



annual report
2005

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MISSION

PBAPP will be the leading organisation in water supply

VISION

Meeting all your water supply needs



COMMITMENT

We will be environmentally sensitive, responsible, proactive, professional, innovative and committed to excellence and sustainable development.

We will be responsible for the development of water supply and delivering the best possible service by being customer-oriented.



It is a policy of PBAPP to provide quality and excellent services in every phase of its activities that shall be consistently meeting the standards, requirements and expectations of its customers.



PBAPP shall be fully responsible, diligent and efficient in ensuring that the services provided by PBAPP shall be continuously improved.

The following are the quality statements of PBAPP :

- Upholding and enhancing its goodwill and reputation as an organization that provides quality water exceeding the World Health Organization standards;
- Implementing and maintaining an effective Quality Management System based on the ISO 9001 Standard;
- Creating a corporate culture of continuous improvement in all its business functions through innovation, proactive approach and creativity;
- Projecting PBAPP in a professional manner through competent and knowledgeable personnel;
- Committing itself in ensuring the conservation of the environment;
- Providing a safe and healthy workplace for all its employees, customers, contractors and suppliers.

QUALITY POLICY



KEY CORPORATE OBJECTIVES

- Uninterrupted water supply
- Customer satisfaction
- Skilled, competent and motivated workforce
- Effective teamwork
- Timely and orderly development of water resources
- Productive utilization of financial and other resources
- Continuous improvement in all fields
- Compliance with all relevant legislations
- Effective relations with government agencies and industrial organisations





CORE VALUES

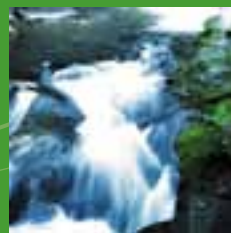
- Accountability
- Communication
- Teamwork
- Integrity
- On-Going Learning
- New Ways of Improvement



ENVIRONMENTAL POLICY

PBAPP, operating a dam at Teluk Bahang and a water treatment plant at Batu Ferringhi, Pulau Pinang, is fully committed to protect and conserve the environment whilst providing quality water to its customers.

- It is a firm belief of the Company that all its operations shall be in harmony with the environment and shall work towards its conservation.
- The Company is committed to continual improvement and implementing Environmental Management Programme to reduce adverse environmental impact from :
 - a. wastage of natural water resources and;
 - b. excessive consumption of energy and chemicals in our operations.
- The Company is fully committed to preventing pollution and will consistently strive to manage and improve its operations through an environmental management system incorporating procedures, monitoring, audits and reviews.
- The Company pledges to comply with all legal requirements imposed by the Government, adopts and implements relevant environmental standards and requirements that can enhance its environmental management system.
- The Company shall ensure that all personnel are fully committed to promote and implement this policy in all aspects of services.



SAFETY & HEALTH POLICY



- It is the policy of PBAPP to ensure that the safety and health of human life is practised at all its work places.
- The management of PBAPP undertakes as far as practically possible to continuously improve all work places to achieve a safe and healthy environment for all its staff.
- There shall be a continual training program for staff to create awareness on safety and health and updates on the latest development in occupational safety and health.
- It is the Company's policy to ensure all compliance to acts, rules and regulations imposed by the government on safety and health.





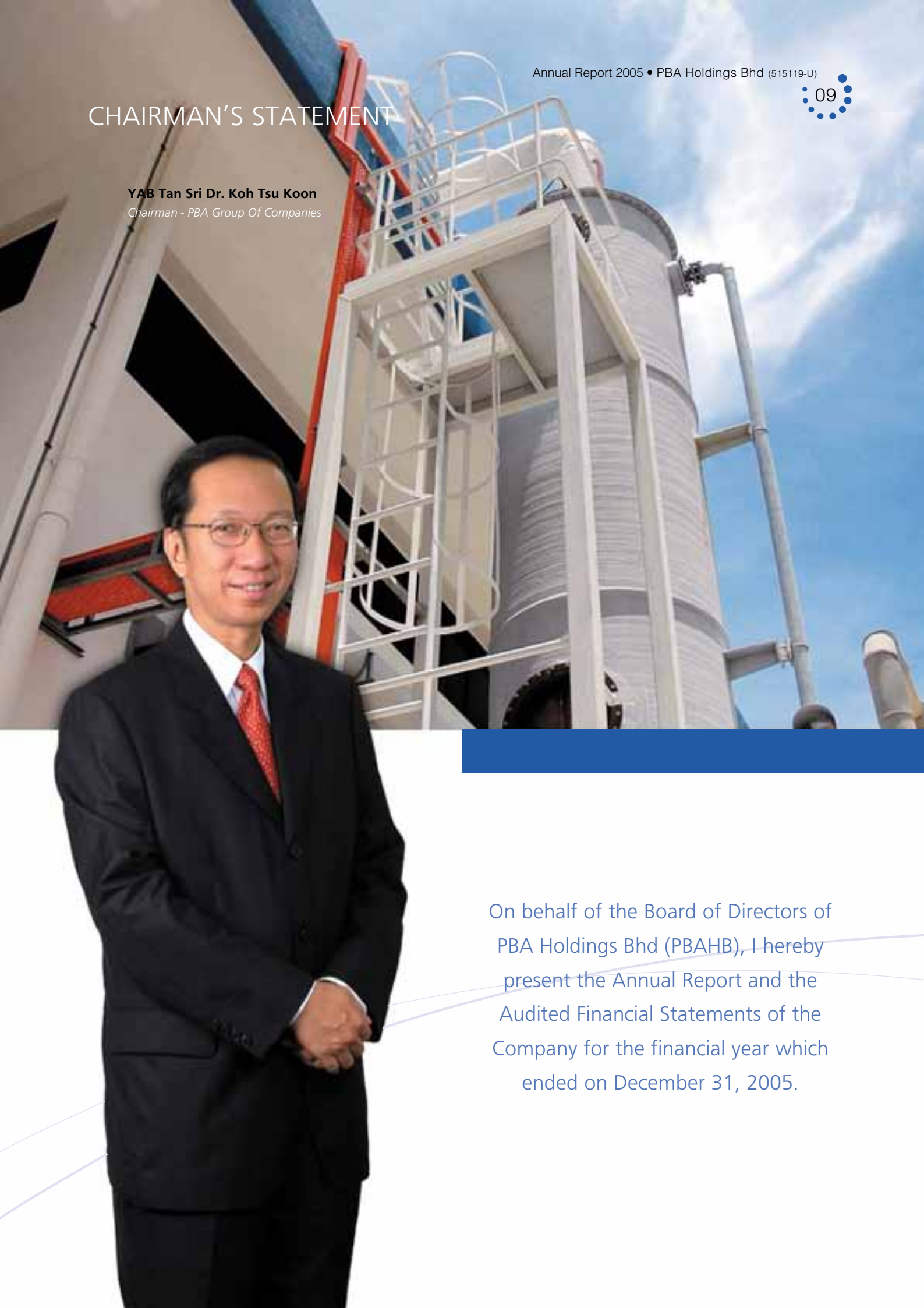
RISK MANAGEMENT POLICY



- Continuously identifying and assessing risks and improving control measures steered by clear guidelines for preventing, detecting and minimizing risks.
- Maintaining a continuous effort towards prioritizing and managing business risk based on the likelihood of occurrence (possibility) and magnitude of impact (severity) to:
 - > Ensure business continuity;
 - > Minimize any unexpected damage to reputation, shareholders' value and confidence, and
 - > Prevent capital leakage, wastage and loss of earnings.
- There shall be a continuous effort by management to create, promote and sustain a company-wide culture of risk awareness and management.
- Daily operating business risks shall be the primary responsibility of the management and employees of the Company whilst corporate risks and responsibilities shall remain with the Board.

CHAIRMAN'S STATEMENT

YAB Tan Sri Dr. Koh Tsu Koon
Chairman - PBA Group Of Companies



On behalf of the Board of Directors of PBA Holdings Bhd (PBAHB), I hereby present the Annual Report and the Audited Financial Statements of the Company for the financial year which ended on December 31, 2005.

CHAIRMAN'S STATEMENT - CONTINUED

CONTINUED REVENUE GROWTH AND DIVIDENDS

For the second year in a row, the PBA Group charted growth in total revenue from RM170.7 million in 2004 to RM173.7 million in 2005. This is the highest figure yet recorded by the Group, representing an increase of RM3 million or 1.8%.

Total revenue includes revenue from the sales of treated water in the State of Penang by Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP) and other operating income, such as interest earnings, net profits from miscellaneous jobs, trunk mains contributions, investment income, building rentals, hiring of plants and machinery, etc.

In 2005, the Group's revenue from the sales of water was RM162.6 million as compared to RM153.7 million in 2004. Meanwhile, the Group's other operating income was RM11.1 million in 2005 as compared to RM17.0 million in the year before.

The Group recorded a profit after tax (PAT) of RM37.5 million as compared to RM39.8 million in 2004, due to an increase in the cost of sales.

The Board of Directors of PBA Holdings Bhd (PBAHB) has recommended a final dividend of 7% less tax at 28% giving a net dividend proposed and declared of approximately 10% for the financial year 2005.

INCREASING WATER CONSUMPTION

PBAPP's water supply costs have increased by 39% since the last water tariff review in the State of Penang in 2000. While fine-tuning a tariff review proposal for consideration by the Penang State Government, the Group is also prudently tracking developments related to the National Water Services Commission Act and the formation of the National Water Services Commission (SPAN).

In 2004, the PBAPP has projected an increase of 2.5% in total water consumption in the State of Penang in 2005. However, a year-on-year analysis indicates that consumption of water had, in fact, increased by 3.4% in 2005 as compared to the year before.

ECONOMIC GROWTH TO FUEL WATER USAGE

Water consumption in the State of Penang is projected to continue increasing in tandem with population growth, changing lifestyles and increased economic activities in 2006 and the years ahead.

As estimated by the Department of Statistics, the population of Penang has increased to 1.47 million people as at the end of 2005. The forecast annual Gross Domestic Product (GDP) for Penang is RM40 billion for 2005, giving us a per capita GDP of over RM27,000. This will fuel increasingly private consumption-driven, improved lifestyles.

Y.A.B. Dato' Seri Abdullah Ahmad Badawi, our Prime Minister who also serves as Finance Minister, stated during his Budget announcement in September 2005 that Malaysia's economy was projected to grow by 5.5% in 2006, up from 5.0% in 2005.

CHAIRMAN'S STATEMENT - CONTINUED

Meanwhile, the Socio-Economic and Research Institute (SERI), which serves as a think-tank for the State of Penang, has projected a Gross Domestic Product (GDP) growth rate of 5.6% for the State in 2006, as compared to an estimated 5.2% in 2005.

It is also worthy to note that the value of approved foreign direct investments (FDI) in manufacturing for Penang in 2005 reached RM4.0 billion, four times that of 2004 and the second highest in the past 15 years. The investment momentum is expected to sustain in 2006. As manufacturing companies continue to be amongst the top trade category water consumers in the State, continued boom in this sector augurs well for the water industry.

FIRST FOREIGN PROJECT COMING ON LINE

The successful completion and commissioning of the Yuan He Water Treatment Plant in Yichun City, Jiangxi Province, China, by Pinang Water Limited (PWL), in which PBAHB holds 26%, equity will also contribute to the Group's revenue from 2006 onwards. PBAHB's partners in PWL are YLI Holdings Bhd and Ranhill KWI Sdn Bhd.

Phase 1 of the Yuan He Water Treatment Plant will supply 50 million litres of water a day to Yichun city. Phase 2, scheduled to commence by 2008, will increase supply to 100 million litres a day. PWL will continue to manage the plant for 29 years, assured of a steady stream of future revenue.

APPRECIATION AND ACKNOWLEDGEMENTS

On the whole, 2005 has proven to be another successful year for the PBA Group. As such, I would like to commend the management and staff for their fine performance and commitment to continuous improvement.

My congratulations to our two directors, Dato' Jamaludin bin Hasan and Dato' Ng Kam Cheung who were conferred their Dato'ship by the Yang Dipertua Negeri Pulau Pinang in 2005.

In closing, I would like to express my sincere appreciation to my fellow Board Members for their good support and sound contributions during the year in review. We have made progress in accordance to our mission of serving as a leading organisation in water supply in 2006. With your continuing good support, the PBA Group will indubitably head towards greater achievements in 2006.

Thank You.

Tan Sri Dr. Koh Tsu Koon
Chairman



CEO'S STATEMENT

Dato' Ir. Liew Chook San
Chief Executive Officer

In 2005, as in previous years, the PBA Group's operations were focused primarily on continuously improving the sourcing, treatment, supply and billing for treated water in the State of Penang in Malaysia.

I am pleased to report that in 2005, Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP), the 100% owned subsidiary of PBA Holdings Bhd, and licensed water supplier for the State of Penang, continued to perform to expectations.

2005 WATER SUPPLY UPDATE

The total number of registered water consumers in the State increased by 3.1% to 430,659 during the year in review. The total production for year 2005 was 298,984,724 cubic meters (cu.m.) which represented an increase of 2.1% compared with the year 2004. Total consumption also increased by 3.4% to 240,998,868 cu.m. (1 cu.m. = 1,000 liters).

CEO'S STATEMENT - CONTINUED

In general, PBAPP continued to sustain continuous wholesome water supply throughout the State in accordance to the following key corporate performance indicators:

- 100% supply coverage in urban areas and 99% coverage in rural areas;
- Treated water quality in compliance with Ministry of Health guidelines;
- Repair of all cases of burst pipes within 24 hours of reporting;
- 98% bill collection efficiency; and
- 19.4% non-revenue water (NRW).

PROJECTS FOR THE FUTURE IN PENANG

In view of continuing population growth and increasing water demand, the following key infrastructure projects were undertaken in 2005 to enhance its supply capabilities:

- Implementation of Packages 1 and 4 of the Muda Scheme (Phase 4A), carried through from 2004, to increase raw water abstraction and transfer capabilities from Sungai Muda (the main source of raw water for the State) to the Sungai Dua Water Treatment Plant (PBAPP's largest water treatment plant);
- Construction of three reservoirs at Batu Kawan, Bukit Indera Muda and Pulau Jerejak to increase treated water storage capacity by 135 million litres (these additional reservoirs will also help to support state-wide supply during scheduled and unscheduled supply interruptions); and the
- Laying of three new 900mm mild steel (MS) trunk mains to boost supply to Bukit Mertajam and Bayan Lepas.

PBAPP has completed laying some 7.5km of 900mm MS mains from Sungai Bakap to Nibong Tebal in January 2005 to boost water supply to Nibong Tebal. Another project to lay 4.5km of 900mm MS and 800mm ductile iron (DI) mains was also completed in September 2005 to boost supply to Tanjung Tokong.

1ST MALAYSIAN OHSAS 18001:1999 CERTIFICATION FOR COMPLETE WATER SUPPLY PROCESS

PBAPP became the 1st Malaysian water supply organisation to receive OHSAS 18001:1999 certification for complete water treatment operations dated 15 March 2006. The certification, issued by SGS International, was for occupational health and safety management system for all activities within PBAPP.

This achievement signifies that the PBAPP Safety & Health Management System, developed for the benefit of employees and consumers at large, complies with international standards. Besides optimising employee safety, the implementation of the system also ensures the following:

- Compliance with all the Regulations and Acts such as the Factory & Machinery Act 1967 and the Occupational Safety and Health Act 514:1994 (and hence, avoidance of potential fines, penalties and law suits);
- Reduced risks of major accidents and loss time injuries which could incur millions in costs;
- More rationalised insurance costs and reduced medical costs; and
- Continuous productivity and consistent operational performance to support the achievement of revenue targets.

The OHSAS 18001:1999 certification reflects the PBA Group's commitment to continuously benchmark itself against international standards. PBAPP has received ISO 9001:2000 certification in 2003 and ISO14001:2004 certification (for the operations of the Teluk Bahang Dam and Batu Ferringhi Treatment Plant) in 2005.

ACKNOWLEDGEMENTS

During the year in review, the PBA Group strived hard to achieve good results in the face of many challenges and sometimes, adverse circumstances. The credit for the year's achievements, in water supply and corporate performance, as well as in various innovations and enhancements, is mostly due to the good work, and teamwork, of my colleagues.

Since corporatisation in 1999 and public listing in 2002, the PBA managers, staff and workers have come a long way in serving as a performance-driven team. I am confident that, with good and sound direction from the Board, this team can, and will, continue to meet the vision, mission, objectives and expectations which have been set.

Thank You.

