THIS INDEPENDENT ADVICE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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PUNCAK NIAGA HOLDINGS BERHAD

(Company No.: 416087-U)
(Incorporated in Malaysia)

INDEPENDENT ADVICE CIRCULAR TO THE SHAREHOLDERS OF PUNCAK NIAGA HOLDINGS BERHAD IN RELATION TO THE FOLLOWING:-

(I) PROPOSED DISPOSAL BY PUNCAK NIAGA HOLDINGS BERHAD OF THE ENTIRE EQUITY INTEREST AND CUMULATIVE CONVERTIBLE REDEEMABLE PREFERENCE SHARES HELD IN PUNCAK NIAGA (M) SDN BHD TO PENGURUSAN AIR SELANGOR SDN BHD (FORMERLY KNOWN AS TEMASEK TIASA SDN BHD)

(II) PROPOSED DISPOSAL BY PUNCAK NIAGA HOLDINGS BERHAD OF 70.00% EQUITY INTEREST HELD IN SYARIKAT BEKALAN AIR SELANGOR SDN BHD AND RM212.0 MILLION NOMINAL VALUE OF REDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS TO PENGURUSAN AIR SELANGOR SDN BHD (FORMERLY KNOWN AS TEMASEK TIASA SDN BHD)

(COLLECTIVELY REFERRED TO AS "PROPOSED DISPOSALS")

Independent Adviser

KAF INVESTMENT BANK BERHAD (20657-W)

This Independent Advice Circular is dated 19 December 2014

DEFINITIONS

In this Independent Advice Circular and the accompanying appendix, the following abbreviations shall have the following meanings unless otherwise stated:-

Air Selangor	:	Pengurusan Air Selangor Sdn Bhd *(formerly known as Temasek Tiasa Sdn Bhd)*
BAIDs	:	RM1,020,000,000 10-Year Al-Bai' Bithaman Ajil Islamic Debt Securities Primary Bonds together with Non-Detachable Secondary Bonds issued by PNSB with coupon ranging from 5.30% to 5.60% per annum and a final maturity date of 27 October 2016
BAMTN	:	RM2,125,000,000 Bai Bithaman Ajil Medium Term Notes issued by SYABAS with coupon ranging from 3.00% to 8.24% per annum and a final maturity date of fifteen years from 31 October 2008
Bcm	:	Billion cubic metres
Board	:	Board of directors of PNHB
Bpd	:	Barrel per day
Bursa Securities	:	Bursa Malaysia Securities Berhad
CA Related Business	:	The operations and business carried on by PNSB in connection with the PNSB Concession Agreements
CAPM	:	Capital Asset Pricing Model
Cash Flow Projections	:	PNSB Cash Flow Projections and SYABAS Cash Flow Projections, collectively
Circular	:	Circular to the shareholders of the Company in relation to the Proposed Disposals dated 16 December 2014
Code	:	Malaysian Code on Take-overs and Mergers 2010 and any amendments from time to time
CPO	:	Crude palm oil
DCF	:	Discounted cash flow
DCF Method	:	Discounted cash flow method of valuation
Disposal Consideration	:	The PNSB Disposal Consideration and SYABAS Disposal Consideration, collectively
EBITDA	:	Earnings before interest, tax, depreciation and amortisation
EGM	:	Extraordinary General Meeting

DEFINITIONS

EPS	:	Earnings per share
EV	:	Enterprise value
FBM 100	:	FTSE Bursa Malaysia Top 100 Index
FCFF	:	Free cash flow to firm
Federal Government	:	Government of Malaysia
FFB	:	Fresh fruit brunch
FPE	:	Financial period ended
FYE	:	Financial year ended or ending, as the case may be
HLIB or Principal Adviser	:	Hong Leong Investment Bank Berhad, the Principal Adviser for the Proposed Disposals
IAC	:	Independent Advice Circular to the shareholders of the Company dated 19 December 2014 in relation to the Proposed Disposals
Independent Valuer	:	Moore Stephens Associates PLT
JNA	:	RM328,125,000 2001/2016 15-Year Redeemable Unconvertible Junior Notes issued by PNSB with coupon of 5.68% per annum and a final maturity date of 20 November 2019
KAF Investment or Independent Adviser	:	KAF Investment Bank Berhad, the Independent Adviser for the Proposed Disposals
KDEB	:	Kumpulan Darul Ehsan Berhad
KPS	:	Kumpulan Perangsang Selangor Berhad
LAT	:	Loss after tax
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities, as amended from time to time
LNG	:	Liquefied natural gas
LPD	:	28 November 2014, being the latest practicable date prior to the printing of this IAC
LPS	:	Loss per share
LUAS	:	Lembaga Urus Air Selangor
MBI	:	Menteri Besar Selangor (Incorporated)

