)	-

(c) Impact on Condensed Statements of Changes in Equity

As at 1 January 2017			
Available-for-sale reserve *(Note A1(a)(i)(b))*	(66)	66	-
Retained earnings	753,977	(21,843)	732,134
As at 1 January 2018			
Available-for-sale reserve	173	(173)	-
Retained earnings	686,300	377	686,677

(d) Impact on Condensed Statements of Cash Flow

12 months ended 31 Dec 2017			
Profit before tax	49,727	29,645	79,372
Non-cash items	61,778	(29,645)	32,133

B14 - Retrospective Adjustment from the Bonus Issue

In accordance to MFRS 133 – Earnings Per Share, if the number of ordinary or potential ordinary shares outstanding increases as a result of a bonus issue, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

Upon completion of the Bonus Issue on 19 October 2018, the share price of the Company has been adjusted. Accordingly, the net asset per share in the Condensed Statement of Financial Position has also been adjusted for comparability purposes.

B15 – Share Capital / Share Premium

Effective from 31 January 2017, the new Companies Act 2016 ('the Act') abolished the concept of authorised share capital and par value of share capital. Consequently, the credit balance of the share premium account of RM196,663,333 became part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purposes as set out in Section 618(3) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

B16 – Authorisation for Release

These interim financial statements have been reviewed by the Audit and Risk Management Committee and approved by the Board for public release.

By Order of the Board
Tan Bee Hwee (MAICSA 7021024)
Wong Wai Foong (MAICSA 7001358)
Company Secretaries
28 February 2019