Dato' Ir. Liew Chook San
Chief Executive Officer

CORPORATE INFORMATION

PBA GROUP OF COMPANIES



PBA Holdings Bhd (515119-U)

Board Of Directors

- YAB Tan Sri Dr. Koh Tsu Koon
PSM (Non-Executive Chairman)
- YB Dato' Hj Abd Rashid bin Abdullah
DMPN, DSPN., DIMP., SAP., KMN., PKT., PJK (Non-Executive Deputy Chairman)
- YB Dato' Koay Kar Huah
DSPN (Non-Executive Director)
- YB Dato' Jamaludin bin Hasan
DMPN., SMP., SDK., AMN., AMP (Non-Executive Director)
- YB Dato' Hinshawati binti Shariff
DPTJ., DSPN (Non-Executive Director)
- YB Dato' Ng Kam Cheung
DSPN (Non-Executive Director)
- Y. Bhg. Dato' Chew Kong Seng
DMPN (Independent Non-Executive Director)
- Y. Bhg. Dato' Dr. M. SHANmughalingam
DPMP., KMN (Independent Non-Executive Director)
- Y. Bhg. Dato' Haji Adlan bin Hj Mohamed Daud
DSPN (Independent Non-Executive Director)



Perbadanan Bekalan Air Pulau Pinang Sdn Bhd
(475961-X)

Board Of Directors

- YAB Tan Sri Dr. Koh Tsu Koon
PSM (Chairman)
- YB Dato' Hj Abd Rashid bin Abdullah
DMPN, DSPN., DIMP., SAP., KMN., PKT., PJK (Deputy Chairman)
- YB Dato' Koay Kar Huah
DSPN (Director)
- YB Dato' Jamaludin bin Hasan
DMPN., SMP., SDK., AMN., AMP (Director)
- YB Dato' Hinshawati binti Shariff
DPTJ (Director)
- YB Dato' Ng Kam Cheung
DSPN (Director)
- Ir. Abdullah bin Abdul Rahman
(Director)



Registered Office

32nd Floor, Komtar, 10000 Penang
Tel : (604) 263 3704
Fax : (604) 263 3735

Company Secretary

Thum Sook Fun (MAICSA 7025619)

Auditors

Ernst & Young Chartered Accountants Penang

Date / Place of Registration

PBA Holdings Bhd - 25 May 2000, Malaysia
Perbadanan Bekalan Air Pulau Pinang Sdn Bhd - 1 March 1999,
Malaysia

Principal Banker

Malayan Banking Berhad, Penang

Stock Exchange

Main Board of Bursa Malaysia Securities Berhad
(Trading Services)
Stock Name : PBA
Stock Code : 5041

Registrar

Securities Services (Holdings) Sdn Bhd
Suite 18.05, MWE Plaza,
No.8, Lebuhr Farquhar,
10200 Penang.
Tel : (604) 263 1966 / 261 4680
Fax : (604) 262 8544

CORPORATE STRUCTURE



PBA HOLDINGS BHD
(Company No. 515119-U)



100%

**PERBADANAN BEKALAN AIR
PULAU PINANG SDN BHD**

(Company No. 475961-X)



26%

PINANG WATER LTD

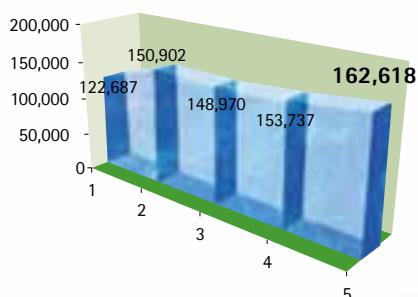
(incorporated in Federal Territory of Labuan, Malaysia)

(Company No.LL 03802)

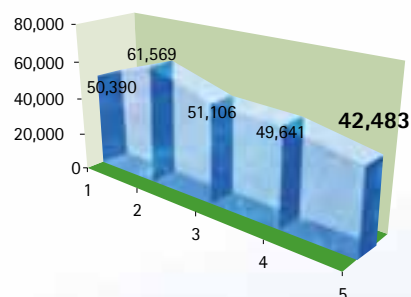
FINANCIAL HIGHLIGHTS

	Financial Year Ended 31 December				
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Turnover	122,687	150,902	148,970	153,737	162,618
Profit before tax	50,390	61,569	51,106	49,641	42,483
Profit after tax	41,587	50,292	40,631	39,835	37,455
Paid up share capital	140,000	165,500	165,500	165,500	165,550
Shareholders' funds	360,414	467,053	491,254	514,539	535,505
Earnings per share-basic (sen)	18.13	15.86	12.28	12.03	11.31
Net assets per share (RM)	1.29	1.41	1.48	1.55	1.62

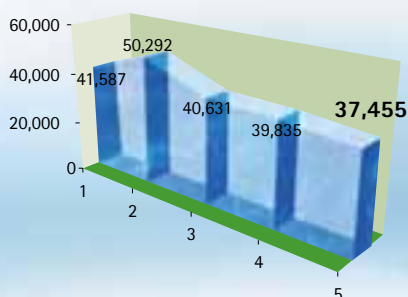
Turnover (RM'000)



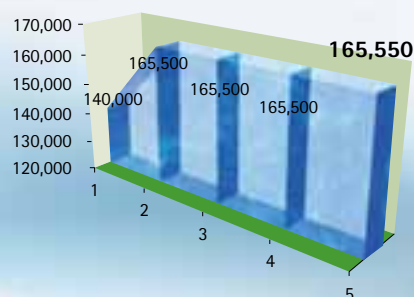
Profit before tax (RM'000)



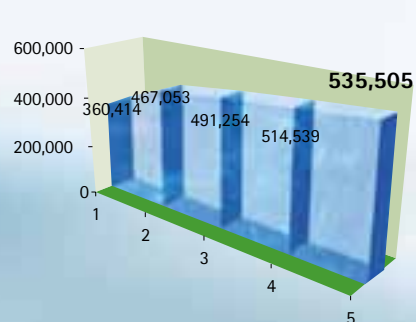
Profit after tax (RM'000)



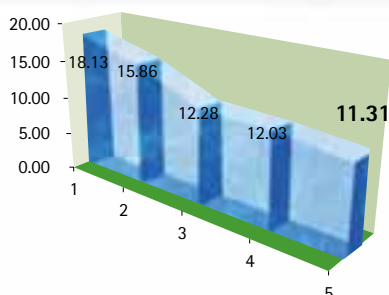
Paid up share capital (RM'000)



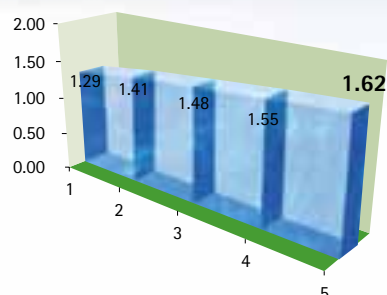
Shareholders' funds (RM'000)



Earnings per share (sen)



Net assets per share (RM)



FINANCIAL HIGHLIGHTS - CONTINUED

Financial Calendar 2005

Financial Year Ended	31 DECEMBER 2005
5th Annual General Meeting	9 June 2005
Announcement of interim results	
• First Quarter	26 May 2005
• Second Quarter	29 August 2005
• Third Quarter	10 November 2005
• Fourth Quarter	16 February 2006
Dividends paid and payable in 2005	
Final - 31 December 2004	
• Declaration	Final Dividend of 7% less tax at 28%
• Entitlement date	30 June 2005
• Payment date	18 July 2005
Interim - 31 December 2005	
• Declaration	Interim Tax Exempt Dividend of 5%
• Entitlement date	8 December 2005
• Payment date	23 December 2005
Final - 31 December 2005	
• Declaration	Proposed Final Dividend of 7% less tax of 28%
• Entitlement date	30 June 2006
• Payment date <i>(If approved by shareholders at the forthcoming 6th Annual General Meeting)</i>	21 July 2006
Employees Share Option Scheme (ESOS)	
• Approved by the shareholders	9 June 2005
• Implementation date	15 July 2005
• Duration of the scheme	5 years from date of implementation



DIRECTORS' PROFILE

AS AT 18 APRIL 2006



TAN SRI DR. KOH TSU KOON

aged 56, Malaysian citizen

Non-Executive Chairman of PBA Holdings Bhd

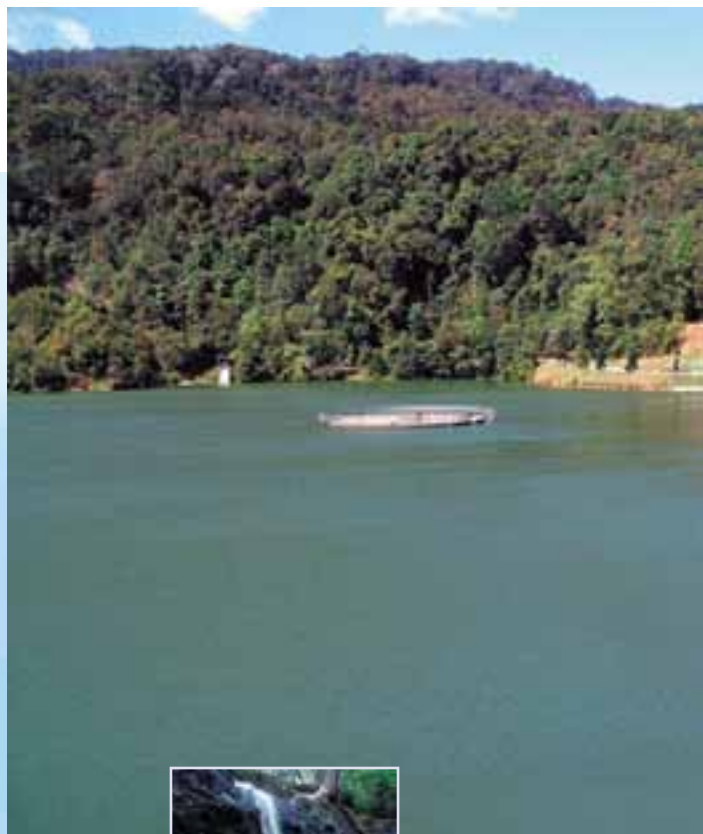
He was appointed to the Board of Directors of PBA Holdings Bhd on 13 June, 2000.

Since October 1990, Tan Sri Dr. Koh has been the Chief Minister of Penang. He obtained his Bachelor of Arts (Physics) from Princeton University, USA in 1970, Masters of Arts (Education) and Doctor of Philosophy (Ph.D.) in Economics of Education from University of Chicago, USA in 1973 and 1977 respectively.

Tan Sri Dr. Koh started his career as a lecturer at the University Sains Malaysia in 1975 and was promoted to Deputy Dean of Education at University Sains Malaysia in 1978. He was elected a Member of the Federal Parliament of Malaysia in 1982 and was appointed the Political Secretary to the former Chief Minister of Penang in 1986. He was elected a Member of the Penang State Legislative Assembly in 1990 and re-elected in 1995, 1999 and 2004. Tan Sri Dr. Koh is also the Chairman of the Penang Development Corporation and Invest-In-Penang Berhad.

He does not hold any ordinary shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Tan Sri Dr. Koh has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.



DIRECTORS' PROFILE - CONTINUED

AS AT 18 APRIL 2006



DATO' HJ ABD RASHID BIN ABDULLAH

aged 58, Malaysian citizen

Non-Executive Deputy Chairman of PBA Holdings Bhd

He was appointed to the Board of Directors of PBA Holdings Bhd on 23 June 2004. He was also assigned to be the Chairman of Establishment Committee of the Group.

Since March 2004, Dato' Hj Abd Rashid is the Deputy Chief Minister of Penang. He obtained his Honour Degree in Economics and Sociology from University of Malaya in 1970 and Masters in Public Policy & Public Administration from University of Southern California Los Angeles, USA in 1981.

Dato' Hj Abd Rashid is also the Head of UMNO for Nibong Tebal Division since October 1993. He was elected a Member of the Penang State Legislative Assembly in 1995 and re-elected in 1999 and 2004. He also sits on the Boards of several public companies, including Yayasan Nibong Tebal, Invest-In-Penang Berhad and several public institutions.

He does not hold any shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Hj Abd Rashid has attended four (4) out of five (5) Board Meetings held during his tenure in office for the financial year ended 31 December 2005.



DATO' KOAY KAR HUAH

aged 58, Malaysian citizen

Non-Executive Director of PBA Holdings Bhd

He was appointed to the Board of Directors of PBA Holdings Bhd on 13 June 2000.

Presently, Dato' Koay is the State EXCO in charge of Public Works, Public Utilities and Transportation since the last election in 1999. He obtained his Bachelor of Science Degree with Honours from University of Malaya in 1972 and is a member of the Institute of Electrical and Electronic Engineers, USA. He also obtained a Diploma in Management from the Malaysian Institute of Management in 1980.

Before his political career, Dato' Koay served in various multinational electronic companies in Penang, namely Advanced Micro Devices Sdn Bhd, Motorola (M) Sdn Bhd and Monolithic Memories (M) Sdn Bhd at Bayan Lepas Free Industrial Zone, Penang as engineer and manager. He was also the Factory Manager of Federal Cables, Wire and Metal Manufacturing Sdn Bhd at Mak Mandin, Butterworth. Dato' Koay was elected a member of Penang State Legislative Assembly in 1995 and re-elected in 1999 and 2004. He also sits on the Board of Invest-In-Penang Berhad.

He does not hold any shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Koay has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.

DIRECTORS' PROFILE - CONTINUED

AS AT 18 APRIL 2006



DATO' JAMALUDIN BIN HASAN

aged 54, Malaysian citizen

Non-Executive Director of PBA Holdings Bhd

He was appointed to the Board of Directors of PBA Holdings Bhd on 13 August 2004. He was also assigned to be the Chairman of Tender Committee of the Group.

Presently, he is the Penang State Secretary and was appointed to this position on July 1, 2004. He obtained his Bachelor of Economic Degree with Honours from University of Malaya in 1975 and Master in Development Administration from University of Western Michigan, USA in 1984. Prior to that, he was the Chief Executive Officer of Labuan Corporation, an agency under Finance Ministry and held various positions in the public service.

Dato' Jamaludin is also an ex-officio member of the State Executive Council of Penang and currently sits on the Board of Invest-In-Penang Berhad.

He is deemed to be related to the major shareholder of PBA Holdings Bhd, State Secretary, Penang by virtue of his position as Penang State Secretary. He does not have any conflicts of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Jamaludin has attended three (3) out of five (5) Board Meetings held during his tenure in office for the financial year ended 31 December 2005.



DATO' HINSHAWATI BINTI SHARIFF

aged 51, Malaysian citizen

Non-Executive Director of PBA Holdings Bhd.

She was appointed to the Board of Directors of PBA Holdings Bhd on 23 June 2004.

Presently, she is the Penang State Legal Advisor and was appointed to this position on 16 May 2003. She obtained her Bachelor of Law with Honours from University of Malaya in 1979 and Masters of Law from University of London in 1994.

Dato' Hinshawati started her career in the service in 1979 as a Magistrate in Butterworth, Penang. She held various positions in the legal and judicial service before her appointment to the current position in 2003. She is also an ex-officio member of the State Executive Council of Penang. Currently, she also sits on the Board of Invest-In-Penang Berhad and Majlis Agama Islam Pulau Pinang.

She does not hold any shares in the Company or its subsidiary, has no family relationship with any other director and/or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Hinshawati has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.

DIRECTORS' PROFILE - CONTINUED

AS AT 18 APRIL 2006



DATO' NG KAM CHEUNG

aged 56, Malaysian citizen

Non-Executive Director of PBA Holdings Bhd.

He was appointed to the Board of Directors and a Member of the Audit Committee of PBA Holdings Bhd on 8 November 2003. He was also assigned to be the Chairman of Finance Committee of the Group.

Presently, he is the Penang State Financial Officer and was appointed to this position on 1 July 2003. He obtained his Bachelor of Economics Degree with Honours from University of Malaya in 1973.

Dato' Ng started his career as Administration and Diplomatic Service Officer in the Public Services Department in 1973 holding various capacities dealing with superannuation, compensation and negotiation matters. He was also a Secretary at the Teachers' Provident Fund as well as Management Analyst from 1978 to 1980. He was a Principal Assistant Secretary for Administration in the Ministry of Health. Beside this, he has served in the Federal Treasury as Senior Assistant Director of Budget in the General Services, Trade and Communication Sectors and Deputy Director of Budget responsible for infrastructure and security as well as co-ordination and control for 18 years. He also served on the boards of Airod and Kejora Regional Development Authority. Currently, he also sits on the Board of Penang Development Corporation and is an ex-officio member of the State Executive Council of Penang.

He does not hold any shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

Dato' Ng has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.



DATO' CHEW KONG SENG

aged 68, Malaysian citizen

Independent Non-Executive Director of PBA Holdings Bhd

He was appointed to the Board of Directors of PBA Holdings Bhd on 12 December 2001. He is also the Chairman of the Audit Committee of PBA Holdings Bhd.

Dato' Chew is a Fellow of the Institute of Chartered Accountants in England and Wales as well as a member of both the Malaysian Association of Certified Public Accountants and the Malaysian Institute of Accountants. He had worked in United Kingdom from 1964 until 1970 and returned to Malaysia to join Turquand Young & Co (now known as Ernst & Young). He held various senior positions in Ernst & Young and was Managing Partner from 1990 to 1996. His long accounting work experience in the profession covers a wide variety of industries including banking and financial institutions, timber based, manufacturing, trading and foreign investment.

He also sits on the Boards of Great Wall Plastic Industries Berhad, Petronas Gas Berhad, Petronas Dagangan Bhd, Industrial Concrete Products Bhd, AEON Co. (M) Bhd., Encorp Berhad, GuocoLand (Malaysia) Berhad and several private limited companies in Malaysia.

He does not hold any shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Chew has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.

DIRECTORS' PROFILE - CONTINUED

AS AT 18 APRIL 2006



DATO' DR. M. SHANMUGHALINGAM

aged 66, Malaysian citizen

Independent Non-Executive Director of PBA Holdings Bhd

He was appointed to the Board of Directors of PBA Holdings Bhd on 12 December 2001.

He holds a Bachelor of Arts (Honours) degree in Economics from University of Malaya in 1962, a Masters degree in Economics and Government from Harvard University, USA in 1971, a Doctorate of Philosophy in Economics and Government from Oxford University, U.K. in 1978 and is a Fellow, Economic Development Institute, World Bank.

He served in the Treasury, Ministry of Finance from 1962 to 1978 his last post being Deputy Secretary (Economic) and in PETRONAS from 1979 to 1991 his last post being General Manager. He was Managing Director of Sri Inderajaya Sdn Bhd from 1992 to April 1996. Since May 1996, he is Managing Director of Trilogic Sdn Bhd and sits on the advisory panels to the Malaysian Institute of Economic Research ("MIER") and Asian Strategy and Leadership Institute ("ASLI").

He also sits on the Boards of Main Board public listed companies, Delloyd Ventures Berhad, Mamee-Double Decker (M) Berhad and several unlisted companies, including Trilogic Sdn Bhd, Commerce International Merchant Bankers (L) Ltd, CIMB Discount House Bhd and CIMB Securities Sdn Bhd.

Dato' Dr. M. SHAN does not hold any shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Dr. M. SHAN has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.

DATO' HAJI ADLAN BIN HJ MOHAMED DAUD

aged 66, Malaysian citizen

Independent Non-Executive Director of PBA Holdings Bhd

He was appointed to the Board of Directors of PBA Holdings Bhd on 14 December 2001. He is also a member of the Audit Committee of PBA Holdings Bhd.

After finishing his secondary education at Penang Free School, Penang, he furthered his studies in the United Kingdom. He read Law at the Inns of Court, Middle Temple, and was called to the English Bar as a Barrister-At-Law in 1970. Upon his return to Malaysia, he commenced his chambering with Messrs R.R. Chelliah Brothers in 1970 and was called to the Malaysian Bar as an Advocate and Solicitor of the High Court of Malaya in 1971. He set up the legal practice of Messrs Adlan & Haji Suhaimi with two other partners in 1971 and is now practising under the style of Messrs Adlan, YP Cheong & Leong.

He had served on the Board of Directors of Trust Insurance (M) Sdn Bhd, C.I. Holdings Bhd and CME Group Bhd. He has been a member of the Executive Committee of Majlis Kraf Malaysia (Crafts Council of Malaysia) since inception, concerning craft development and promotion.

He does not hold any shares in the Company or its subsidiary, has no family relationship with any other Director and / or major shareholder of the Company, no conflict of interest with the Company and has had no conviction for any offences within the past ten (10) years.

Dato' Haji Adlan has attended all five (5) Board Meetings held in the financial year ended 31 December 2005.

SENIOR MANAGEMENT TEAM

PBA HOLDINGS BHD

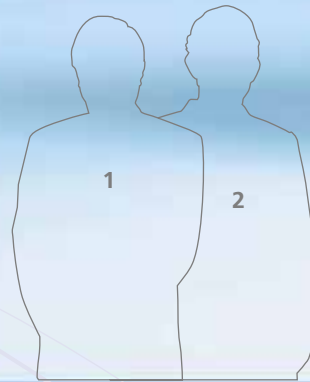


1. **Dato' Ir. Liew Chook San**

Chief Executive Officer

2. **Shamsudin bin Mohd Nor**

Business Development Manager



CORPORATE CALENDAR

February 2005

		1
2	3	4
5	6	7

▲ KOMTAR, Penang

Visit By Syarikat Bekalan Air Selangor Sdn. Bhd. (SYABAS)

A delegation of 11 Senior Management Executives of Syabas headed by Chief Executive Officer, Encik Ruslan bin Hassan made a study visit to PBAPP. They were very impressed with PBAPP's achievement in its customer service counter and Non-Revenue Water.