DEFINITIONS

MGS	:	Malaysian Government Securities
NA	:	Net assets
NKEA	:	National key economic areas, consisting twelve areas that were jointly identified by the private and public sectors to kick-start the Economic Transformation Programme, which include financial services, tourism, education, agriculture, communications content and infrastructure, palm oil and rubber, healthcare, wholesale and retail, electronics and electrical, oil, gas and energy, business services and greater Kuala Lumpur/Klang Valley
OER	:	Oil extraction rate
OPEC	:	Organisation of the Petroleum Exporting Countries
PAAB	:	Pengurusan Aset Air Berhad
PAT	:	Profit after tax
PB	:	Price-to-book
PBT	:	Profit before tax
PE	:	Price-to-earnings
PETRONAS	:	Petroliam Nasional Berhad
PN16	:	Practice Note 16 of the Listing Requirements
PN17	:	Practice Note 17 of the Listing Requirements
PNHB or Company	:	Puncak Niaga Holdings Berhad
PNHB Group or Group	:	PNHB and its subsidiary companies, collectively
PNHB Share(s)	:	Ordinary share(s) of RM1.00 each in PNHB
PNSB	:	Puncak Niaga (M) Sdn Bhd
PNSB Cash Flow Projections	:	The estimate, forecast and projected statements of cash flows of PNSB for its water concession business from FYE 31 December 2014 to FYE 31 December 2034 as provided by the management of PNSB and as adopted by the Board
PNSB CCRPS	:	48,000,000 cumulative convertible redeemable preference shares of RM0.10 each in PNSB

DEFINITIONS

PNSB CCRPS Disposal Consideration	:	Cash consideration of RM48.0 million, being the disposal consideration for the proposed disposal by PNHB to Air Selangor of the PNSB CCRPS
PNSB Concession Agreements or CA	:	The agreements entered into between PNSB and the State Government (including all amendments and supplementary agreements mutually agreed to in writing):- (i) Privatisation Cum Concession Agreement dated 22 September 1994; (ii) Wangsa Maju Water Treatment Plant Concession Agreement dated 31 December 2004; (iii) Construction Cum Operation Agreement dated 22 March 1995; (iv) Sg Sireh Water Treatment Plant Operation & Maintenance Agreement dated 7 March 2008; and (v) Sg Lolo Water Treatment Plant (Extension) Operation & Maintenance Agreement dated 16 August 2007; including all rights connected to the Bernam River Headworks (Baru) water treatment plant as granted by SPAN or any other public authority
PNSB Disposal Consideration	:	PNSB Shares Disposal Consideration and PNSB CCRPS Disposal Consideration, collectively
PNSB Fair Value	:	The fair value of the entire equity interest in PNSB (specific to its water concession business in the State of Selangor) comprising PNSB Shares and PNSB CCRPS based on the PNSB Valuation Letter of the Independent Valuer
PNSB Shares	:	10,000,000 ordinary shares of RM1.00 each in PNSB
PNSB Shares Disposal Consideration	:	Cash consideration of RM1,069.5 million, being the disposal consideration for the proposed disposal by PNHB to Air Selangor of the PNSB Shares
PNSB Valuation Letter	:	Valuation letter dated 15 December 2014 in respect of the independent valuation conducted by the Independent Valuer in determining the PNSB Fair Value
PRC	:	The People’s Republic of China
Proposed Disposals	:	Proposed PNSB Disposal and Proposed SYABAS Disposal, collectively