March 2005

7	8	9
10	11	12
13	14	15

KOMTAR, Penang ▼

Employees Provident Fund Management Visit

A delegation led by EPF Chief Executive Officer, Datuk Azlan Zainol, made a study visit to PBAHB.



March 2005

23	24	25
26	27	28
29	30	31

▲ Penang Municipal Park, Penang

World Water Day

The Chief Minister of Penang, YAB Tan Sri Dr. Koh Tsu Koon officiated the state level World Water Day at the Youth Park, Penang.



March 2005

24	25	26
27	28	29
30	31	32

PBAPP Rifle Range Complex, Penang ▼

Blood Donation Campaign

Seventy staff donated their blood which was channelled to the Penang General Hospital Blood Bank.

CORPORATE CALENDAR - CONTINUED

April 2005

8	9	10
11	12	13
14	15	16

▲ KOMTAR, Penang

Visit By Perbadanan Air Melaka (PAM)

A delegation of four senior officers of PAM led by its Deputy Chairman, YB Encik Tahir bin Husin made a one day visit to PBAPP. A short briefing on PBAPP Corporatisation Process was presented by General Manager, Dato' Ir. Liew Chook San.



April 2005

18	19	20
21	22	23
24	25	26

Shangri-La Hotel, Penang ▲

ISO 14001:2004 Commemoration Ceremony

A commemoration ceremony was held at Shangri-La Hotel, Penang to mark PBAPP's achievement in obtaining the ISO 14001:2004 certification for Batu Ferringhi Treatment Plant and Teluk Bahang Dam. About 400 participants attended the ceremony which was officiated by YAB Tan Sri Dr. Koh Tsu Koon.

May 2005

3	4	5
6	7	8
9	10	11

▲ Putra Stadium, Bukit Jalil, Kuala Lumpur

Labour Day Celebration

Eighty personnel from all levels and departments attended the Labour Day 2005 Celebration held at Putra Stadium in Kuala Lumpur.



CORPORATE CALENDAR - CONTINUED



4	5	6	May 2005
7	8	9	
10	11	12	

Bertam Administration Complex, Kepala Batas

Hari Rukun Tetangga (National Level)

PBAPP participated in the two-day exhibition held in conjunction with the national level Hari Rukun Tetangga. It was officially launched by Deputy Prime Minister, YAB Dato' Seri Hj Mohd. Najib bin Tun Abdul Razak.

May 2005	15	16	17
	18	19	20
	21	22	23

Equatorial Hotel, Penang

Second Collective Agreement Ceremony (2003-2005)

The Chairman of PBAPP, YAB Tan Sri Dr. Koh Tsu Koon witnessed the signing of the 2nd Collective Agreement between the management and the two unions of PBAPP.



5	6	7	June 2005
8	9	10	
11	12	13	

Pearl Island Country Club, Penang

PBAHB 5th Annual General Meeting

The PBAHB 5th Annual General Meeting was held at Pearl Island Country Club (PICC), Bukit Jambul, Penang. About 160 shareholders and proxy holders attended the meeting.

July 2005	4	5	6
	7	8	9
	10	11	12

PBAPP Rifle Range Complex, Penang

Perbadanan Air Melaka (PAM) Visit

Thirteen personnel from PAM led by its Secretary, Encik Muhammad bin Sabtu made a study visit to PBAPP.



CORPORATE CALENDAR - CONTINUED



18	19	20	August 2005
21	22	23	
24	25	26	

KOMTAR, Penang

Ranhill Utilities Berhad Visit

Managing Director of Badan Kawal Selia Air Johor, Tuan Haji Idris Kaparawi led a delegation of six Senior Management Officers of Ranhill Utilities Berhad to a briefing on PBAHB's privatisation model and also to exchange ideas on water management.

August 2005	23	24	25
	26	27	28
	29	30	31

Dataran Merdeka, Butterworth

48th Merdeka Day Celebration

PBAPP sent a contingent of 65 staff to participate in the 48th Merdeka Day Parade (state level).



4	5	6	September 2005
7	8	9	
10	11	12	

Prai Complex, Penang

Kedah Visit

A delegation of 13 members led by Kedah Deputy State Secretary (Development) Dato' Abdul Mukhti bin Abdullah made a visit to PBAPP. The agenda of their visit was to gather knowledge to improve the quality and management of water in Kedah. The delegation was briefed by General Manager, Dato' Ir. Liew Chook San on corporatisation and privatisation.

September 2005	8	9	10
	11	12	13
	14	15	16

Bangkok, Thailand

15th PBAPP-MWAC Friendly Games & Study Tour

The 15th Annual PBAPP-MWAC Friendly Games & Study Tour was held in Bangkok, Thailand. About 100 personnel of all levels from PBAPP participated in the friendly games and study tour. The exchange programme further reinforced and strengthened the relationship between PBAPP and MWAC. It also broadened the participants' knowledge through an exchange of technical expertise in areas involving water supply.



CORPORATE CALENDAR - CONTINUED

September 2005

23	24	25
26	27	28
29	30	

▲ PBAPP Club House, Bukit Dumbar, Penang

Long Service Award

In appreciation, 36 personnel who served PBAPP for more than twenty-five years received their long service award. The function was held at PBAPP Sports & Recreation Club House, Bukit Dumbar, Penang.



December 2005

4	5	6
7	8	9
10	11	12

KOMTAR, Penang ▲

Sibu Waterworks Visit

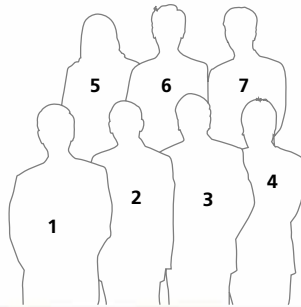
Thirteen Senior Officers of Sibu Waterworks delegation led by the Chairman, Tuan Haji Ubaidillah bin Haji Abdul Latip made a one-day study visit to PBAPP.



PERBADANAN BEKALAN AIR PULAU PINANG SDN. BHD. (PBAPP)

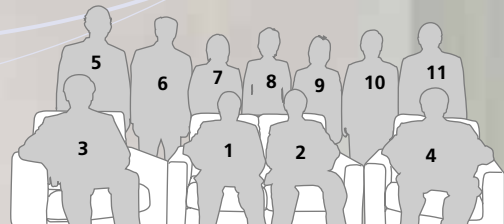
BOARD OF DIRECTORS

1. **YAB Tan Sri Dr. Koh Tsu Koon**
Chairman
2. **YB Dato' Hj Abd Rashid bin Abdullah**
Deputy Chairman
3. **YB Dato' Koay Kar Huah**
Director
4. **YB Dato' Jamaludin bin Hasan**
Director
5. **YB Dato' Hinshawati binti Shariff**
Director
6. **YB Dato' Ng Kam Cheung**
Director
7. **Ir. Abdullah bin Abdul Rahman**
Director



SENIOR MANAGEMENT TEAM

- | | |
|---|--|
| 1. Dato' Ir. Liew Chook San
<i>General Manager</i> | 7. Puan Joyce Lee Suan Imm
<i>Finance Manager</i> |
| 2. Ir. Kan Cheong Weng
<i>Strategic Planning Manager</i> | 8. Puan Yen Choi Fong
<i>Information Technology Manager</i> |
| 3. Ir. Dr. Koay Ban Hing
<i>Operations Manager</i> | 9. Puan Cheang Lai Juang
<i>Internal Audit Assistant Manager</i> |
| 4. Ir. Jaseni bin Maidinsa
<i>Development Manager</i> | 10. Ir. Leow Hup Hong
<i>Quality, Safety & Health Manager</i> |
| 5. Shamsudin bin Mohd Nor
<i>Business Development Manager</i> | 11. Encik Mohd Aiyob Hj. Abd. Bahar
<i>Human Resources Manager</i> |
| 6. Ir. K Jeyabalan
<i>Production Manager</i> | |



FAST FACTS 2005 : PENANG WATER SUPPLY

PENANG STATE WATER SUPPLY STATISTICS as at December 2005

Area of Penang State	1,031 sq km
Population	1.47 million people
Number of Registered Consumers	Domestic : 380,147 Trade : 50,512 Total : 430,659
Water Catchment Area	62.9 sq km
Number of Dams	6
Total Raw Water Storage Capacity	46,013 million litres
Main Source of Raw Water	Sungai Muda
Number of Treatment Plants	9
Designed Capacity of Treatment Plants	1,266 million litres/day
Number of Treated Water Reservoirs	53
Number of Treated Water Towers	28
Daily Supply of Treated Water	819 million litres
Daily Water Consumption	660 million litres
Percentage of Non-Revenue Water	19.4%
Total Length of Pipes (100 millimetres and above)	3575 km

WATER TREATMENT PROCESS



Raw water

Storage • Screening



- Addition of Chemicals
- Mixing
- Flocculation & Coagulation
- Sedimentation
- Filtration
- Clear Water Tank



Treated Water Pumps



Storage Reservoir

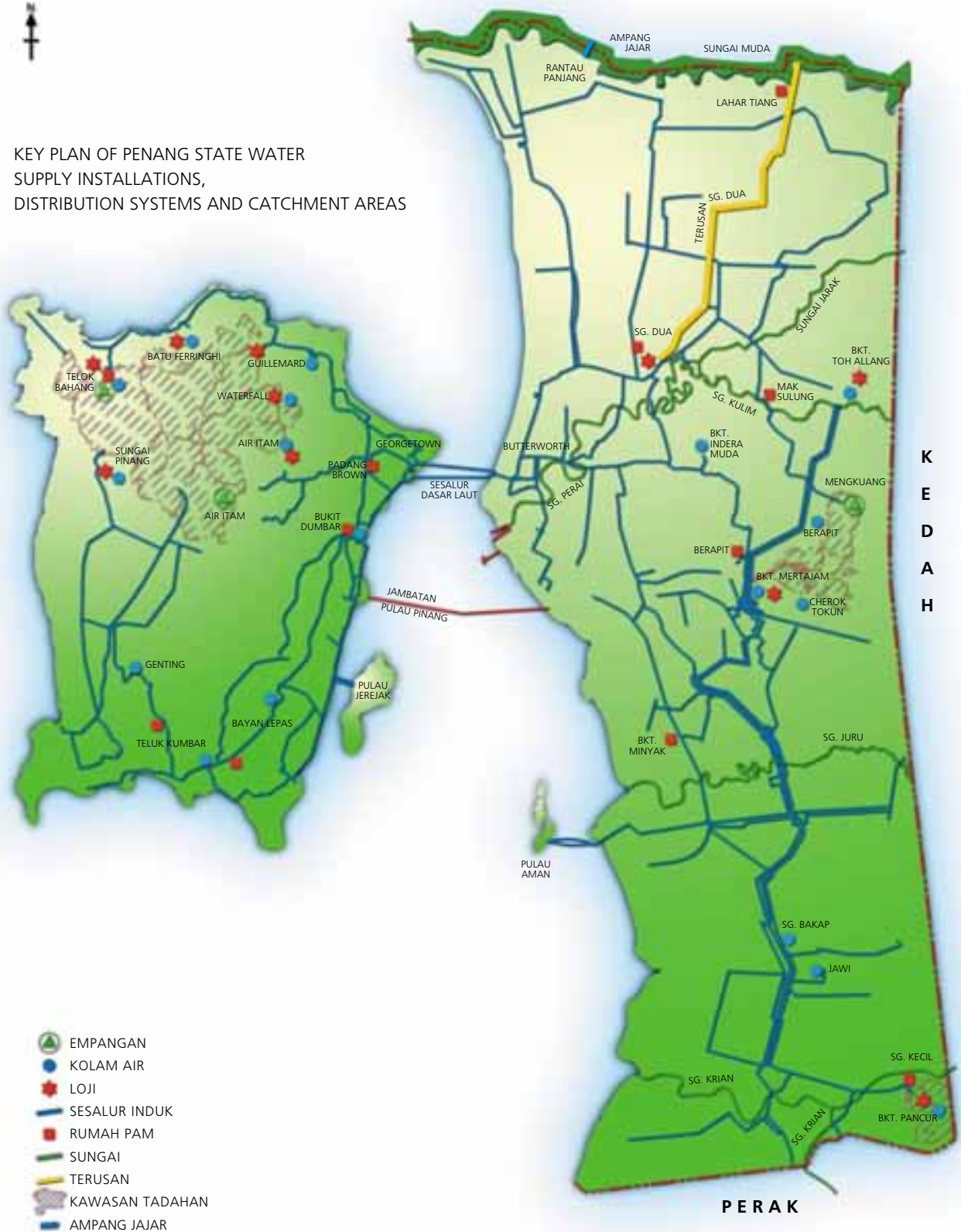


Supply to Consumers

SUPPLY INFRASTRUCTURE



KEY PLAN OF PENANG STATE WATER SUPPLY INSTALLATIONS, DISTRIBUTION SYSTEMS AND CATCHMENT AREAS



ENGINEERING REPORTS

Production and Consumption

PBAPP treated 298,984,724 cubic meters (cu.m.) of water in 2005. This represents a 2.1% increase over the volume for 2004. Water consumption in the State of Penang also increased to 240,998,868 cu.m. in 2005, reflecting an increase of 3.4% in consumption as compared to 2004.

Trade consumption comprised 39.5% of the total water consumption for the State while domestic consumption accounted for the remaining 60.5%. PBAPP records also showed a significant increase of 4.2% in trade consumption for the year ended 31 December 2005.

As at December 2005, PBAPP served a total of 430,659 registered water consumers in the State of Penang. Of these, 380,147 (88.3%) were domestic consumers while 50,512 (11.7%) were trade consumers.

Yearly Production and Consumption in cu.m. (1 cu.m. = 1,000 liters)

Year	Production			Consumption		
	P. Pinang	S. Perai	Total	P. Pinang	S. Perai	Total
2003	138,560,559	138,505,732	277,066,291	108,721,998	114,667,621	223,389,619
2004	138,599,710	154,258,792	292,858,502	114,029,180	119,028,236	233,057,416
2005	134,009,954	164,974,770	298,984,724	115,360,222	125,638,646	240,998,868

New Mains and Improving Water Quality

To ensure 100% urban supply coverage and 99% rural supply coverage, in 2005 PBAPP laid a total of 28km of new mains in the State of Penang.

In keeping to its commitment of continuously improving water supply quality, PBAPP flushed some 3,200km of mains and pipelines. These were mostly cleaned using "air scouring" method which has proven to be an effective measure for mains and pipelines with diameters up to 300mm.

At the same time, PBAPP also replaced some 84km of old pipes in 2005, in accordance to its long-term pipe replacement programme which will be implemented continuously in stages in the years ahead.

The company responded to a total of 1,892 cases of pipe bursts in 2005. All cases were resolved within 24 hours and PBAPP has also put in place a stringent programme to monitor water quality after repair works. Water samples were taken to measure turbidity at each repair site to ensure compliance to water quality standards before the repaired pipelines were re-commissioned.

To ensure that treated water in Penang complies consistently with the National Standard for Drinking Water Quality, officers from the Ministry of Health MOH conducted regular water quality sampling at 111 sampling points in Seberang Perai and 96 sampling points on Penang Island.

The sampling points were at road side mains and pipes, as well as at consumers' taps. Physical parameters such as pH, residual chlorine, turbidity and color were examined on-site, while bacteriological samples and other tests are sent to the Chemistry Department for analysis. Regular reports were then submitted to the MOH for inspection. In 2005, these reports complied with Ministry of Health standards.

In 2005, PBAPP also changed some 47,000 water meters which had been in service for more than 9 years. This measure was undertaken to ensure accuracy in meter registration of water consumption.

ENGINEERING REPORTS - CONTINUED

Key Infrastructure Projects

PBAPP implemented 12 major projects in 2005 with a combined capital expenditure of RM44.0 million. These comprised:

- Two projects under the Muda River Water Scheme (Phase 4A) to increase raw water abstraction and transfer capabilities from Sungai Muda to the Sungai Dua Water Treatment Plant;
- Three reservoir projects to increase treated water storage capacity by 135 million litres;
- Five trunk mains projects to boost supply to Bayan Lepas, Bukit Mertajam, Nibong Tebal and Tanjong Tokong; and
- Two office complex projects to upgrade customer services and serve as the new PBAPP service hubs in Seberang Perai.

Strumap Geographical Information System (GIS)

The integration of engineering and consumer data has been completed and the Penang State aerial photograph data has been linked to PBAPP's engineering data. The Strategic Network Model was also established. This model will be utilised to design future strategic water distribution systems and analyse the efficiency of the existing system in the State of Penang.

Non-Revenue Water (NRW)

PBAPP intensified its NRW management and control with the establishment of 43 District Metered Areas (DMA) in 2005. NRW percentages in 13 of these DMAs have been reduced to between 10%-18% following the implementation of Active Leakage Control (ALC) measures such as pressure management, noise logging and leak repairs were conducted within the DMAs. With continuous improvement, PBAPP expects to reduce NRW percentage for the whole distribution system in Penang to the targeted level of 15% by 2010. The establishment of an additional 120 DMAs is being planned for implementation in 2006.

Plant Automation

The operations of PBAPP water treatment plants with smaller production capacities have been found to be less cost effective when compared to that of larger capacity plants. As such, the company has embarked on a project of retrofitting the Bukit Mertajam Water Treatment Plant to automate its operations for trials and performance evaluation. These retrofitting works are in progress and are expected to be completed by mid 2006.

First Ultra Filtration (UF) Plant for Potable Water Supply in Malaysia

The first ultra filtration (UF) membrane plant for potable water supply in the country is scheduled for commissioning in 2006 at the PBAPP facility in Bukit Pancur. The Bukit Pancur UF plant is capable of filtering particles as minute as 0.01 micron (which include bacteria) from raw water. PBAPP built this 5 million liter per day (MLD) plant to maximise and optimise treatment during rainy seasons (when stream flows are high). Its operations will enhance supply to Seberang Perai Selatan.

Differential Global Positioning System (DGPS)

PBAPP expanded its DGPS system with the purchase of an additional 7 units of rover equipment and the installation of data downloading stations at the districts for the transfer of field data from the districts to the drawing offices in Komtar and Seberang Perai.

ISO 14001:2004 Environmental Certification

Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP) received ISO 14001:2004 certification for "the management and treatment of raw water and the supply of potable water" at the Batu Ferringhi Treatment Plant and the Teluk Bahang Dam on 1 March 2005.

ENGINEERING REPORTS - CONTINUED

This environmental certification is the first of its kind to be awarded to a Malaysian water supplier. The company had sought ISO 14001:2004 certification to ensure its business activities are conducted in an environmental friendly manner apart from complying to all environmental legislations.

PBAPP is now working on extending the application of its environmental management system to cover more treatment plants and dams, with a view to eventually obtain certification for all key water treatment installations in the state.

First "Complete" OHSAS 18001: 1999 Certification

PBAPP has emerged as the first Malaysian water supply organisation to receive a company-wide OHSAS (Occupational Health & Safety Assessment Series) accreditation.

The company received its OHSAS 18001:1999 certificate dated 15 March 2006 . This international certification signifies that the PBAPP Safety & Health Management System, developed for the benefit of both the company and its employees, complies with international standards.

Key benefits from the implementation of PBAPP's Safety & Health Management System include:

- Safety of all PBAPP employees who are regarded as key assets of the company;
- Compliance to Government Regulations and Acts such as Factory and Machinery Act 1967 and OSHA Act 514:1994;
- Upgraded protection of all key water supply facilities and equipment;
- Enhanced consistency in corporate performance with the reduction of risks of major accidents and "down time";
- Improved corporate productivity by minimising "loss time injuries" to employees; and
- Better long-term rationalisation of medical treatment, hospitalisation and insurance costs.

ADMINISTRATIVE REPORTS

Workforce

The PBA Group of Companies employed a total workforce of 1,042 employees as at 31 December 2005. During the year in review, the Group recruited additional industrial manual workers and executives to fill existing vacancies. Executives comprised 5.6% of the total workforce while 94.4% were non-executives.

The majority of the employees in the Group were aged between 41 to 50 years old, with those in this age group representing 41.2% of the total workforce.

A total of 32 staff retired, 3 passed away while in service and 41 resigned in 2005.

	2005	2004
Executives	51	49
Sub-Professionals	7	7
Support Staff (Technical & Clerical)	650	671
Industrial Manual Workers	334	298
	1042	1025

Human Resource Development

The Group continued to place strong emphasis on the training and development of its workforce in 2005. Training and skills development initiatives focused primarily on programmes which enhanced technical, management and information technology (IT) knowledge and skills.

The two major training programmes in 2005 were the Executive Team Building Programme and Safety and Health Programme.

Under the Safety and Health Programme, the Group organised courses in Electrical Safety, Swimming, Defensive Driving, Construction Safety (CIDB), OHSAS 18001 Awareness, ISO 14001 Awareness, First Aid and Fire Fighting, in line with OHSAS (Occupational Health and Safety Accreditation System) requirements.

In total, 2,078 attendances were recorded for all human resource development programmes in 2005.

Category	Technical	Management	Information Technology	TOTAL
Executive	14	366	7	387
Non-executive	38	1620	33	1691
Total	52	1986	40	2078

ADMINISTRATIVE REPORTS - CONTINUED

Information Technology

In 2005, the PBA Group developed an information technology (IT) system targeted at integrating engineering services and financial systems to facilitate faster and more effective customer services. The processes of several departments were integrated into standard operating procedures (SOPs) to minimise duplication of processes and enhance operational performance.

During the year in review, the Group focused on developing an integrated and improved version of its **Water Revenue Management System (WRMS)** "version 1 beta". The WRMS incorporates the following modules:

- *Customer Management*
New Applications, Deposits, Meter Management, Meter Reading, Billing, Collection, Installment Repayment, Bill Amendments, Statistical Analysis and Reports
- *Customer Relationship Management*
Customer Help Desk, Field Service, Logistics, Projects
- *Financial Management*
Cash Book, Accounts Payable, Accounts Receivable, General Ledger, Fixed Asset Management

The Group has also employed IT to support its human resource development programme by developing the following computerised modules – e-medical, e-Esos, e-discipline, e-accommodation and e-safety.

"Pocket PCs" were used in a pilot run for on-line updating on job status by the engineering staff using GPRS technology. As at end-2005, the Pocket PC pilot project has been completed and the software are undergoing fine-tuning and further customisation. The hardware device will be tested on the field again before the management evaluates the viability of providing such a system to enhance services to customers.

An "Enterprise Asset Management System" has also been implemented in April 2005. The system has captured all assets in the Group's treatment plants and is being used to ensure that assets can be maintained efficiently and properly.

Customer Services

In 2005, the Group continued to provide effective and friendly services to all its customers.

During the year in review, the Customer Services Unit handled a total of 160,887 cases related to water supply, broken pipes, consumption discrepancies, water quality, illegal connections, road reinstatement, new supply, reconnection of supply, disconnection and refund of water deposit.

Meanwhile, PBAPP's 24-hour Call Centre (04-509 6 509) handled some 157,000 telephone calls with a 5% abandonment rate. The Group also responded to a total of 1,630 correspondences via post, fax and email within 14 working days.

Long Service Awards

A total of 36 long-serving and retiring employees were honoured at the "25 years Long Service Awards" recognition event on 30 September 2005. The main objective was to express the Group's gratitude and appreciation for their loyalty and dedication for a quarter of a century. Each of them was presented with a Bank Simpanan Nasional Sijil Simpanan Premium with the value of RM700.00 and a certificate of appreciation.

ADMINISTRATIVE REPORTS - CONTINUED

2nd Collective Agreement

The 1st Collective Agreement (2000 - 2002) between Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP) and the two unions representing the non-executive employees (the Kesatuan Kakitangan PBAPP Sdn Bhd and Kesatuan Pekerja-Pekerja PBAPP Sdn Bhd) expired on 31 December 2002. Tan Sri Dr. Koh Tsu Koon, the Chairman of PBA Holdings Bhd and PBAPP, witnessed the signing ceremony for the 2nd Collective Agreement (2003-2005) on 19 May 2005 at the Equatorial Hotel, Penang.

Sports and Recreation

On 11 September 2005, the PBAPP Sports & Recreation Club participated in the 15th friendly games and study tour in Bangkok. During the annual games, teams representing PBAPP and Metropolitan Waterworks Authority (MWA), Bangkok, were declared co-champions. The study tour served as an effective platform for the sharing of ideas and experiences.

On 18 June 2005, the club, which has 766 members, also organised a "Family Day" at PBAPP Club House, Bukit Dumbar, wherein members and their families took part in games and a treasure hunt. Several friendly games were also organised with other utility bodies to foster better relationships and networking. The club also staged inter-departmental games, a golf clinic and a visit to an orphanage in Kepala Batas.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors ("the Board") of PBA Holdings Bhd fully subscribes to the principles of the Malaysian Code on Corporate Governance ("Code"). The Board reaffirms its commitment to upholding the highest standard of corporate governance throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance the shareholders' value. The Board deems that it has generally applied the principles and best practices laid out in the Code. Any departures from the best practices have been explained for in the respective sections below.

A. BOARD OF DIRECTORS

(i) The Board

The Board exercises effective leadership and assumes responsibility for its stewardship functions. It oversees the proper management of the Group's business operations, effective utilization of its resources for profitable returns to investment by shareholders and any matter relating to succession planning.

In accordance with the Code, there is a clear division of responsibilities between the Chairman and Chief Executive Officer ("CEO"). The CEO, who is not a Board member, runs the business and implements approved policies and strategies.

(ii) Board Balance

The Group is led by Board members who have a wide range of competencies and experiences ranging from the accounting, business, legal and public service sectors. There are nine (9) Board members in total, all holding non-executive positions. The requirement of the Code for an effective Board balance is fulfilled with three of the nine Board members assuming independent non-executive positions as well as the requirement for a Director who is a member of the Malaysian Institute of Accountants to sit in the Audit Committee. The number of independent non-executive Board members is sufficient to lend independent objectivity and added perspectives to the Board's decision-making process.

Balance is also ensured by way of the active and unrestricted participation of the independent non-executive Directors in the deliberations and decision-making process of the Board. All Directors have full access to the background information pertaining to all matters placed before them for decisions. All Directors are entitled to call for full disclosure by the Management to ensure that matters moved by the Management for decision-making by the Board can be discussed and examined in a balanced manner that takes into account the long term interests, not only of the shareholders, but also of the employees, customers and the communities which the Group conducts business with. The Board also acknowledges the vital role that the Group plays in discharging its Corporate Social Responsibility by maintaining and equipping its playgrounds with diverse exercise equipment for use by the public in its bid to promote wholesome living.

(iii) Directors' Training

All the Directors of the Company have attended and successfully completed the Mandatory Accreditation Programme as prescribed by Bursa Malaysia Securities Berhad ("Bursa Securities") in compliance with the Listing Requirements of Bursa Securities.

During the financial year 2005, the Directors have attended some in-house training programmes, which were organized by Rating Agency Malaysia Berhad on topics relating to corporate governance and corporate social responsibility.

The Directors of the Company shall continue to undergo other relevant training programmes as appropriate so as to keep abreast with the changes on guidelines issued by the relevant authorities as well as latest developments in the market place which can complement their services to the Group.

STATEMENT ON CORPORATE GOVERNANCE - CONTINUED

(iv) Board Meetings held during the financial year 2005

During the financial year 2005, 5 Board meetings were held. The following is the record of attendance by the Board members:

<u>Names of Present Directors</u>	<u>Attendance Record</u>
Y.A.B. Tan Sri Dr. Koh Tsu Koon	5 out of 5
Y.B. Dato' Haji Abd Rashid Bin Abdullah	4 out of 5
Y.B. Dato' Koay Kar Huah	5 out of 5
Y.B. Dato' Jamaludin Bin Hasan	3 out of 5
Y.B. Dato' Hinshawati Binti Shariff	5 out of 5
Y.B. Dato' Ng Kam Cheung	5 out of 5
Y. Bhg. Dato' Chew Kong Seng	5 out of 5
Y. Bhg. Dato' Dr. SHANmughalingam A/L Murugasu	5 out of 5
Y. Bhg. Dato' Haji Adlan Bin Hj Mohamed Daud	5 out of 5

The Board has at least four regular scheduled meetings annually, with additional meetings convened as and when necessary.

In the intervals between Board meetings, for exceptional matters requiring urgent Board decisions, the Board decisions are obtained via circular resolutions to which sufficient information required were attached to make an informed decision.

(v) Access to and Supply of Information and Advice

Notice of meetings setting out the agenda together with the relevant supporting Board papers containing financial and performance-related information on business activities are given to the Board members well in advance to enable them to peruse, obtain additional information and/or seek further clarifications on the matters to be deliberated prior to the Board meeting to facilitate the decision making process.

All Board members have direct access to the advice and services of the Company Secretary as well as to all the information within the Company, whether as full Board or in their individual capacity, in furtherance of their duties to make informed decisions. Where independent professional advice on specialized issues is required by the Board members to discharge their duties proficiently, outside expertise may be engaged at the Company's expense.

(vi) Appointment and Re-election of Directors

Presently, the need for setting up of a nomination committee does not arise as the full Board is composed exclusively of non-executive Directors. As such, the appointment of any new Board member will be a matter for the full Board to deliberate upon.

In accordance with the Company's Articles of Association, one-third of the Board of Directors shall retire at the Company's Annual General Meeting ("AGM") so that each Director shall retire from office at least once in every three years but shall be eligible for re-election. Any Directors appointed by the Board during the year are subject to retirement and re-election by the shareholders at the Company's AGM subsequent to their appointments. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

STATEMENT ON CORPORATE GOVERNANCE - CONTINUED

B. DIRECTORS' REMUNERATION

The Directors' remuneration is a matter for the full Board to decide based on market conditions, responsibilities held and the Group's overall financial performance. Individual Directors abstain from decisions in respect of their own remuneration. No remuneration committee is established by the Board at the moment as none of the Directors is holding any executive position.

A summary of the remuneration of the Directors in the Company and its subsidiary for the financial year ended 31 December 2005 is as follows:-

a. The aggregate remuneration of the Directors for the financial year 2005 is set out below :

I. PBA HOLDINGS BHD

Directors	Basic Salary (RM)	Directors' Fees (RM)	Allowance (RM)	Benefits-In-Kind (RM)
Non-Executive Chairman	NIL	NIL	9,100	NIL
Non-Executive Deputy Chairman	NIL	NIL	8,800	NIL
Non-Independent Non-Executive Directors	NIL	NIL	37,300	NIL
Independent Non-Executive Directors	NIL	NIL	127,500	NIL

II. PERBADANAN BEKALAN AIR PULAU PINANG SDN BHD

Directors	Basic Salary (RM)	Directors' Fees (RM)	Allowance (RM)	Benefits-In-Kind (RM)
Non-Executive Chairman	NIL	NIL	43,500	NIL
Non-Executive Deputy Chairman	NIL	NIL	22,500	NIL
Non-Independent Non-Executive Directors	NIL	NIL	79,650	NIL

b. The respective remuneration of each of the nine (9) non-executive Board members falls below the range of remuneration of RM50,000 for the financial year 2005.

C. RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS**(i) Investor Relations and Shareholder Communication**

The Board is ever conscious of the importance and need to communicate with its shareholders, stakeholders and potential investors to keep them well informed concerning the Group's operations and latest developments. Information disseminated to the investment community conforms to the Bursa Securities' disclosure rules and regulations. Care has been taken to ensure that no market sensitive information such as corporate proposals, financial results and other material information is disseminated to any party without first making an official announcement to the Bursa Securities.

The Company maintains a website at www.pba.com.my to facilitate access on pertinent information concerning the Group and its operations by the shareholders, customers and public. Y.Bhg. Dato' Haji Adlan Bin Hj Mohamed Daud has been appointed as the Senior Independent Non-Executive Director to whom concerns regarding the Group may be conveyed.

(ii) Company's Annual and Extraordinary General Meeting

The Company's AGM is a vital forum used to communicate and interact with its shareholders. At each AGM, the Board presents the performance and future direction of the Group and encourages shareholders to participate in the question and answer session. An Extraordinary General Meeting is held as and when shareholders' approvals are required on specific matters. Each item of special business included in the notice of the AGM will be accompanied by an explanatory statement to facilitate full understanding and evaluation of issues involved. A full explanation is given of all the proposed resolutions to be passed at the AGM. A press conference is held immediately after the Company's AGM to disseminate information pertaining to the Group's financial performance and operations and to clarify on any issues raised by the media.

STATEMENT ON CORPORATE GOVERNANCE - CONTINUED

D. ACCOUNTABILITY AND AUDIT

Responsibility Statement by Directors

The Directors acknowledge responsibility in ensuring that the financial statements of the Company and Group give a true and fair view of the state of affairs of the Company and Group at the end of the financial year and of their results and cash flows for the financial year ended. The Directors have also ensured that the applicable approved accounting standards in Malaysia and the accounting provisions of the Companies Act, 1965 have been complied with.

In preparing the financial statements, the Directors have :

- applied consistently the appropriate accounting policies adopted;
- made reasonable and prudent judgments and estimates; and
- maintained proper accounting records to enable the preparation of the financial statements with reasonable accuracy.

In addition, the Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and Group and to prevent and detect frauds and other irregularities.

Financial Reporting

In presenting the annual financial statements and quarterly announcements of results to the shareholders and to regulatory authorities, the Board aims to present a balanced and meaningful assessment of the Group's financial position and prospects.

The Audit Committee assists the Board in ensuring the accuracy, adequacy and completeness of the financial information to be disclosed. The financial reports should be reviewed by the Audit Committee prior to tabling them to the Board of Directors for approval and subsequent release to the Bursa Securities.

Internal Control

The Board acknowledged its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets. An internal audit department has been established to assist the Audit Committee to ensure a sound system of internal control is implemented enterprise-wide. The Statement on Internal Control furnished on pages 43 and 44 of the Annual Report provides an overview of the nature and scope of internal control within the Group.

Relationship with the Auditors

A formal and transparent relationship is established with the Group's external and internal auditors through the Audit Committee. The key features outlining the relationship of the Audit Committee with both the external and internal auditors are included in the Audit Committee Report furnished on pages 45 to 47 of the Annual Report.

COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Save for the exceptions set out above, the Group is in substantial compliance through the financial year with the Principles and Best Practices of the Code.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 28th March 2006.

STATEMENT ON INTERNAL CONTROL

The Board of Directors (“the Board”) is pleased to provide the following Statement on Internal Control, which is made pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad with regard to the nature and scope of internal control within the Group during the financial year.

Responsibility

The Board upholds its responsibility for ensuring that a sound and effective system of internal control is maintained to safeguard shareholders’ investments, customers’ interests and the Group’s assets. Notwithstanding that, in view of the limitations that are inherent in any system of internal control, this system is designed to manage rather than to eliminate risks that may hinder the achievement of the Group’s corporate objectives. As such, it can only provide reasonable and not absolute assurance against material mis-statement or loss.

Nature and Scope of Internal Control

The approach to internal control has always been holistic and process-embedded covering all aspects of the business and functions such as organisational controls, operational controls, financial controls and administrative and compliance controls. These integrated controls are designed to mitigate both the internal and external risks in order to optimise the Group’s ability to achieve its Vision and Mission. The organisation’s risk management process has been formalized via its enterprise-wide Risk Management Framework, which in the Board’s opinion provides an adequate and satisfactory mechanism for an on-going process of identification, evaluation, managing and monitoring of significant risks. In that regard, the Board acknowledges that the nature and scope of internal control of the Group is satisfactory and adequate in addressing its principal risks by mitigating the risks that may impede the achievement of the Group’s business and corporate objectives. The Board reviews the process on a regular basis to ensure proper management of risks and that appropriate measures are taken to address any identified weaknesses .

Risk Management Framework

With the setting up of the Risk Management Committee (“RMC”) in April 2002 by the Board and the promulgation of its Risk Management Policy, a risk management framework has been established. The RMC, consisting of Heads of Department (“HODs”), meet from time to time to identify and evaluate the strategic risks and thereafter to institute internal controls to mitigate these identified risks to a manageable level. The risks are being continually monitored and appropriate actions taken to address any change in existing risks or new risks identified as part of a proactive measure.

Before the end of each year, the HODs will review the level of internal control in their respective departments by filling up the Departmental Risk and Control Assessment Checklist. The checklist helps to assess each department’s overall risk and control environment based on five control components viz., a) effective control environment, b) effective risk assessments, c) effective control activities, d) effective information and communication and e) effective monitoring and review. The components’ criteria enumerated are not exhaustive but are sufficient in concluding whether a positive control environment exists. A numerical rating is given for each relevant criterion and an overall numerical rating is computed to give an indication of the level of internal control being adopted at each department. The completed checklists are then submitted to the Internal Audit Department for evaluation and safekeeping. The HODs would then collectively assess the overall state of internal control at the corporate level by completing the Risk and Control Assessment Checklist based on the aforementioned five control components. A numerical rating is given for each criterion and an overall rating is computed at the end of the assessment to indicate the organisation’s state of internal control.

The risk management process is cascaded down to the departmental level, as well. The relevant departmental personnel identify, evaluate, prioritize, control and communicate the significant risks in their respective operational work environment through the Operational Risk Scorecard cum Internal Control Self Assessment (“ORSICSA”) Report. Besides identifying and controlling the identified risks, the relevant personnel have to perform control self assessment by monitoring and verifying that the controls specified in the report to mitigate or eliminate the risks have been duly carried out. The risks and control actions identified in the report by the supervisors and executives have to be approved by the respective HODs before they are being displayed in the Company’s intranet Docspace. The Internal Auditor will interact with the relevant executives and supervisors to help them streamline their risk identification and control process.

STATEMENT ON INTERNAL CONTROL - CONTINUED

The RMC Chairman will update the Audit Committee from time to time with a summary of the risk assessment on the significant risks and the status of control measures being implemented or to be implemented to address and mitigate the risks. The summary report is reviewed by the Audit Committee. The Board on its part meets to review and deliberate on the risks and control issues being reported.