DEFINITIONS

Proposed Distribution	:	Proposed distribution of a minimum amount of RM1.00 per ordinary share of RM1.00 each in the issued and paid-up share capital of the Company up to a maximum distribution of RM534.3 million only via a special cash dividend payment to the entitled shareholders of PNHB at an entitlement date to be determined and announced at a later date by the Board
Proposed PNSB Disposal	:	Proposed disposal by PNHB of the PNSB Shares and PNSB CCRPS, which collectively represent 100% equity interest in PNSB, to Air Selangor at the PNSB Disposal Consideration
Proposed Restructuring	:	The consolidation/restructuring of the water industry in the State of Selangor and the Federal Territories of Kuala Lumpur and Putrajaya by the State Government and the Federal Government
Proposed SYABAS Disposal	:	Proposed disposal by PNHB of the SYABAS Shares and SYABAS RCULS, which represent 70% of the equity interest in SYABAS and 86.53% of the loan stocks issued respectively, to Air Selangor at the SYABAS Disposal Consideration
PUAS	:	Perbadanan Urus Air Selangor Berhad, a wholly-owned subsidiary company of SYABAS
RCSSI	:	RM165.0 million 5-year redeemable convertible secured Sukuk Ijarah issued by PNHB with coupon of 3.95% per annum with a maturity date of five years from the issue date of 11 September 2013
RM and sen	:	Ringgit Malaysia and sen, respectively
RSBs	:	RM435,000,000 Nominal Value 10-Year Redeemable Secured Bonds issued by PNSB with coupon ranging from 5.50% to 11.00% per annum with a maturity date of 19 December 2016
SPA	:	Sale and purchase agreement dated 11 November 2014 entered into between PNHB and Air Selangor for the Proposed PNSB Disposal and Proposed SYABAS Disposal
SPAN	:	Suruhanjaya Perkhidmatan Air Negara
State Government	:	Selangor State Government
SYABAS	:	Syarikat Bekalan Air Selangor Sdn Bhd
SYABAS CAPEX Programme	:	The capital expenditure programmes to be undertaken by SYABAS from 2005 to 2034 under the SYABAS Concession Agreement, which include development and upgrading of distribution system, asset management and replacement programme, non-revenue water reduction programme and cost of land matters

DEFINITIONS

SYABAS Cash Flow Projections	:	The estimate, forecast and projected statements of cash flows of SYABAS from FYE 31 December 2014 to FYE 31 December 2034 as provided by the management of SYABAS and as adopted by the Board
SYABAS Concession Agreement	:	Concession Agreement dated 15 December 2004 entered into between SYABAS, Federal Government and the State Government
SYABAS Disposal Consideration	:	SYABAS Shares Disposal Consideration and SYABAS RCULS Disposal Consideration, collectively
SYABAS Fair Value	:	The fair value of the entire equity interest in SYABAS based on the SYABAS Valuation Letter of the Independent Valuer
SYABAS RCULS	:	RM212.00 million nominal value of redeemable convertible unsecured loan stocks issued by SYABAS to PNHB
SYABAS RCULS Disposal Consideration	:	Cash consideration of RM212.00 million, being the disposal consideration for the proposed disposal by PNHB to Air Selangor of the SYABAS RCULS
SYABAS RCULS Fair Value	:	The fair value of the entire interest in RM245.0 million nominal value of redeemable convertible unsecured loan stocks in SYABAS assuming it is treated as liability and will be fully redeemed based on the SYABAS Valuation Letter of the Independent Valuer
SYABAS Shares	:	45,500,000 ordinary shares of RM1.00 each in SYABAS
SYABAS Shares Disposal Consideration	:	Cash consideration of RM225.80 million, being the disposal consideration for the proposed disposal by PNHB to Air Selangor of the SYABAS Shares
SYABAS Valuation Letter	:	Valuation letter dated 15 December 2014 in respect of the independent valuation conducted by the Independent Valuer in determining the SYABAS Fair Value and SYABAS RCULS Fair Value
US	:	United States of America
USD	:	US Dollar
Valuation Letters	:	PNSB Valuation Letter and SYABAS Valuation Letter, collectively
WACC	:	Weighted average cost of capital
WSIA	:	The Water Services Industry Act, 2006 (ACT655)

Unless specifically referred to, words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and/or neuter genders, and vice versa. Reference to persons shall include corporations, unless otherwise specified.

DEFINITIONS

All references to "you" in this IAC are to each shareholder of PNHB.

All references to "we", "us" and "our" in this IAC are to the Independent Adviser.

Any reference to any enactment or guideline in this IAC is a reference to that enactment or guideline as amended or re-enacted from time to time.

Any reference to time of day in this IAC is a reference to Malaysian time, unless otherwise stated.