Key Elements of Internal Control

The other key elements of the Group's internal control system are described below:

- The Audit Committee and the Board meet every quarter to discuss matters raised by Management on business and operational matters including potential risks and control issues.
- Clearly defined delegation of responsibilities to the Board Committees and Management includes authority limits to minimise risks of unauthorised transactions. The Board has delegated the responsibilities to relevant committees to implement and monitor the Board's policies on controls, eg capital expenditures have to be properly tendered and approved by the Tenders Board before any contracts are awarded.
- The Group has established an organisation structure with clearly defined lines of accountability and appropriate degrees of empowerment which enables adequate monitoring of the activities and ensures effective flow of information across the organisation. Delegation of authority and appropriate authorisation limits imposed at various levels of Management including those requiring the Board's approval are documented and designed to ensure accountability and responsibility.
- Standard operating procedures ("SOP") and policies are set in place for maintaining a sound system of internal control and they are reviewed and revised, whenever the need arises, to meet the evolving business, operational and statutory requirements.
- Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd. ("PBAPP"), a wholly-owned subsidiary, has been accredited with the ISO 9001:2000 and ISO 14001:2004 certifications which confirm the good standing of the organisation's quality and environment management systems, respectively.
- A detailed budgeting process is established, requiring all departments in the Group to prepare budgets annually including capital expenditure proposals, which are discussed and approved by the Board of Directors. A yearly review of the annual budget is undertaken to deliberate and, where appropriate, to address significant variances from the said budget.
- Ongoing training is provided to the Company's staff to improve their skills and work competencies.

The Internal Audit Function

The Board recognizes that the audit function is an integral component of the governance process. The Internal Audit Department ("Internal Audit") performs internal audit in diverse areas comprising the management, financial and operational activities within the Group.

The principal responsibility of the Internal Audit is to assist the Audit Committee in monitoring compliance with policies and procedures and the effectiveness and adequacy of the internal control system in operation. The Internal Audit undertakes a regular and systematic review of the internal controls of the various activities to provide the Audit Committee and the Board with a reasonable and independent assurance that the system of internal control is effective in addressing the risks and concerns identified.

The Group, in issuing this statement, has taken into consideration the scope of internal control of PBAPP whilst excluding that of Pinang Water Limited, an associate company, which is deemed to be immaterial to the Group. This statement is made in accordance with the resolutions of the Board of Directors dated 28th March 2006.

AUDIT COMMITTEE REPORT

1. Composition

Chairman : Y Bhg. Dato' Chew Kong Seng (Independent & Non-Executive Director)

Members : Y.B. Dato' Ng Kam Cheung (Non-Independent & Non-Executive Director)
Y.B. Dato' Haji Adlan Bin Haji Mohamed Daud (Independent & Non-Executive Director)

2. Terms of Reference of Audit Committee

2.1 Objective

To assist the Board of Directors in discharging its statutory duties and responsibilities relating to accounting and financial reporting and determining the adequacy of the Group's internal control environment and quality of the audits.

2.2 Membership Composition

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall consist of no fewer than 3 members, the majority of whom must be independent. No alternate Director is to be appointed as a member of the Committee.

At least one member of the Committee:

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years working experience and:-
 - he must have passed the examinations specified in Part I of the 1st schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967;
- (iii) fulfills such other requirements as prescribed by Bursa Securities.

The Chairman of the Committee shall be appointed among the members of the Committee who shall be an independent Director.

2.3 Meetings

The Committee shall hold at least 4 regular meetings per year. In order to form a quorum, the majority of members present must be independent Directors.

The Committee may invite any Management staff and external auditor or professional adviser to be in attendance.

The Company Secretary shall be the secretary of the Committee.

2.4 Authority

The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to have the resources which are required to perform its duties, has full and unrestricted access to any information pertaining to the Group and has direct communication channels with the external and internal auditors.

The Committee is authorized by the Board to obtain external, legal, independent or other professional advice and be able to convene meetings with external parties whenever deemed necessary.

AUDIT COMMITTEE REPORT - CONTINUED

2.5 Functions and Duties

- (i) To nominate a person or persons as auditor.
- (ii) To discuss with the external auditors before the audit commences the nature and scope of the audit, ensure co-ordination where more than one audit firm is involved.
- (iii) To review the quarterly and annual financial statements before submission to the Board, focusing particularly on :
 - a. The consistency of and any changes to the accounting policies and practices;
 - b. Major judgmental areas;
 - c. Significant adjustments resulting from the audit;
 - d. Compliance with accounting standards;
 - e. Compliance with stock exchange and legal requirements;
 - f. Any related party transaction that may arise within the Company or Group.
- (iv) To review with the internal auditor, its audit plans, the evaluation of the system of internal controls and its audit reports.
- (v) To review the adequacy of the scope of audit and resources of the internal audit functions and ensures it has the necessary authority to carry out its work.
- (vi) To review the internal audit programmes, consider the major findings of the internal audit investigations and Management's response and ensure appropriate corrective actions are being taken.
- (vii) To keep under review the effectiveness of the internal control systems.
- (viii) To consider and make recommendations to the Board, to be put to shareholders for approval at the general meeting in relation to the appointment, re-appointment and removal of the Company's external auditors.
- (ix) To verify the allocation of option scheme ("ESOS") in compliance with the criteria as stipulated in the By-Laws of ESOS of the Company, if any.
- (x) To review any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- (xi) To consider other functions as may be agreed to by the Committee and the Board of Directors.

3. Attendance at Audit Committee Meetings

During the financial year 2005, the Audit Committee met 4 times and the meeting attendance record is as follows: -

<u>Name of Committee Members</u>	<u>Attendance Record</u>
Y. Bhg. Dato' Chew Kong Seng	4 out of 4
YB Dato' Ng Kam Cheung	4 out of 4
Y. Bhg. Dato' Haji Adlan bin Haji Mohamed Daud	4 out of 4

4. Summary of Activities

The Audit Committee had carried out the following activities during the financial year 2005: -

- a) Reviewed and approved the internal audit plan after being satisfied with the contents' suitability, adequacy and scope of coverage;
- b) Reviewed and adopted the audit plan of the external auditor so as to meet the requirements of both parties for the financial year;
- c) Reviewed the progress reports on the risk management activities from the Head of Internal Audit;
- d) Reviewed the quarterly and annual financial statements with the Management prior to the submission of these statements to the Board for approval;
- e) Made recommendation to the Board on the re-appointment of the external auditor;
- f) Highlighted to the Board on significant issues and concerns discussed during the Audit Committee meetings and, where appropriate, recommended for the Board's approval on proposed corrective solutions or adjustments;
- g) Reviewed and adopted the revised Terms of Reference of the Audit Committee;
- h) Reviewed the allocation for the share options to the eligible employees to ensure compliance to the ESOS By-Laws and the Listing Requirements of Bursa Securities;
- i) Reviewed the overall operations and internal control system for compliance with the Malaysian Code on Corporate Governance and Bursa Securities' Listing Requirements.

AUDIT COMMITTEE REPORT - CONTINUED

5. Internal Audit Function

The internal audit function is carried out by the Group's own Internal Audit Department to assist the Audit Committee in performing the following fundamental activities: -

- Provides an independent review and objective assurance on the soundness and adequacy of internal controls and making recommendations for improvements, where necessary, in the auditable areas during the course of the audit;
- Ascertains compliance with established policies, directives and procedures;
- Ascertains accountability and safeguarding of the Group's assets.

6. Statement Verifying Allocation of Options

The Audit Committee, with the assistance from the Internal Auditor, has reviewed and verified the allocation of share options to the eligible employees for the financial year 2005 in accordance with the criteria as set out in the provisions of the ESOS By-Laws and the Listing Requirements of Bursa Securities.

ADDITIONAL COMPLIANCE INFORMATION

Utilisation of Proceeds

There was no corporate exercise with proceeds from the shareholders during the financial year.

Share Buybacks

There were no share buybacks during the financial year.

Options, Warrants or Convertible Securities

There were no other issue or exercise of options, warrants or convertible securities during the financial year.

American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme

The Company did not sponsor any ADR or GDR programme during the financial year.

Imposition of Sanctions and Penalties

There were no public impositions of sanctions or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year.

Non-Audit Fees

The amount of non-audit fees paid to the external auditors by the Group and by the Company for the financial year amounted to RM48,037 and RM9,002 respectively for professional fees on tax advisory/services and other services.

Variation in Results

There was no variation between the audited results for the financial year ended 31 December 2005 and the unaudited for the year ended 31 December 2005 of the Group as previously announced.

Profit forecast

This is not applicable to the Company for the financial year ended 31 December 2005.

Profit Guarantee

The Company did not give any profit guarantee to any parties during the financial year.

Material Contracts

There were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests.

Revaluation Policy on Landed Properties

The Group currently has not adopted a policy of regular revaluation on its landed properties and will do so only when the need arises. The existing system of showing the assets at cost less accumulated depreciation is a generally accepted accounting practice as well as a cost-saving measure.

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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company.

The principal activities of the subsidiary are to undertake the business activity of a water supply system which comprises abstraction of raw water, treatment of water, supply and sale of treated water to consumers.

The principal activities of the associate are to construct water-infrastructure projects, water treatment, management and supply of treated water for government, industries, commercial and domestic consumers.

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

RESULTS	Group RM'000	Company RM'000
Net profit for the year	<u>37,455</u>	<u>27,148</u>

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

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2004 were as follows:

	RM'000
In respect of the financial year ended 31 December 2004 as reported in the directors' report of that year:	
- Final dividend of 7% less tax at 28%, paid on 18 July 2005	<u>8,341</u>
In respect of the financial year ended 31 December 2005 :	
- Interim tax exempt dividend of 5%, paid on 23 December 2005	<u>8,277</u>

The directors recommend a final dividend of 7% less tax at 28% amounting to RM8,343,000 for the financial year ended 31 December 2005 subject to the approval of shareholders at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profit in the next financial year ending 31 December 2006.

DIRECTORS' REPORT - CONTINUED

DIRECTORS

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

Y.A.B. Tan Sri Dr. Koh Tsu Koon (*Chairman*)
 Y.B. Dato' Haji Abd. Rashid Bin Abdullah (*Deputy Chairman*)
 Y.B. Dato' Koay Kar Huah
 Y.B. Dato' Jamaludin Bin Hasan
 Y.B. Dato' Ng Kam Cheung
 Y.B. Dato' Hinshawati Bte Shariff
 Y.Bhg. Dato' Chew Kong Seng
 Y.Bhg. Dato' Dr. SHANmughalingam A/L Murugasu
 Y.Bhg. Dato' Haji Adlan Bin Hj. Mohamed Daud

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest required to be disclosed by Section 169(8) of the Companies Act, 1965.

DIRECTORS' INTERESTS

None of the directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act, 1965, an interest in shares in the Company or its subsidiary.

EMPLOYEES SHARE OPTION SCHEME ("ESOS")

The Company ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 9 June 2005. The ESOS was implemented on 15 July 2005 and is to be in force for a period of 5 years from the date of implementation.

The salient features and other terms of the ESOS are disclosed in Note 23.2 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 80,000 ordinary shares of RM0.50 each. The list of employees granted options to subscribe for 80,000 or more ordinary shares of RM0.50 each during the financial year is as follows :

Name	Grant Date	Expiry Date	Exercise Price per Ordinary Share RM	Number of Share Options			
				At 1 January 2005	Granted	Exercised	At 31 December 2005
Dato Ir Liew Chook San	27 July 2005	14 July 2010	1.29	-	119,600	-	119,600
Ir Kan Cheong Weng	27 July 2005	14 July 2010	1.29	-	83,900	-	83,900

No directors of the Company were granted any options under the ESOS.

DIRECTORS' REPORT - CONTINUED

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

DIRECTORS' REPORT - CONTINUED

SIGNIFICANT EVENTS

The significant corporate developments of the Company since the last financial year are as follows:

- (i) The shareholders of the Company approved the ESOS at the Extraordinary General Meeting held on 9 June 2005. The ESOS has been subsequently implemented on 15 July 2005.
- (ii) The State Government of Penang has extended the operating licence of the wholly owned subsidiary, Perbadanan Bekalan Air Pulau Pinang Sdn Bhd for a period of 5 years commencing from 1 January 2006 to 31 December 2010. The licence is granted by the State Government of Penang via Jabatan Bekalan Air Pulau Pinang to the subsidiary to operate and maintain the Penang State's water supply system.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed in accordance with a resolution of the directors:

JAMALUDIN BIN HASAN

HINSHAWATI BTE SHARIFF

Penang, Malaysia
Date: 28 March 2006

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, JAMALUDIN BIN HASAN and HINSHAWATI BTE SHARIFF, being two of the directors of PBA HOLDINGS BHD., do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 56 to 86 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed in accordance with a resolution of the directors:

JAMALUDIN BIN HASAN

HINSHAWATI BTE SHARIFF

Penang, Malaysia

Date : 28 March 2006

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, JOYCE LEE SUAN IMM (I/C No. 660512-07-5772), being the officer primarily responsible for the financial management of PBA HOLDINGS BHD., do solemnly and sincerely declare that the accompanying financial statements set out on pages 56 to 86 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed JOYCE LEE SUAN IMM
at Georgetown in the state of Penang
on 28 March 2006

JOYCE LEE SUAN IMM

Before me,

Commissioner for Oaths

REPORT OF THE AUDITORS

TO THE MEMBERS OF PBA HOLDINGS BHD. (Incorporated in Malaysia)

We have audited the financial statements set out on pages 56 to 86. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

ERNST & YOUNG
AF : 0039
Chartered Accountants

OO BOON BENG
1939/12/06 (J)
Partner

Penang, Malaysia
Date : 28 March 2006

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	3	162,618	153,737	33,322	16,845
Cost of sales		<u>(101,801)</u>	<u>(93,952)</u>	<u>-</u>	<u>-</u>
Gross profit		60,817	59,785	33,322	16,845
Other operating income		11,120	16,996	-	-
Administrative expenses		<u>(29,446)</u>	<u>(24,055)</u>	<u>(1,491)</u>	<u>(1,040)</u>
Profit from operations	4	42,491	52,726	31,831	15,805
Finance cost	5	<u>(8)</u>	<u>(3,085)</u>	<u>(2)</u>	<u>(2)</u>
Profit before taxation		42,483	49,641	31,829	15,803
Taxation	6	<u>(5,028)</u>	<u>(9,806)</u>	<u>(4,681)</u>	<u>(106)</u>
Profit after taxation		<u>37,455</u>	<u>39,835</u>	<u>27,148</u>	<u>15,697</u>
Earnings per share (sen)	7				
- Basic		11.31	12.03	-	-
- Diluted		<u>11.10</u>	<u>12.03</u>	<u>-</u>	<u>-</u>
Net dividends per share (sen)	8	<u>5.02</u>	<u>5.00</u>	<u>5.02</u>	<u>5.00</u>

The accompanying notes form an integral part of the financial statements

BALANCE SHEETS

AS AT 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	9	585,680	523,919	92	128
Investment in a subsidiary	10	-	-	265,825	265,825
Investment in an associate	11	*	*	*	*
Investments	12	26,697	30,903	-	-
		<u>612,377</u>	<u>554,822</u>	<u>265,917</u>	<u>265,953</u>
CURRENT ASSETS					
Inventories	13	20,444	11,689	-	-
Trade receivables	14	17,681	19,438	-	-
Other receivables	15	16,615	13,191	364	273
Amount due by a subsidiary	16	-	-	68,353	60,612
Amount due by an associate	17	4,956	2,613	4,956	2,613
Tax recoverable		1,129	-	417	275
Fixed deposits	18	112,500	171,000	9,000	9,000
Cash and bank balances		32,490	4,751	950	2,219
		<u>205,815</u>	<u>222,682</u>	<u>84,040</u>	<u>74,992</u>
CURRENT LIABILITIES					
Trade payables	19	2,052	1,192	-	-
Other payables	20	89,496	81,717	22	1,784
Tax payable		-	34	-	-
Retirement benefit obligations	21	700	442	-	-
Term loans (unsecured)	22	6,552	39,563	-	-
		<u>98,800</u>	<u>122,948</u>	<u>22</u>	<u>1,784</u>
NET CURRENT ASSETS					
		<u>107,015</u>	<u>99,734</u>	<u>84,018</u>	<u>73,208</u>
		<u>719,392</u>	<u>654,556</u>	<u>349,935</u>	<u>339,161</u>
FINANCED BY:					
Share capital	23	165,550	165,500	165,550	165,500
Reserves	24	369,955	349,039	184,270	173,661
Shareholders' equity		<u>535,505</u>	<u>514,539</u>	<u>349,820</u>	<u>339,161</u>
Retirement benefit obligations	21	14,629	11,769	115	-
Term loans (unsecured)	22	143,788	104,548	-	-
Deferred tax liabilities	25	25,470	23,700	-	-
Non-current liabilities		<u>183,887</u>	<u>140,017</u>	<u>115</u>	<u>-</u>
		<u>719,392</u>	<u>654,556</u>	<u>349,935</u>	<u>339,161</u>

* RM 99

The accompanying notes form an integral part of the financial statements

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

Group	Note	← Non Distributable →			Distributable	Total RM'000
		Share capital RM'000	Share premium RM'000	Reserve on consolidation RM'000	Retained profits RM'000	
At 1 January 2004		165,500	161,757	53,780	110,217	491,254
Net profit for the year		-	-	-	39,835	39,835
Dividends	8	-	-	-	(16,550)	(16,550)
At 31 December 2004		<u>165,500</u>	<u>161,757</u>	<u>53,780</u>	<u>133,502</u>	<u>514,539</u>
At 1 January 2005		165,500	161,757	53,780	133,502	514,539
Issuance of Shares		50	79	-	-	129
Net profit for the year		-	-	-	37,455	37,455
Dividends	8	-	-	-	(16,618)	(16,618)
At 31 December 2005		<u>165,550</u>	<u>161,836</u>	<u>53,780</u>	<u>154,339</u>	<u>535,505</u>

Company	Note	Non Distributable		Distributable	Total RM'000
		Share capital RM'000	Share premium RM'000	Retained profits RM'000	
At 1 January 2004		165,500	161,757	12,757	340,014
Net profit for the year		-	-	15,697	15,697
Dividends	8	-	-	(16,550)	(16,550)
At 31 December 2004		<u>165,500</u>	<u>161,757</u>	<u>11,904</u>	<u>339,161</u>
At 1 January 2005		165,500	161,757	11,904	339,161
Issuance of Shares		50	79	-	129
Net profit for the year		-	-	27,148	27,148
Dividends	8	-	-	(16,618)	(16,618)
At 31 December 2005		<u>165,550</u>	<u>161,836</u>	<u>22,434</u>	<u>349,820</u>

The share capital includes 1 Special Rights Redeemable Preference Share (Special Share) of RM0.50 each. Refer to Note 23 to the financial statements for details of the terms and rights attached to the Special Share.

The accompanying notes form an integral part of the financial statements

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	42,483	49,641	31,829	15,803
Adjustments for:				
Depreciation	21,501	19,701	37	25
Interest expense	-	3,078	-	-
Loss on disposal of property, plant and equipment	4	-	-	-
Property, plant and equipment written off	207	152	-	-
Provision for diminution in value of investments	2,798	-	-	-
Provision for retirement benefits	3,818	5,619	115	-
Dividend income	(985)	(696)	(33,023)	(16,511)
Gain on disposal of investments	(26)	(1,342)	-	-
Interest income	(4,543)	(6,917)	(299)	(334)
Operating profit/(loss) before working capital changes	65,257	69,236	(1,341)	(1,017)
Increase in inventories	(8,755)	(505)	-	-
Increase in trade and other receivables	(1,667)	(1,331)	(90)	(18)
(Increase)/Decrease in amount due by a subsidiary	-	-	(7,742)	3,711
Increase in amount due by an associate	(2,343)	(2,070)	(2,343)	(2,070)
Increase/(Decrease) in trade and other payables	8,639	(5,673)	(1,762)	1,726
Cash generated from/(used in) operations	61,131	59,657	(13,278)	2,332
Interest paid	-	(3,078)	-	-
Retirement benefits paid	(700)	(494)	-	-
Tax paid	(4,421)	(4,307)	(4,823)	(444)
Balance carried forward	56,010	51,778	(18,101)	1,888

CASH FLOW STATEMENTS - CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Balance brought forward	56,010	51,778	(18,101)	1,888
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividends received	985	696	33,023	16,511
Interest received	4,543	6,917	299	334
Proceeds from disposal of investments	27,675	23,742	-	-
Proceeds from disposal of property, plant and equipment	16	-	-	-
Purchase of investments	(26,241)	(24,435)	-	-
Purchase of property, plant and equipment	(83,489)	(73,786)	(1)	(119)
Net cash (used in)/from investing activities	<u>(76,511)</u>	<u>(66,866)</u>	<u>33,321</u>	<u>16,726</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares	129	-	129	-
Dividends paid	(16,618)	(16,550)	(16,618)	(16,550)
Net drawdown / (payment) of term loans	6,229	(15,234)	-	-
Net cash used in financing activities	<u>(10,260)</u>	<u>(31,784)</u>	<u>(16,489)</u>	<u>(16,550)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(30,761)	(46,872)	(1,269)	2,064
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>175,751</u>	<u>222,623</u>	<u>11,219</u>	<u>9,155</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>144,990</u>	<u>175,751</u>	<u>9,950</u>	<u>11,219</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	112,500	171,000	9,000	9,000
Fixed deposits	<u>32,490</u>	<u>4,751</u>	<u>950</u>	<u>2,219</u>
Cash and bank balances	<u>144,990</u>	<u>175,751</u>	<u>9,950</u>	<u>11,219</u>

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

1. CORPORATE INFORMATION

The principal activity of the Company is that of an investment holding company.

The principal activities of the subsidiary are to undertake the business activity of a water supply system which comprises abstraction of raw water, treatment of water, supply and sale of treated water to consumers.

The principal activities of the associate are to construct water-infrastructure projects, water treatment, management and supply of treated water for government, industries, commercial and domestic consumers.

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Level 32, KOMTAR, 10000 Penang.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 March 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

i. Subsidiary

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is that company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

A subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

Minority interest has not been disclosed as the amount is immaterial.

ii. Associate

An associate is that company in which the Group exercises significant influence but not control, through participation in the financial and operating policy decisions of the entity.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting based on the management financial statements of the associate. Under the equity method of accounting, the Group's share of profits less losses of an associate during the year is included in the consolidated income statement. The Group's interest in an associate is carried in the consolidated balance sheet at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves.

Unrealised gains on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated unless cost cannot be recovered.

(c) Investments in Subsidiary and Associate

The Company's investments in a subsidiary and an associate are stated at cost less impairment losses.

On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised in the income statement.

(d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Freehold land and capital work-in-progress are not depreciated. Leasehold land is depreciated over the period of the respective leases which range from 60 years to 99 years. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Buildings	2%
Building improvements	33%
Reservoirs	2%
Plant and machinery	2% - 10%
Motor vehicles	20%
Equipment and furnitures	10% - 20%

Property, plant and equipment which were acquired from Pihak Berkuasa Air Pulau Pinang upon the corporatisation of the subsidiary on 1 March 1999 are depreciated over their remaining useful lives.

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

(e) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(f) Inventories

Inventories which consist of spare parts and consumables are stated at lower of cost and net realisable value after adequate provision has been made for damaged, obsolete and slow moving inventories.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

Cost is determined using the weighted average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(g) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(h) Income Tax

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

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

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(i) Employee Benefits

i. Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

ii. Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

iii. Defined Benefit Plans

The Group operates an unfunded, defined benefit plan ("the Plan") for its eligible employees. The Group's obligations under the Plan are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is discounted using the Projected Unit Credit Method in order to determine its present value. Actuarial gains and losses are recognised as income or

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

expense over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the Plan exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost. Any asset resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the plan.

iv. Equity Compensation Benefits

The Company Employees Share Options Scheme ("ESOS") allows the Group's employees to acquire ordinary shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

(j) Financial Instruments

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

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

i. Non-Current Investments

Non-current investments are stated at cost less provision for any permanent diminution. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the year in which the decline occurred.

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

ii. Receivables

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

iii. Payables

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

iv. Interest-Bearing Borrowings

Interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as an expense in the income statement in the year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

v. Equity Instruments

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

(k) Foreign Currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

(l) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the Company and the amount of the revenue can be measured reliably.

i. Sale of Water

Revenue from water supplied to consumers are recognised when invoiced and upon services being rendered.

ii. Contribution for Trunk Mains

Contribution for trunk mains is recognised as income when invoiced and upon services being rendered.

iii. Interest Income

Interest income on fixed deposits is recognised on an accrual basis.

iv. Dividend Income

Dividend income is recognised when the right to receive payment is established.

(m) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

3. REVENUE

Revenue of the Group and of the Company consists of the following:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Gross dividend from a subsidiary	-	-	33,023	16,511
Interest income	299	334	299	334
Sale of water	154,661	145,772	-	-
Contribution for trunk mains	7,658	7,631	-	-
	<u>162,618</u>	<u>153,737</u>	<u>33,322</u>	<u>16,845</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

4. PROFIT FROM OPERATIONS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit from operations is stated:				
After charging:				
Auditors' remuneration	79	79	8	8
Dam lease charges	7,627	6,600	-	-
Debts				
- bad debts written off	141	51	-	-
- provision for doubtful debts	1,320	468	-	-
Directors' emoluments				
- present directors	327	290	183	165
- past directors	2	26	-	7
Equipment lease charges	137	93	-	-
Inventories written off	-	434	-	-
Property, plant and equipment				
- depreciation	21,501	19,701	37	25
- loss on disposal	4	-	-	-
- written off	207	152	-	-
Provision for retirement benefits	3,818	5,619	115	-
Provision for diminution in value of investments	2,798	-	-	-
Rental				
- plant and machinery	1,722	1,540	-	-
- premises	<u>484</u>	<u>427</u>	<u>17</u>	<u>20</u>
and crediting:				
Contribution for trunk mains	7,658	7,631	-	-
Gain on disposal of investments	26	1,342	-	-
Gross dividends received from				
- the subsidiary	-	-	33,023	16,511
- investments quoted in Malaysia	985	696	-	-
Interest income	4,543	6,917	299	334
Rental income				
- building	555	423	-	-
- meters and plant and machinery	<u>642</u>	<u>633</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

5. FINANCE COST

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Included herein is interest incurred as follows:				
Interest on term loans	-	3,078	-	-

6. TAXATION

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Tax expense for the year:				
Malaysian income tax	3,257	4,092	4,680	92
Deferred tax:				
Relating to origination and reversal of temporary differences (Note 25)	1,770	5,700	-	-
Under provided in prior years:				
Malaysian income tax	1	14	1	14
	<u>5,028</u>	<u>9,806</u>	<u>4,681</u>	<u>106</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2004: 28%) of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2005 RM'000	2004 RM'000
Group		
Profit before taxation	42,483	49,641
Taxation at Malaysian statutory tax rate of 28% (2004 : 28%)	11,895	13,899
Income not subject to tax	(62)	(411)
Expense not deductible for tax purposes	1,885	855
Utilisation of current year reinvestment allowances	(8,691)	(4,551)
Under provision of tax in prior years	1	14
Tax expense for the year	5,028	9,806
Company		
Profit before taxation	31,829	15,803
Taxation at Malaysian statutory tax rate of 28% (2004 : 28%)	8,912	4,425
Income not subject to tax	(4,623)	(4,623)
Expense not deductible for tax purposes	391	290
Underprovision of tax in prior years	1	14
Tax expense for the year	4,681	106

Tax losses are analysed as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unutilised reinvestment allowances	64,826	50,662	-	-

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

7. EARNINGS PER SHARE**Basic**

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2005	2004
Net profit for the year (RM'000)	37,455	39,835
Weighted average number of ordinary shares in issue ('000)	331,032	331,000
Basic earnings per share (sen)	<u>11.31</u>	<u>12.03</u>

Diluted

For the purpose of calculating diluted earnings per share, the net profit for the year and the adjusted weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects on share options granted to employees.

	Group	
	2005	2004
Net profit for the year (RM'000)	37,455	39,835
Weighted average number of ordinary shares in issue ('000)	331,032	331,000
Effect of dilution in share options ('000)	<u>6,428</u>	<u>-</u>
Adjusted weighted average number of ordinary shares in issue ('000)	<u>337,460</u>	<u>331,000</u>
Diluted earnings per share (sen)	<u>11.10</u>	<u>12.03</u>

8. DIVIDENDS

	Amount		Net dividends per share	
	2005	2004	2005	2004
	RM'000	RM'000	Sen	Sen
Final dividend of 7% less tax at 28% paid on - 18 July 2005	8,341	-	2.52	-
Final tax exempt dividend of 5% paid on - 27 July 2004	-	8,275	-	2.50
Interim tax exempt dividend of 5% paid on - 23 December 2005	8,277	-	2.50	-
- 28 December 2004	-	8,275	-	2.50
	<u>16,618</u>	<u>16,550</u>	<u>5.02</u>	<u>5.00</u>

The directors recommend a final dividend of 7% less tax at 28% amounting to RM8,343,000 for the financial year ended 31 December 2005 subject to the approval of shareholders at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholders, will be accounted for in shareholders' equity as an appropriation of retained profits in the next financial year ending 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

9. PROPERTY, PLANT AND EQUIPMENT

Group	Land RM'000	Buildings and building improvements RM'000	Reservoirs RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Equipment and furnitures RM'000	Capital work- in-progress RM'000	Total RM'000
At cost								
At 1 January 2005	24,155	49,586	24,546	260,389	5,548	10,131	234,262	608,617
Additions	-	-	-	5,946	606	589	76,348	83,489
Adjustments / Disposals / Write offs	-	-	(61)	(343)	(19)	(248)	-	(671)
Transfer in / (out)	453	-	-	45,854	67	441	(46,815)	-
At 31 December 2005	24,608	49,586	24,485	311,846	6,202	10,913	263,795	691,435
Accumulated depreciation								
At 1 January 2005	722	3,776	4,416	68,088	3,190	4,506	-	84,698
Charge for the year	145	1,019	789	16,993	893	1,662	-	21,501
Adjustments / Disposals / Write offs	-	-	(12)	(225)	(19)	(188)	-	(444)
At 31 December 2005	867	4,795	5,193	84,856	4,064	5,980	-	105,755
Net book value								
At 31 December 2005	23,741	44,791	19,292	226,990	2,138	4,933	263,795	585,680

The land comprise the following:

	Cost RM'000	Accumulated Amortisation RM'000	Net book value RM'000	Amortisation for the year RM'000
Freehold land	4,991	-	4,991	-
Longterm leasehold land	19,617	867	18,750	145
	24,608	867	23,741	145

Freehold land

Longterm leasehold land

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

Group	Buildings and building improvements		Reservoirs	Plant and machinery	Motor vehicles	Equipment and furnishings	Capital work-in-progress	Total
	Land RM'000	RM'000						
At cost								
At 1 January 2004	23,969	48,607	24,546	228,403	4,723	8,295	196,547	535,090
Additions	-	160	-	4,746	506	523	67,851	73,786
Adjustments / Disposals / Write offs	-	(38)	-	(187)	(4)	(30)	-	(259)
Transfer in/(out)	186	857	-	27,427	323	1,343	(30,136)	-
At 31 December 2004	24,155	49,586	24,546	260,389	5,548	10,131	234,262	608,617
Accumulated depreciation								
At 1 January 2004	581	2,823	3,625	52,600	2,408	3,067	-	65,104
Charge for the year	141	991	791	15,530	785	1,463	-	19,701
Adjustments / Write back on disposals / Write offs	-	(38)	-	(42)	(3)	(24)	-	(107)
At 31 December 2004	722	3,776	4,416	68,088	3,190	4,506	-	84,698
Net book value								
At 31 December 2004	23,433	45,810	20,130	192,301	2,358	5,625	234,262	523,919

The land comprise the following:

	2004	
	Cost RM'000	Net book value RM'000
Freehold land	4,991	4,991
Longterm leasehold land	19,164	18,442
	24,155	23,433
	722	722
	722	141
	722	141

The leasehold land have unexpired lease terms of between 54 to 93 years.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

	Buildings improvements RM'000	Equipment and furnitures RM'000	Total RM'000
Company			
At cost			
At 1 January 2005	84	74	158
Additions	-	1	1
At 31 December 2005	<u>84</u>	<u>75</u>	<u>159</u>
Accumulated depreciation			
At 1 January 2005	12	18	30
Charge for the year	28	9	37
At 31 December 2005	<u>40</u>	<u>27</u>	<u>67</u>
Net book value			
At 31 December 2005	<u>44</u>	<u>48</u>	<u>92</u>
At cost			
At 1 January 2004	38	39	77
Additions	84	35	119
Write offs	(38)	-	(38)
At 31 December 2004	<u>84</u>	<u>74</u>	<u>158</u>
Accumulated depreciation			
At 1 January 2004	33	10	43
Charge for the year	17	8	25
Write offs	(38)	-	(38)
At 31 December 2004	<u>12</u>	<u>18</u>	<u>30</u>
Net book value			
At 31 December 2004	<u>72</u>	<u>56</u>	<u>128</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

10. INVESTMENT IN A SUBSIDIARY

	Company	
	2005 RM'000	2004 RM'000
Unquoted shares at cost	<u>265,825</u>	<u>265,825</u>

Details of the subsidiary is as follows:

Name of subsidiary	Country of Incorporation	Equity Interest Held		Principal Activities
		2005	2004	
Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd.	Malaysia	100%	100%	Water supplier involved in the abstraction of raw water, treatment of water, supply and sale of treated water to consumers.

11. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unquoted shares at cost	*	*	*	*
Share of associate's post acquisition reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Represented by:				
Share of net assets	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>

* RM99

Details of the associate is as follows:

Name of associate	Country of Incorporation	Equity Interest Held		Principal Activities
		2005	2004	
Pinang Water Limited	Federal Territory of Labuan, Malaysia	26%	26%	Constructing water-infrastructure projects, water treatment, management and supply of treated water for government, industries, commercial and domestic.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

12. INVESTMENTS

These investments are managed by external fund management companies in accordance with the terms of the Investment Management Mandate.

As at the year end, the funds were invested as follows :

	Group	
	2005 RM'000	2004 RM'000
Shares quoted in Malaysia, at cost	24,423	26,243
Fixed interest securities, at cost	-	207
Fixed deposits with licensed banks	2,633	2,372
Fixed deposits with other corporations	4	756
Money market placement	<u>2,435</u>	<u>1,325</u>
	29,495	30,903
Provision for diminution in value of investments	<u>(2,798)</u>	<u>-</u>
	<u>26,697</u>	<u>30,903</u>
Market value of quoted shares	<u>21,625</u>	<u>27,715</u>

13. INVENTORIES

	Group	
	2005 RM'000	2004 RM'000
At cost :		
Spare parts and consumables	<u>20,444</u>	<u>11,689</u>

The cost of spare parts and consumables recognised as an expense during the financial year amounted to approximately RM1,414,000 (2004: RM1,814,000).

14. TRADE RECEIVABLES

	Group	
	2005 RM'000	2004 RM'000
Trade receivables	19,636	20,141
Provision for doubtful debts	<u>(1,955)</u>	<u>(703)</u>
	<u>17,681</u>	<u>19,438</u>

The Group's normal trade credit terms range from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

15. OTHER RECEIVABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits	11,642	6,107	-	-
Prepayments	111	94	-	-
Other receivables	4,975	7,014	364	273
Employees' receivables	<u>331</u>	<u>415</u>	<u>-</u>	<u>-</u>
	17,059	13,630	364	273
Provision for doubtful debts	<u>(444)</u>	<u>(439)</u>	<u>-</u>	<u>-</u>
	<u>16,615</u>	<u>13,191</u>	<u>364</u>	<u>273</u>

The Group's normal credit terms is 30 days. Other credit terms are assessed and approved on a case-by-case basis. The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

16. AMOUNT DUE BY A SUBSIDIARY

The subsidiary is Perbadanan Bekalan Air Pulau Pinang Sdn. Bhd., a company incorporated in Malaysia.

The amount due by the subsidiary is unsecured, non-trade related, interest-free and has no fixed terms of repayment.

17. AMOUNT DUE BY AN ASSOCIATE

The amount due by an associate comprises shareholders' advances and payment on behalf which are recoverable when it commences operations.

18. FIXED DEPOSITS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits with:				
Licensed banks	103,000	153,000	7,000	6,000
Licensed finance companies	<u>9,500</u>	<u>18,000</u>	<u>2,000</u>	<u>3,000</u>
	<u>112,500</u>	<u>171,000</u>	<u>9,000</u>	<u>9,000</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

The interest rates earned during the financial year and the average maturities of deposits as at 31 December 2005 were as follows:

	Group		Company	
	Interest rates per annum %	Maturities	Interest rates per annum %	Maturities
2005				
Licensed banks	2.60 to 3.70	1 to 15 months	2.70 to 3.70	12 months
Licensed finance companies	3.00 to 3.70	15 to 18 months	2.76 to 3.70	12 months
2004				
Licensed banks	2.70 to 3.70	6 to 15 months	3.70	12 months
Licensed finance companies	2.90 to 3.70	12 to 18 months	3.70	12 months

19. TRADE PAYABLES

The normal trade credit terms granted to the Group range from 30 to 90 days.

20. OTHER PAYABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Other payables	35,016	27,640	10	1,767
Refundable deposits	54,468	54,065	-	5
Amount due to directors	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>
	<u>89,496</u>	<u>81,717</u>	<u>22</u>	<u>1,784</u>

Refundable deposits comprise mainly water supply deposits, reticulation mains deposits, security deposits and pipe maintenance deposits from consumers.

The normal credit terms granted to the Group range from 30 - 90 days.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

21. RETIREMENT BENEFIT OBLIGATIONS

The Group operates an unfunded defined benefit plan for all its employees.