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INDEPENDENT ADVICE CIRCULAR TO THE SHAREHOLDERS OF PNHB IN RELATION TO THE PROPOSED DISPOSALS

EXECUTIVE SUMMARY

We have prepared this IAC to provide the shareholders of PNHB an independent evaluation of the Proposed Disposals and to express our recommendation thereon. This Executive Summary is only intended to be and represents only a brief summary of this IAC, highlighting the salient information on the Proposed Disposals. We advise you to read both this IAC together with the Circular and its enclosed appendices for any other relevant information. The shareholders of PNHB should consider carefully the recommendation herein before voting on the special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals.

1. INTRODUCTION

On 11 November 2014, on behalf of the Board, HLIB announced that PNHB had, on even date, entered into a conditional sale and purchase agreement with Air Selangor for the Proposed Disposals.

The Proposed Disposals involve the disposal by PNHB to Air Selangor of the following:-

(i) the entire equity interest in PNSB comprising PNSB Shares for a cash consideration of RM1,069.5 million and PNSB CCRPS for a cash consideration of RM48.0 million; and

(ii) 70.00% equity interest held in SYABAS comprising SYABAS Shares for a cash consideration of RM225.8 million and SYABAS RCULS for a cash consideration of RM212.0 million.

The Proposed Disposals are deemed as major disposals pursuant to paragraph 10.11A of the Listing Requirements, meaning the disposal of all or substantially all of a listed issuer's assets which may result in the listed issuer being no longer suitable for continued listing on the Official List of Bursa Securities.

Accordingly, in compliance with paragraph 10.11A of the Listing Requirements, the Board had, on 14 May 2014, appointed KAF Investment as the Independent Adviser to advise the shareholders of PNHB in respect of the Proposed Disposals.

The purpose of this IAC is to provide the shareholders of PNHB with an independent evaluation of the fairness and reasonableness of the Proposed Disposals as far as the shareholders of PNHB are concerned and whether the Proposed Disposals are to the detriment of the shareholders of PNHB as well as to provide our recommendation in relation to the special resolution pertaining to the Proposed Disposals to be tabled at the forthcoming EGM of the Company, subject to the scope and limitations of our role and evaluation as specified herein. You should nonetheless rely on your own evaluation of the merits or demerits of the Proposed Disposals before making any decision on the course of action to be taken. The special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals is required to be approved by at least 75% in value of the shareholders present and voting either in person or by proxy pursuant to paragraph 10.11A(1)(d) of the Listing Requirements.

This IAC is solely for the use of the shareholders of PNHB for the purpose of considering the Proposed Disposals and should not be used or relied upon by any other party for any other purpose whatsoever.

EXECUTIVE SUMMARY

2. EVALUATION OF THE PROPOSED DISPOSALS

In arriving at the recommendation in respect of the Proposed Disposals, we have assessed the fairness and reasonableness of the Proposed Disposals in accordance with paragraphs 3.1 to 3.6 of Practice Note 15 of the Code.

2.1 Assessment of the fairness of the Proposed Disposals

The fairness of the Proposed Disposals will be determined by evaluating the fairness of the Disposal Consideration. The Proposed Disposals will be considered fair if the Disposal Consideration is fair.

KAF Investment's evaluations of the fairness of the Disposal Consideration are based on the fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value (1) and approximately 86.53% of SYABAS RCULS Fair Value (2), details of which are as set out in **Sections 7.1.1 and 7.1.2 of this IAC.**

Notes:-

(1) *Only 70.00% of SYABAS Fair Value is taken into account in this assessment as only SYABAS Shares held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal; and*

(2) *As at the LPD, SYABAS had issued RM245.0 million nominal value of redeemable convertible unsecured loan stocks to PNHB and KDEB. SYABAS RCULS held by PNHB represent approximately 86.53% of the said RM245.0 million nominal value of redeemable convertible unsecured loan stocks. As such, only approximately 86.53% of SYABAS RCULS Fair Value is taken into account in this assessment as only SYABAS RCULS held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal.*

The Proposed Disposals comprise the Proposed PNSB Disposal and Proposed SYABAS Disposal. As the Proposed PNSB Disposal and the Proposed SYABAS Disposal are of one proposal, in so far as the special resolution for the shareholders of PNHB is concerned, our conclusion on the fairness evaluation of the Disposal Consideration will be on a holistic basis, i.e. comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

In accordance with paragraph 3.2 of Practice Note 15 of the Code, in arriving at the fairness evaluation of the Proposed Disposals, KAF Investment had assessed:-

(i) the PNSB Disposal Consideration against the PNSB Fair Value;