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Present value of unfunded defined benefit obligations	<u>15,329</u>	<u>12,211</u>	<u>115</u>	<u>-</u>
Analysed as:				
Current:	<u>700</u>	<u>442</u>	<u>-</u>	<u>-</u>
Non-current:				
Later than 1 year but not later than 2 years	740	587	-	-
Later than 2 years but not later than 5 years	2,716	1,919	-	-
Later than 5 years	<u>11,173</u>	<u>9,263</u>	<u>115</u>	<u>-</u>
	<u>14,629</u>	<u>11,769</u>	<u>115</u>	<u>-</u>
	<u>15,329</u>	<u>12,211</u>	<u>115</u>	<u>-</u>

The amounts recognised in the income statement are as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Current service cost	2,854	4,940	111	-
Interest cost	<u>964</u>	<u>679</u>	<u>4</u>	<u>-</u>
Total, included in staff costs (Note 26)	<u>3,818</u>	<u>5,619</u>	<u>115</u>	<u>-</u>

Movements in the net liability in the current year were as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At 1 January	12,211	7,086	-	-
Amounts recognised in the income statement	3,818	5,619	115	-
Contributions paid	<u>(700)</u>	<u>(494)</u>	<u>-</u>	<u>-</u>
At 31 December	<u>15,329</u>	<u>12,211</u>	<u>115</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

Principal actuarial assumptions used:

	Group		Company	
	2005 %	2004 %	2005 %	2004 %
Discount rate	7.00	7.00	7.00	-
Expected rate of salary increases	<u>5.00</u>	<u>5.00</u>	<u>5.00</u>	<u>-</u>

22. TERM LOANS (UNSECURED)

	Group	
	2005 RM'000	2004 RM'000
Balance at 31 December	150,340	144,111
Repayable after the next 12 months	<u>(143,788)</u>	<u>(104,548)</u>
Repayable within the next 12 months	<u>6,552</u>	<u>39,563</u>
Maturity of term loans:		
Within 1 year	6,552	39,563
More than 1 year and less than 2 years	<u>6,552</u>	<u>6,552</u>
More than 2 years and less than 5 years	65,448	19,656
5 years or more	<u>71,788</u>	<u>78,340</u>
	<u>143,788</u>	<u>104,548</u>
	<u>150,340</u>	<u>144,111</u>

The unsecured term loans were obtained from the State Government of Penang to finance major water projects.

The term loans are non-interest bearing (2004: 0% to 8%) and are repayable over a period of 12 to 20 years (2004: 6 to 20 years) by yearly instalments ranging between RM15,000 and RM2,940,000 (2004: RM15,000 and RM2,940,000) per annum.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

23. SHARE CAPITAL

	Group / Company			
	Number of Shares		Amount	
	2005 '000	2004 '000	2005 RM'000	2004 RM'000
Authorised:				
Special rights redeemable preference shares of RM0.50 each	**	**	*	*
Ordinary shares of RM0.50 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>500,000</u>	<u>500,000</u>
	<u>1,000,000</u>	<u>1,000,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
Special rights redeemable preference shares of RM0.50 each				
At 1 January / At 31 December	**	**	*	*
Ordinary shares of RM0.50 each				
At 1 January	331,000	331,000	165,500	165,500
Issued during the year pursuant to ESOS	100	-	50	-
At 31 December	<u>331,100</u>	<u>331,000</u>	<u>165,550</u>	<u>165,500</u>
	<u>331,100</u>	<u>331,000</u>	<u>165,550</u>	<u>165,500</u>

* RM0.50

** 1 Special share

23.1 Special Share

The Special Share would enable the Penang State Government through State Secretary, Penang to ensure that certain major decisions affecting the operations of the Company are consistent with the Penang State Government's policies. The Special Share can only be held by State Secretary, Penang or its successor, or the Chief Minister or any person acting on behalf of the State Government of Penang.

The Special Shareholder is not entitled to any dividend or to participate in the capital distribution upon the dissolution of the Company but shall rank for repayment of the capital paid-up on the Special Share in priority to all other shares. The Special Shareholder may subject to the provisions of the Companies Act, 1965 require the Company to redeem the Special Share at par at any time. Other rights and restrictions attached to the Special Share are set out in Article 21 of the Company's Articles of Association.

23.2 Employees Share Option Scheme ("ESOS")

The Company ESOS is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 9 June 2005. The ESOS was implemented on 15 July 2005 and is to be in force for a period of 5 years from the date of implementation.

The salient features of the ESOS are as follow :

- (i) The Options Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible employees of the Group to subscribe for new ordinary shares of RM0.50 each in the Company.
- (ii) Subject to the discretion of the Options Committee, any employee whose employment has been confirmed and any executive directors holding office in a full-time executive capacity of the Group, shall be eligible to participate in the ESOS.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

- (iii) The total number of shares to be issued under the ESOS shall not exceed in aggregate 15% of the issued share capital of the Company at any point of time during the tenure of the ESOS and out of which not more than 50% of the shares shall be allocated, in aggregate, to directors and senior management. In addition, not more than 10% of the shares available under the ESOS shall be allocated to any individual director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of the Company.
- (iv) The option price for each share shall be the weighted average of the market price as quoted in the Daily Official List issued by Bursa Malaysia Securities Berhad for the 5 market days immediately preceding the date on which the option is granted less, if the Options Committee shall so determine at their discretion from time to time, a discount of not more than 10% or the par value of the shares of the Company of RM0.50 each.
- (v) The options shall become exercisable to the extent of the shares granted on each date of grant. The employees' entitlements to the options are vested as soon as they become exercisable.
- (vi) All new ordinary shares issued upon exercise of the options granted under the ESOS will rank pari passu in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their exercise dates.
- (vii) The persons to whom the options have been granted have no right to participate by virtue of the options, in any share issue of any other company.
- (viii) The total number of options offered under the ESOS shall not reduce the shareholding of the State Secretary, Penang in the Company to less than fifty-one percent (51%) of the issued and paid-up share capital of the Company at any point in time during the duration of the ESOS.

The terms of share options outstanding as at the end of the financial year are as follows :-

Grant Date	Expiry Date	Exercise Price per Ordinary Share RM	Number of Share Options			
			At 1 January 2005	Granted	Exercised	At 31 December 2005
27 July 2005	14 July 2010	1.29	-	6,528,200	99,800	6,428,400

Number of share options vested :

	2005	2004
At 31 December	99,800	-

Details of share options exercised during the financial year and the fair value, at exercise date, of ordinary shares issued are as follows :

Exercise Date	Exercise Price RM	Fair value of ordinary shares RM	Number of Share Options	Considerations Received RM
September 2005	1.29	1.40	89,100	114,939
October 2005	1.29	1.39	10,700	13,803
			99,800	128,742
Par value of ordinary shares				49,900
Share Premium				78,842

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

24. RESERVES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Distributable:				
Retained profits	154,339	133,502	22,434	11,904
Non-distributable:				
Share premium	161,836	161,757	161,836	161,757
Reserve on consolidation	53,780	53,780	-	-
	<u>369,955</u>	<u>349,039</u>	<u>184,270</u>	<u>173,661</u>

The Company has, pending agreement with the tax authorities, sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank by way of non tax-exempt dividends approximately RM6,305,000 (2004: RM2,948,000) of its distributable reserves as at 31 December 2005.

The Company has, pending agreement with the tax authorities, tax exempt income of approximately RM20,654,000 (2004: RM12,420,000) available for distribution as at 31 December 2005.

24.1 Analysis of retained profits

	Group	
	2005 RM'000	2004 RM'000
Retained by:		
The Company	22,434	11,904
Subsidiary	<u>131,905</u>	<u>121,598</u>
	<u>154,339</u>	<u>133,502</u>

24.2 The movements in share premium account were as follows:

	Group/Company	
	2005 RM'000	2004 RM'000
At 1 January	161,757	161,757
Issuance of shares pursuant to ESOS (Note 23.2)	79	-
At 31 December	<u>161,836</u>	<u>161,757</u>

During the year the Company issued 99,800 ordinary shares of RM0.50 each for cash pursuant to the Company ESOS at an exercise price of RM1.29 per ordinary share.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

25. DEFERRED TAX LIABILITIES

	Group	
	2005 RM'000	2004 RM'000
At 1 January	23,700	18,000
Recognised in the income statement (Note 6)	<u>1,770</u>	<u>5,700</u>
At 31 December	<u>25,470</u>	<u>23,700</u>
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	47,881	41,457
Deferred tax assets	<u>(22,411)</u>	<u>(17,757)</u>
	<u>25,470</u>	<u>23,700</u>

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities:

	Property, Plant and Equipment RM'000	Contribution for Trunk Mains RM'000	Total RM'000
At 1 January 2005	36,068	5,389	41,457
Recognised in the income statement	<u>6,487</u>	<u>(63)</u>	<u>6,424</u>
At 31 December 2005	<u>42,555</u>	<u>5,326</u>	<u>47,881</u>
At 1 January 2004	27,865	5,400	33,265
Recognised in the income statement	<u>8,203</u>	<u>(11)</u>	<u>8,192</u>
At 31 December 2004	<u>36,068</u>	<u>5,389</u>	<u>41,457</u>

Deferred Tax Assets:

	Accumulating Compensated Absences RM'000	Retirement Benefit Obligations RM'000	Unutilised Reinvestment Allowances RM'000	Total RM'000
At 1 January 2005	(153)	(3,419)	(14,185)	(17,757)
Recognised in the income statement	<u>153</u>	<u>(841)</u>	<u>(3,966)</u>	<u>(4,654)</u>
At 31 December 2005	<u>-</u>	<u>(4,260)</u>	<u>(18,151)</u>	<u>(22,411)</u>
At 1 January 2004	(173)	(1,984)	(13,108)	(15,265)
Recognised in the income statement	<u>20</u>	<u>(1,435)</u>	<u>(1,077)</u>	<u>(2,492)</u>
At 31 December 2004	<u>(153)</u>	<u>(3,419)</u>	<u>(14,185)</u>	<u>(17,757)</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

26. STAFF COST

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Wages and salaries	31,897	30,047	333	153
Social security costs	409	346	-	-
Short-term accumulating compensated absences	77	(72)	-	-
Pension costs - defined contribution plan	3,327	3,190	43	19
Pension costs - defined benefit plan (Note 21)	3,818	5,619	115	-
Other staff related expenses	3,812	3,690	43	14
	<u>43,340</u>	<u>42,820</u>	<u>534</u>	<u>186</u>

The number of employees in the Group and in the Company at the end of the financial year were 1,042 (2004: 1,025) and 8 (2004: 3) respectively.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS

No disclosure of related party transactions is required in the financial statements of state-controlled enterprises of transactions with other state-controlled enterprises as permitted by FRS 124 - Related Party Disclosures.

28. CAPITAL COMMITMENTS

	Group	
	2005 RM'000	2004 RM'000
Contracted but not provided for	<u>89,000</u>	<u>76,000</u>
Approved but not contracted for	<u>515,000</u>	<u>37,000</u>

29. CONTINGENT LIABILITIES (UNSECURED)

	Group/Company	
	2005 RM'000	2004 RM'000
Corporate guarantee given to a bank in respect of credit facilities granted to an associate	<u>890</u>	<u>926</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

30. LICENCE

The State Government of Penang has extended the operating licence of the wholly owned subsidiary, Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP) for a period of 5 years commencing from 1 January 2006 to 31 December 2010. The licence is granted by the State Government of Penang via Jabatan Bekalan Air Pulau Pinang to PBAPP to operate and maintain the Penang State's water supply system.

31. SEGMENTAL REPORTING

Based on risks and returns, the directors consider that the primary reporting format is by business segments. The directors further consider that there is only one business segment and one geographical segment being to abstract raw water, treat, supply and distribute water in the state of Penang. Hence, required segmental information has already been disclosed in the financial statements.

32. FINANCIAL INSTRUMENTS

a) Financial Risk Management Objectives and Policies

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

b) Interest Rate Risk

The Group's primary interest rate risk relates to fixed deposits placed with licensed banks and licensed finance companies as at 31 December 2005. The investment in financial assets are mainly short term in nature and have been mostly placed in fixed deposits or occasionally, in short term commercial papers which yield better returns than cash at bank.

The Group manages its interest rate exposure by maintaining a fixed rate borrowings which were obtained from the State Government of Penang and by placing the fixed deposits on varying maturity and interest rate terms.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes to the financial statements.

c) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. The Group raises committed funding from the State Government of Penang.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

d) Credit Risk

Credit risk comprises the risk of counterparties defaulting and the risk associated with the fixed deposits placed with financial institutions. The risk of counterparties defaulting is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via deposits received from consumers and notices sent to consumers 7 days after due date for settlement of debt. Trade receivables are monitored on an ongoing basis via Group management reporting procedures. The risk associated with the fixed deposits placed with financial institutions is managed by placing the fixed deposits with financial institutions with good credit rating.

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

e) Fair Values

The carrying amounts of the financial assets and liabilities are stated at cost but not fair value on the balance sheets of the Group and of the Company as at the end of the financial year as follows:

	Note	Group		Company	
		Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
As at 31 December 2005:					
Investment in quoted shares	12	21,625	21,625	-	-
Term loans (unsecured)	22	150,340	97,717	-	-
Amount due by a subsidiary	16	-	-	68,353	*
Amount due by an associate	17	4,956	*	4,956	*
As at 31 December 2004:					
Investment in quoted shares	12	26,243	27,715	-	-
Term loans (unsecured)	22	144,111	95,690	-	-
Amount due by a subsidiary	16	-	-	60,612	*
Amount due by an associate	17	2,613	*	2,613	*

* It is not practical to estimate the fair value of amount due by a subsidiary and an associate due principally to lack of fixed repayment terms entered by the parties involved and without incurring excessive cost.

The nominal/notional amount and net fair value of financial instrument not recognized in the balance sheet of the Group and of the Company as at the end of the financial year is as follows:

	Note	Group/Company 2005		Group/Company 2004	
		Nominal/ Notional Amount RM'000	Net Fair Value RM'000	Nominal/ Notional Amount RM'000	Net Fair Value RM'000
Contingent Liabilities (unsecured)	29	890	#	926	#

It is not practical to estimate the fair value of contingent liabilities reliably due to uncertainties of timing, cost and eventual outcome.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31 DECEMBER 2005

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

i. Cash and Cash Equivalents and Trade and Other Receivables/Payables

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

ii. Investments

The fair value of quoted shares is determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

33. COMPARATIVES

Certain comparative figures have been reclassified to conform with current year's presentation.

ANALYSIS OF SHAREHOLDINGS

AS AT 10 APRIL 2006

Authorised Capital	: RM500,000,001
Issued and Fully Paid-Up Capital	: RM165,554,851
Class of Equity Securities	: Comprising of 331,109,701 Ordinary Shares of RM0.50 each and 1 Special Rights Redeemable Preference Share of RM0.50
Voting Rights	: 1 vote per ordinary share

Distribution Schedule of Shareholders

No. of Holders	Holdings	Total Shareholdings	%
2	Less than 100	100	0.00
8,204	100 - 1,000	8,175,300	2.47
2,134	1,001 - 10,000	8,115,100	2.45
307	10,001 to 100,000 shares	7,988,300	2.41
50	100,001 to less than 5% of issued shares	65,204,800	19.69
3	5% and above of issued shares	241,626,101	72.98
10,700		331,109,701*	100.00

List of the 30 Largest Securities Account Holders

No.	Name	No. of Shares Held	%
1	State Secretary, Penang	182,050,001*	54.98
2	Perbadanan Pembangunan Pulau Pinang	33,100,000	10.00
3	Employees Provident Fund Board	26,476,100	8.00
4	HDM Nominees (Tempatan) Sdn Bhd <i>HDM Capital Sdn Bhd For Yayasan Bumiputera Pulau Pinang Berhad</i>	13,567,900	4.10
5	Alliancegroup Nominees (Tempatan) Sdn Bhd <i>Pheim Asset Management Sdn Bhd For Employees Provident Fund</i>	7,875,800	2.38
6	Valuecap Sdn Bhd	4,477,800	1.35
7	BHLB Trustee Berhad <i>Prugrowth Fund</i>	3,913,700	1.18
8	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For Prudential Equity Income Fund</i>	3,878,500	1.17
9	Permodalan Nasional Berhad	3,756,700	1.13
10	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For Prudential Dynamic Fund</i>	3,190,000	0.96
11	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Amanah Saham Didik</i>	1,991,900	0.60
12	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For OSK-UOB Small Cap Opportunity Unit Trust</i>	1,706,500	0.52
13	Citigroup Nominees (Asing) Sdn Bhd <i>CBNY For DFA Emerging Markets Fund</i>	1,502,500	0.45
14	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For Hwang-DBS Select Small Caps Fund</i>	1,500,000	0.45
15	Cartaban Nominees (Tempatan) Sdn Bhd <i>Meridian Asset Management Sdn Bhd For Malaysian Assurance Alliance Bhd</i>	1,426,700	0.43
16	Malaysia Nominees (Tempatan) Sendirian Berhad <i>Great Eastern Life Assurance (Malaysia) Berhad</i>	1,400,000	0.42
17	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Trustees Berhad For MAAKL Balanced Fund</i>	1,207,400	0.36
18	Cimsec Nominees (Tempatan) Sdn Bhd <i>CIMB-Principal Asset Management Berhad For Pensions Trust Fund Council</i>	1,151,400	0.35

ANALYSIS OF SHAREHOLDINGS - CONTINUED

No.	Name	No. of Shares Held	%
19	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For OSK-UOB Kidsave Trust</i>	1,000,000	0.30
20	Cartaban Nominees (Tempatan) Sdn Bhd <i>Malaysian Assurance Alliance Bhd For Annuity Par</i>	957,400	0.29
21	BHLB Trustee Berhad <i>Prusmall-Cap Fund</i>	896,700	0.27
22	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For Prudential Dana Al-Ilham</i>	799,100	0.24
23	Amanah Raya Nominees (Tempatan) Sdn Bhd <i>Skim Amanah Saham Bumiputera</i>	773,300	0.23
24	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Trustees Berhad For MAAKL Value Fund</i>	705,000	0.21
25	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For MAAKL Al-Faid</i>	636,200	0.19
26	Mayban Nominees (Tempatan) Sdn Bhd <i>Mayban Trustees Berhad For MAAKL Equity Index Fund</i>	629,000	0.19
27	AMMB Nominees (Tempatan) Sdn Bhd <i>Amtrustee Berhad For Apex Dana Al-Sofi-I</i>	551,000	0.17
28	Lim Kim Poh	526,000	0.16
29	BHLB Trustee Berhad <i>Prubalanced Fund</i>	500,000	0.15
30	HSBC Nominees (Tempatan) Sdn Bhd <i>HSBC (M) Trustee Bhd For MAAKL Equity 80 Fund</i>	475,900	0.14

SUBSTANTIAL SHAREHOLDERS

(excluding those who are bare trustees pursuant to Section 69 of the Companies Act, 1965)

Name of Substantial Shareholders	No of Ordinary Shares of RM0.50 each beneficially held			
	Direct Interest	%	Indirect Interest	%
State Secretary, Penang	182,050,001*	54.98	-	-
Perbadanan Pembangunan Pulau Pinang	33,100,000	10.00	-	-
Employees Provident Fund Board	26,476,100	8.00	-	-