(ii) the SYABAS Shares Disposal Consideration against 70.00% of SYABAS Fair Value;

(iii) the SYABAS RCULS Disposal Consideration against approximately 86.53% of SYABAS RCULS Fair Value; and

(iv) the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

EXECUTIVE SUMMARY

Arising from the above analyses, in summary, the Disposal Consideration will be considered not fair if it is lower than the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value, or otherwise, the Disposal Consideration will be considered fair if it is equal to or higher than the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

In making this assessment, the fair value evaluation was conducted on PNSB's water concession business, SYABAS and the redeemable convertible unsecured loan stocks issued by SYABAS based on the assumption that the entire equity interests in PNSB's water concession business and SYABAS and the entire interest in the redeemable convertible unsecured loan stocks issued by SYABAS are being acquired. The individual fair value assessment and comparison of PNSB Disposal Consideration against the PNSB Fair Value, SYABAS Shares Disposal Consideration against 70.00% of SYABAS Fair Value and SYABAS RCULS Disposal Consideration against approximately 86.53% of SYABAS RCULS Fair Value are for illustrations to arrive at the fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

2.1.1 Fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value - DCF valuation conducted by the Independent Valuer

In determining PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value, we have relied on the Valuation Letters which contain the independent valuation conducted by Moore Stephens Associates PLT, the Independent Valuer appointed by PNHB, for the valuation of PNSB's water concession business, SYABAS and the redeemable convertible unsecured loan stocks issued by SYABAS.

In establishing PNSB Fair Value and SYABAS Fair Value, the Independent Valuer had used the DCF Method. The Independent Valuer had selected DCF Method after taking into consideration that:-

(i) PNSB holds five water treatment concessions, the nature of the CA Related Business whereby the income and expenditure are predictable and the said water treatment concessions have finite life; and

(ii) SYABAS holds a concession for the supply and distribution of treated water in Selangor and the Federal Territories of Kuala Lumpur and Putrajaya, the DCF is more reflective of the income and expenditure of SYABAS and the said concession has a finite life.

The Independent Valuer first derived the firm value/EV of PNSB's water concession business and SYABAS by applying DCF valuation which essentially calls for discounting the FCFF using WACC. This methodology adopted takes into account the net present value of all FCFF which also means factoring timing of cash flows and risk-adjusted required rate of return on capital into the appraisal.

The firm value/EV of PNSB's water concession business and SYABAS consists of the equity value and the debt value of the same. The valuation that is pertinent to the prospective acquirer of the equity stakes in respect of PNSB's water concession business and that of

EXECUTIVE SUMMARY

SYABAS is the equity value of PNSB's water concession business and SYABAS. As such, to derive the respective equity value of PNSB's water concession business and SYABAS from their respective firm value/EV, the Independent Valuer had added their respective cash and bank balances as at 30 June 2014 and deducted their respective market value of the existing debts as at 30 June 2014 from their respective firm value/EV.

As PNSB and SYABAS are private companies, an illiquidity discount of 20.00% to 30.00% was applied by the Independent Valuer in the valuation of PNSB's water concession business and SYABAS.

Although the equity interests to be disposed by PNHB pursuant to the Proposed Disposals are controlling stakes (100.00% equity interest in PNSB pursuant to the Proposed PNSB Disposal and 70.00% equity interest in SYABAS pursuant to the Proposed SYABAS Disposal), the Independent Valuer was of the opinion that the control premium attached to PNSB's water concession business and SYABAS is negligible as prior consent is required from the relevant authorities for any change in major water concessionaires and the powers vested in the Federal Government under Section 114 of the WSIA.

As the RM245.0 million nominal value of redeemable convertible unsecured loan stocks issued by SYABAS is treated as a liability and is assumed to be fully redeemed, the Independent Valuer had derived the SYABAS RCULS Fair Value by discounting the future cash flows attributable to the said RM245.0 million nominal value of redeemable convertible unsecured loan stocks issued by SYABAS using the estimated cost of debt of SYABAS.

Premised on the above, the PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value based on the DCF valuation as conducted by the Independent Valuer are as summarised in the table below.

No.	Subject matters	Amount RM'million
1.	PNSB Fair Value	1,262 to 1,442
2.	SYABAS Fair Value	925 to 1,057
3.	SYABAS RCULS Fair Value	198
Total		2,385 to 2,697

Based on the DCF valuation conducted by the Independent Valuer, the discount/premium of the PNSB Disposal Consideration, SYABAS Shares Disposal Consideration, SYABAS RCULS Disposal Consideration and Disposal Consideration over the range of PNSB Fair Value, the range of 70.00% of SYABAS Fair Value, approximately 86.53% of SYABAS RCULS Fair Value and the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value respectively are as summarised below.

EXECUTIVE SUMMARY

(i) Discount of the PNSB Disposal Consideration over the range of PNSB Fair Value

Range of PNSB Fair Value	PNSB Disposal Consideration	Discount of the PNSB Disposal Consideration over the range of PNSB Fair Value	
RM'million	RM'million	RM'million	%
1,262 to 1,442	1,117.5	144.5 to 324.5	11.45 to 22.50

(ii) Discount of the SYABAS Shares Disposal Consideration over the range of 70.00% of SYABAS Fair Value

Range of 70.00% of SYABAS Fair Value	SYABAS Shares Disposal Consideration	Discount of the SYABAS Shares Disposal Consideration over the range of 70.00% of SYABAS Fair Value	
RM'million	RM'million	RM'million	%
648 to 740	225.8	422.2 to 514.2	65.15 to 69.49

(iii) Premium of the SYABAS RCULS Disposal Consideration over approximately 86.53% of SYABAS RCULS Fair Value

Approximately 86.53% of SYABAS RCULS Fair Value	SYABAS RCULS Disposal Consideration	Premium of the SYABAS RCULS Disposal Consideration over approximately 86.53% of SYABAS RCULS Fair Value	
RM'million	RM'million	RM'million	%
171	212.0	41.0	23.98

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EXECUTIVE SUMMARY

(iv) Discount of the Disposal Consideration over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value

Range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value	Disposal Consideration	Discount of the Disposal Consideration over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value	
RM'million	**RM'million**	**RM'million**	**%**
2,081 to 2,353	1,555.3	525.7 to 797.7	25.26 to 33.90

Please refer to **Section 7.1.1 of this IAC** for further details.

2.1.2 Fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value - Comparison of the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company

In cross-checking the fairness of the Proposed Disposals, we have also compared the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company. The shareholders of PNHB should note that this assessment is just for cross-checking purpose and our primary methodology in assessing the fairness of the Proposed Disposals is based on the DCF valuation conducted by the Independent Valuer as set out in Section 7.1.1 of this IAC.

Illiquidity discount may or may not exist in the Disposal Consideration but certainly not or negligible, if any, in the market price of the selected comparable company. For the purpose of this assessment only, we have assumed 20.00% to 30.00% illiquidity discount in the Disposal Consideration.

We note that:-

(i) the implied adjusted PE multiples of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) of 11.75 times to 12.73 times based on the financial results of PNSB's water concession business and SYABAS for FYE 31 December 2013 are higher than the adjusted PE multiple of the selected comparable company of 7.52 times; and

(ii) the implied adjusted EV/EBITDA multiples of the Disposal Consideration of 4.91 times to 5.02 times based on the financial results of PNSB's water concession business and SYABAS for FYE 31 December 2013 are lower than the adjusted EV/EBITDA multiple of the selected comparable company of 7.98 times.

We have not compared the implied adjusted PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) against the adjusted PB multiple of the selected comparable company in view of aggregate net liabilities position of the PNSB's water

EXECUTIVE SUMMARY

concession business and SYABAS based on the financial position of PNSB's water concession business and SYABAS as at 31 December 2013.

Premised on the above, we note that the Disposal Consideration is fair based on adjusted PE multiple of the selected comparable company, but is not fair based on adjusted EV/EBITDA multiple of the selected comparable company.

However, one should recognise that there is no company listed on Bursa Securities which may be considered to be identical to PNSB and SYABAS in terms of, *inter-alia,* composition of business activities, scale of business operations, risk profile, asset base, accounting and tax policies, track record, future prospects, competitive environment, financial positions and that such business may have fundamentally different profitability objectives. Hence, the fairness of the Disposal Consideration should not be determined solely by the comparison of the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company. The shareholders of PNHB should take note of the DCF valuation conducted by the Independent Valuer as set out in Section 7.1.1 of this IAC, which is our primary methodology in assessing the fairness of the Disposal Consideration.

Please refer to **Section 7.1.2 of this IAC** for further details.