DIRECTORS' SHAREHOLDINGS

Name of Directors	No of Ordinary Shares of RM0.50 each beneficially held			
	Direct Interest	%	Indirect Interest	%
Y.A.B. Tan Sri Dr. Koh Tsu Koon	-	-	-	-
Y.B. Dato' Haji Abd Rashid bin Abdullah	-	-	-	-
Y.B. Dato' Koay Kar Huah	-	-	-	-
Y.B. Dato' Jamaludin bin Hasan	-	-	-	-
Y.B. Dato' Hinshawati binti Shariff	-	-	-	-
Y.B. Dato' Ng Kam Cheung	-	-	-	-
Y. Bhg. Dato' Chew Kong Seng	-	-	-	-
Y. Bhg. Dato' Dr. SHANmughalingam A/L Murugasu	-	-	-	-
Y. Bhg. Dato' Haji Adlan bin Hj Mohamed Daud	-	-	-	-

Note

* Not inclusive 1 Special Rights Redeemable Preference Share of RM0.50 which is not listed on the Bursa Malaysia Securities Berhad

PROPERTIES OF THE GROUP

PROPERTY	LOT NO.	LOCATION (MUKIM, BANDAR/ DAERAH)	TYPE	TENURE	LAND AREA HECTARE	COST AS AT 31 DECEMBER 2005 RM'000
Air Itam Reservoir & Treatment Plant	212	Sect. 1, Air	Reservoir &	In perpetuity	5.749	
	213	Itam, DTL	Treatment	"	0.511	
	655	"	Plant	"	0.863	
	986	"		"	1.249	
					8.372	1,438
Bukit Dumbar Reservoir	144	Sect. 4,	Reservoir	In perpetuity	5.623	
	646	Jelutong, DTL		"	8.802	
	658	"		"	2.430	
	659	"		"	0.289	
	661	"		"	0.930	
					18.074	12,708
Waterfall Waterworks	260	18, DTL	Treatment Plant	99 yrs leasehold	2.125	
					2.125	135
Guillemard Reservoir & Treatment Plant	3780	18, DTL	Reservoir	In perpetuity	4.048	
	3781	"	& Treatment	"	22.87	
	Geran:52773 PBAPP		Plant		26.918	509
Sg Klean, Sg Kechil & Teluk Tikus Catchment	229	17, DTL	Treatment Plant /	In perpetuity	120.090	
	218	18, DTL	Catchment	"	42.391	
					162.481	8
Aquaduct Road & Access	228	17, DTL	Catchment	In perpetuity	22.839	
	1	"		"	3.642	
	234	"		"	11.888	
	440	"		"	0.560	
					38.929	28
3V's Access	197	2, DBD	Catchment	In perpetuity	4.550	
	724	"		"	0.491	
	729	"		"	1.610	
	730	"		"	0.399	
	731	"		"	0.099	
	PT21	"		"	0.096	
	PT22	"		"	0.009	
	PT23	"		"	0.015	
	418	17,DTL		99 yrs leasehold	0.152	
	233	"		In perpetuity	1.184	
					8.605	-
Batu Ferringhi Quarters, Bungalow & Treatment Plant	443	17, DTL	Quarters & Treatment Plant	In perpetuity	10.294	
					10.294	83,110

PROPERTIES OF THE GROUP - CONTINUED

PROPERTY	LOT NO.	LOCATION (MUKIM, BANDAR/ DAERAH)	TYPE	TENURE	LAND AREA HECTARE	COST AS AT 31 DECEMBER 2005 RM'000
Balik Pulau Office & Store	PT123	4, DBD	Office, Quarters & Workshop	In perpetuity	0.347 <u>0.347</u>	348
Sungai Pinang Reservoir	266	3, DBD	Reservoir & Treatment Plant	In perpetuity	1.740 <u>1.740</u>	2,159
Level 33, KOMTAR	PTTL/A/255	Sect. 17, Georgetown, DTL	Office	99 yrs leasehold	0.137 <u>0.137</u>	3,586
Tiger Hill Waterworks	400	17, DTL	Pumphouse & Quarters	99 yrs leasehold	-	12
Sg Nibong Reservoir	PT1238	12, DBD	Reservoir	99 yrs leasehold	0.580 <u>0.580</u>	1,203
Mengkuang Dam & Quarters	1161	18, SPT	Quarters	In perpetuity	3.608 <u>3.608</u>	46
Sungai Dua Treatment Plant	2394 2395	11, SPU "	Treatment Plant	99 yrs leasehold "	1.441 13.149 <u>14.590</u>	70,405
Prai Intake/Sg. Perai pumping station	-	11, SPU	Intake	In perpetuity	1.325 <u>1.325</u>	5,344
Berapit Pumphouse	PT22 PT23	Sect. 1, Bkt M'jam, SPT	Pumphouse	99 yrs leasehold "	0.046 0.153 <u>0.199</u>	-
Bukit Toh Allang Treatment Plant & Reservoir	469 471 475	13, SPU " "	Treatment Plant & Reservoir	99 yrs leasehold " "	4.672 6.705 1.143 <u>12.520</u>	1,512
Barrage, Rantau Panjang	553 554 964 965 968 969 972 973 974 976 977 978 994 1822 3046 3048	2, SPU " " " " " " " " " " " " " " "	Barrage	99 yrs leasehold " " " " " " " " " " " " " " "	0.324 0.190 - 0.478 0.289 0.281 0.351 0.788 0.325 0.166 1.419 1.677 - 0.498 - -	-

PROPERTIES OF THE GROUP - CONTINUED

PROPERTY	LOT NO.	LOCATION (MUKIM, BANDAR/ DAERAH)	TYPE	TENURE	LAND AREA HECTARE	COST AS AT 31 DECEMBER 2005 RM'000
Barrage, Rantau Panjang	3050	"	Barrage	"	-	
	3052	"		"	-	
	3053	"		"	-	
	3054	"		"	-	
	3055	"		"	-	
	3056	"		"	-	
	3057	"		"	-	
	3058	"		"	-	
	3059	"		"	0.981	
	3060	"		"	0.159	
	3061	"		"	2.471	
	3063	"		"	-	
	3064	"		"	-	
	3065	"		"	0.169	
	3066	"		"	0.173	
	3067	"		"	0.862	
	3251	"		"	0.439	
	3252	"		"	0.396	
	PT1577	"		"	-	
	PT3334	"		"	-	
	PT3335	"		"	-	
	PT3336	"		"	-	
					21.146	1,433
Canal Pumping Station, Lahar Yooi	2456	11, SPU	Canal	99 yrs leasehold	0.553	
	2457	"	Pumping	"	0.499	
	PT778	"	Station	In perpetuity		
	PT779	"		"		
	PT2838	"		"		
	PT2840	"		"		
	PT2841	"		"	0.438	
	PT2842	"		"		
	PT2843	"		"		
	PT2844	"		"		
	PT2846	"		"		
					1.490	44
Mak Sulong Pumping Station	1608	20, SPT	Pumping	99 yrs leasehold	1.400	
	1609	"	Station	"	3.154	
					4.554	154
Bukit Indera Muda Reservoir	927	3, SPT	Reservoir	99 yrs leasehold		
	928	"		"	2.959	
	1113	"		"	2.970	
					0.859	
					6.788	2,301

PROPERTIES OF THE GROUP - CONTINUED

PROPERTY	LOT NO.	LOCATION (MUKIM, BANDAR/ DAERAH)	TYPE	TENURE	LAND AREA HECTARE	COST AS AT 31 DECEMBER 2005 RM'000
Sg Nyior Store & Quarters	839	Sect. 4, Butterworth, SPU	Store & Quarters	99 yrs leasehold	0.487 <hr/> 0.487	199
Bukit Mertajam Treatment Plant	724 852 1773	Sect. 6, SPT 17, SPT "	Treatment Plant	99 yrs leasehold " "	2.444 4.070 <hr/> 0.647 <hr/> 7.161	884
Bukit Pancur Treatment Plant & Quarters	395 396 843 847 906 907 961	8, SPS " " " " " "	Treatment Plant & Quarters	99 yrs leasehold " " " " " "	 <hr/> 448.465 <hr/> 448.465	3,938
Lahar Tiang Pumping Station	419(1) 42(2) 419(2)	3, SPU " "	Pumphouse	99 yrs leasehold " "	 <hr/> 2.910 <hr/> 2.910	31
Taman Selat Office, Butterworth	2603	Sect. 4, B'worth, SPU	Office	In perpetuity	0.017 <hr/> 0.017	977
Sg Bakap Reservoir	PT30	12, SPS	Reservoir	99 yrs leasehold	0.116 <hr/> 0.116	95
Sg Kechil Intake	PT676	8, SPS	Intake	In perpetuity	0.158 <hr/> 0.158	54
Permatang Tinggi	PT1249	14, SPT	Pumphouse	In perpetuity	0.034 <hr/> 0.034	7
Jawi Reservoir	PT453 PT454 PT874	5, SPS " "	Reservoir	In perpetuity " "	0.951 1.890 <hr/> 0.291 <hr/> 3.132	1,746
Seberang Jaya Office	PT340	1, SPT	Office	99 yrs leasehold	1.213 <hr/> 1.213	1,698
Kampung Paya	665	Sect. 2, B'worth, SPU	Land	99 yrs leasehold	0.186 <hr/> 0.186	8
Jawi Office & Store	4953 4954	11, SPS "	Office/Store	99 yrs leasehold "	1.071 5.920 <hr/> 6.991	6,416
Chain Ferry Quarters	510	Sect. 4, B'worth, SPU	Quarters	99 yrs leasehold	0.225 <hr/> 0.225	6
Taman Pelangi Quarters	PT2974	11, SPT	Quarters	99 yrs leasehold	2.954 <hr/> 2.954	1,765

PROPERTIES OF THE GROUP - CONTINUED

PROPERTY	LOT NO.	LOCATION (MUKIM, BANDAR/ DAERAH)	TYPE	TENURE	LAND AREA HECTARE	COST AS AT 31 DECEMBER 2005 RM'000
Kepala Batas Office, Bertam	PT2462	6, SPT	Office	99 yrs leasehold	1.262	1,323
Bkt Tok Kangar Reservoir	PT1020 PT1023 PT1024 PT1344	12, SPT " " "	Reservoir	In perpetuity " " "	8.831 0.723 0.034 0.270	-
Pipe Yard	PT1573	1. Prai Ind. Est., SPT	Store	99 yrs leasehold	1.296	173
Prai Elevated Storage Tank	76	Prai, SPT	Water Tank	99 yrs leasehold	0.166	-
Jalan Thamby Kecil Quarters & Stores & Elevated Storage Tank, Bagan Ajam	697 1336	Sect. 1 B'worth, SPU 14, Bagan Ajam	Water tank & Quarters	99 yrs leasehold "	0.186 -	4
Penaga Booster Pumping Station	PT1047	4, SPU	Pumphouse	99 yrs leasehold	0.258	5
Pulau Aman Booster Pumping Station	103	16, SPS	Pumphouse	In perpetuity	0.747	-
Pipeline Reserve for 1445 mm MS mains from Sg Perai to Kpg Teluk Sg Dua	1142 1143 2993 2994 1145 1146	16, SPU " " " " "	Pipeline reserve	99 yrs leasehold " " " "	0.179 0.185 0.034 0.031 0.135 0.211	351
Pipeline Reserve for 57" raw water mains (Mengkuang Scheme)	PT227(1)	13, SPU	Pipeline reserve	99 yrs leasehold	1.821	10
Pipeline Reserve for 1445 mm mains Kg Teluk Sg Dua to Jln Heng Choon Thian	538	2, SPT	Pipeline reserve	99 yrs leasehold	0.132	6
Perai Store Workshop & Office	Plot 12 (part)	6, Kaw. Prai IV, SPT	Store Workshop & Office	99 yrs leasehold	1.214	8,111

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Sixth (6th) Annual General Meeting of PBA Holdings Bhd. (or "the Company") will be held at Equatorial Hotel, 1, Jalan Bukit Jambul, Bayan Lepas, 11900, Penang on Thursday, 1 June 2006 at 10.00 a.m. for the following purposes:-

AGENDA

1. To receive the audited financial statements for the financial year ended 31 December 2005 together with the reports of the Directors' and Auditors' Report thereon. **Resolution 1**
2. To re-elect the following Directors who are retiring in accordance with Article 114 of the Company's Articles of Association and are offering themselves for re-election.
 - a) Y.A.B. Tan Sri Dr Koh Tsu Koon **Resolution 2**
 - b) Y.Bhg. Dato' Chew Kong Seng **Resolution 3**
 - c) Y.Bhg. Dato' Dr. M. SHANmughalingam A/L Murugasu **Resolution 4**
3. To approve the declaration of a final dividend of 7% less 28% income tax for the financial year ended 31 December 2005. **Resolution 5**
4. To re-appoint Messrs Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. **Resolution 6**

AS SPECIAL BUSINESS:-

5. To consider and if thought fit, to pass the following resolutions with or without modification:-
 - (i) **Ordinary Resolution: -**
Authority for the Directors to issue and allot shares pursuant to Section 132 D of the Companies Act, 1965

"**That** subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental / regulatory authorities, the Directors be and are hereby authorised, pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed 10 percentum of the issued share capital of the Company for the time being and that the Directors are also empowered to obtain the approval from the Bursa Malaysia Securities Berhad ("the Bursa Securities") for the listing and quotation for the additional shares to be issued"

Resolution 7

- (ii) **Special Resolution:-**
Proposed Amendments to the Articles of Association of the Company

"**That** the following new Article 117A be inserted immediately after the existing Articles 117 of the Company's Articles of Association: -

117A The Directors or members of a committee of Directors (as the case may be) may participate in a meeting of Directors or a committee of Directors (as the case may be) by means of conference telephone, conference videophone or any similar with other communication equipment by means of which all persons participating in the meeting can hear each other. Such participation in a meeting shall constitute presence in person at such meeting (directly or by telephone communication) to speak and be heard by each of the other committee members present, shall be deemed to be present in person at such meeting and shall be entitled to vote or be counted in the quorum accordingly."

Resolution 8

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN that a final dividend of 7% less 28% income tax in respect of the financial year ended 31 December 2005, if approved by members of the Company, will be paid on 21 July 2006. The entitlement date for the dividend payment is 30 June 2006.

A Depositor shall qualify for entitlement only in respect of:-

- (a) Shares transferred to the Depositor's Securities Account before 4.00 p.m. on 30 June 2006 in respect of ordinary transfers;
- (b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

By Order of the Board

THUM SOOK FUN
(MAICSA 7025619)
Company Secretary

Dated: 10 May 2006

Explanatory Note to Special Business

- (i) *Resolution No. 7 for the authority the Directors to issue and allot shares pursuant to Section 132D of the Companies Act, 1965*

The proposed adoption of Resolution No. 7 is primarily to give flexibility to the Board of Directors to issue and allot shares at any time in their absolute discretion without convening a general meeting. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company, or the expiration of period within which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

- (ii) *Resolution No. 8 for the proposed amendments to the Articles of Association of the Company*

The proposed adoption of Resolution No. 8 is mainly to give flexibility for the Company to convene a meeting of Directors or a committee of Directors (as the case may be), in which the Director (s) may participate in a meeting of Directors' or a committee of Directors (as the case may be) by means of conference telephone, conference videophone or any similar communication equipment by means of which all persons participating in the meeting can hear each other. This will give some flexibility for Directors who are not able to attend the meeting in person, to participate in Company's board/committee meeting and also to ease them to meet the requisite 50% attendance of the meetings to be held in a financial year as imposed by paragraph 7.29 of the Listing Requirements of the Bursa Securities.

Notes :

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149 (1) (b) of the Companies Act, 1965 shall not apply to the Company. In the case where a Member is an Authorised Nominee as defined under the Securities Industry (Central Depository) Act 1991, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
2. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he or she specifies the proportion of his or her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the Company's registered office at 32nd Floor, Komtar, 10000 Pulau Pinang, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

DIRECTORS STANDING FOR RE-ELECTION

The Directors standing for re-election at the 6th Annual General Meeting of the Company to be held at Equatorial Hotel, 1, Jalan Bukit Jambul, Bayan Lepas, 11900, Penang on Thursday, 1 June 2006 at 10.00 a.m. are as follows:-

Name of Director	Details of attendance at Board meetings held during the financial year ended 31 December 2005	Details of individual Directors and other disclosure requirements
Y.A.B. Tan Sri Dr. Koh Tsu Koon	Attended all five (5) Board Meetings.	Refer to page 18 and 88 of the Annual Report
Y.Bhg. Dato' Chew Kong Seng	Attended all five (5) Board Meetings.	Refer to page 21 and 88 of the Annual Report
Y.Bhg. Dato' Dr. M. SHANmughalingam A/L Murugasu	Attended all five (5) Board Meetings.	Refer to page 22 and 88 of the Annual Report

PROXY FORM

No. of Shares held

I / We _____ NRIC No. _____
(block letters)

of _____
(full address)

being a member of **PBA Holdings Bhd. (Company No. 515119-U)** hereby appoint _____

of _____

or failing him, _____ of _____ or failing him, the Chairman of the Meeting as *my/our proxy to vote for *me/us on *my/our behalf at the Sixth (6th) Annual General Meeting of the Company to be held at Equatorial Hotel, 1, Jalan Bukit Jambul, Bayan Lepas, 11900, Penang on Thursday, 1 June 2006 at 10.00 a.m. and at any adjournment thereof.

*My / Our proxy is to vote as indicated below:

No.	Resolutions	For	Against
1	To receive the audited financial statements for the financial year ended 31 December 2005 together with the reports of the Directors' and Auditors' Report thereon.		
2	To re-elect Y.A.B. Tan Sri Dr Koh Tsu Koon who is retiring pursuant to Article 114 of the Company's Articles of Association.		
3	To re-elect Y.Bhg. Dato' Chew Kong Seng who is retiring pursuant to Article 114 of the Company's Articles of Association.		
4	To re-elect Y.Bhg. Dato' Dr. M. SHANmughalingam A/L Murugasu who is retiring pursuant to Article 114 of the Company's Articles of Association.		
5	To approve the declaration of a final dividend.		
6	To re-appoint Messrs Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorize the Directors to fix their remuneration.		
AS SPECIAL BUSINESS			
7	Ordinary Resolution - To authorise the Directors to issue and allot shares pursuant to Section 132D of the Companies Act, 1965.		
8	Special Resolution - To approve the Proposed Amendments to the Articles of Association of the Company		

* Strike out whichever not applicable

Please indicate your vote by a (/) in the respective box of each resolution. Unless voting instructions are indicated in the space above, the proxy will vote or abstain from voting as he/she thinks fit.

As witness *my/our hand(s) this _____ day of _____, 2006.

Signature of Member / Common Seal

Notes:-

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than two (2) proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provisions of Section 149 (1) (b) of the Companies Act, 1965 shall not apply to the Company. In the case where a Member is an Authorised Nominee as defined under the Securities Industry (Central Depository) Act 1991, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
2. Where a member appoints two (2) or more proxies, the appointments shall be invalid unless he or she specifies the proportion of his or her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy must be deposited at the Company's registered office at 32nd Floor, Komtar, 10000 Pulau Pinang, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.
5. Any alteration in this form must be initialed.

Please fold across the line and close

stamp

The Company Secretary

PBA Holdings Bhd (515119-U)

32nd Floor, Komtar, Penang Road, 10000 Pulau Pinang.

Please fold across the line and close



Level 32, Komtar, Jalan Penang,
10000 Pulau Pinang, Malaysia.
Tel : 604-263 3736
Fax : 604-263 3735
Website : <http://www.pba.com.my>