2.1.3 Fairness of the Proposed Disposals

Based on the DCF valuation conducted by the Independent Valuer, which is our primary methodology in assessing the fairness of the Disposal Consideration, the Disposal Consideration is considered **NOT FAIR** as it represents a discount over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

As such, the Proposed Disposals are considered **NOT FAIR**.

Please refer to **Section 7.1.3 of this IAC** for further details.

2.2 Assessment of the reasonableness of the Proposed Disposals

In accordance with paragraphs 3.4 and 3.5 of Practice Note 15 of the Code, in arriving at the reasonableness evaluation of the Proposed Disposals, we have examined other significant factors to which the shareholders of PNHB may give consideration to before voting on the special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals.

In making the above consideration, KAF Investment's assessment of the reasonableness of the Proposed Disposals is as set out in **Sections 7.2.1 to 7.2.9 of this IAC.** In arriving at our recommendation for the Proposed Disposals, KAF Investment has taken into consideration and evaluated the following key factors:-

EXECUTIVE SUMMARY

(i) Salient terms of the SPA

We have considered the salient terms of the SPA and are of the opinion that the salient terms of the SPA are reasonable as far as the interests of PNHB are concerned and that the salient terms of the SPA are not detrimental to the interests of the shareholders of PNHB.

Please refer to **Section 7.2.1 of this IAC** for further details.

(ii) Rationale for the Proposed Disposals

The Proposed Disposals are implemented pursuant to the Proposed Restructuring.

Based on the representation by the management of PNHB of which had also been affirmed by the Board, we note that PNSB and SYABAS are facing various critical challenges and risk factors stemming from the events which include, but not limited to, the following:-

(a) Critical challenge and risk factor faced by both PNSB and SYABAS:-

The possibility of the invocation of Section 114 of the WSIA by the Federal Government.

(b) Critical challenge and risk factor faced by PNSB:-

Termination and/or non-renewal of licenses of PNSB which include the license of PNSB to abstract raw water after the expiry of the said license on 31 May 2014 by LUAS and the State Government.

(c) Critical challenges and risk factors faced by SYABAS:-

(I) freeze in SYABAS CAPEX Programme;

(II) freeze in water tariff hike and State Government's refusal to pay the water tariff compensation; and

(III) inability of SYABAS to fulfill full payments to the water treatment operators including PNSB on the previous monthly billings for water purchases and the progress monthly billings for water purchases.

Please refer to **Section 7.2.2 of this IAC** for further details.

(iii) Historical financial performance of PNSB and SYABAS

(a) Historical financial performance of PNSB

The fluctuation of the revenue of PNSB over the financial years under review was mainly attributed to the increased contribution from the construction revenue in certain years.

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The fluctuation of PAT and PAT margins of PNSB was mainly attributed to, among others, the fluctuation of the revenue of the construction of water related facilities, the recognition of one-off gain from the extinguishment of debt in FYE 31 December 2011 and the higher late payment interest charged to SYABAS as the amount owing from SYABAS increased over the financial years under review.

Despite recording positive operating cash flows under the financial years under review, save for FYE 31 December 2012, PNSB had recorded a net decrease in cash and cash equivalents under the financial years under review, which was mainly attributed to, among others, the deferment of payment by SYABAS for the sales of treated water, high interest paid and the deposit pledged for borrowing facilities. The cash flow position of PNSB may continue to deteriorate in the event SYABAS continues to defer payment for the sales of treated water.

Please refer to **Section 7.2.3.1 of this IAC** for further details.

(b) Historical financial performance of SYABAS

The revenue of SYABAS had been on an upward trend from RM2.04 billion in FYE 31 December 2010 to RM2.97 billion in FYE 31 December 2013. The growth was mainly attributed to the recognition of additional revenue from the increase in water tariff compensation in FYE 31 December 2012 and the increase in water consumption over the financial years under review. Point to note that the said water tariff compensation has not been collected as at the LPD.

Despite registering revenue growth over the financial years under review, SYABAS registered LAT from FYE 31 December 2011 to FYE 31 December 2013, which was mainly attributed to, among others, the high late payment interest incurred as a result of deferment of payment to water treatment operators (including PNSB) for monthly billings for water purchases. However, SYABAS managed to narrow its LAT margin from 17.07% in FYE 31 December 2011 to 3.30% in FYE 31 December 2013, mainly due to the increase in raw materials, consumables and maintenance expenses, cost of rehabilitation works, other operating costs and finance cost of 22.68% from RM2.69 billion in FYE 31 December 2011 to RM3.30 billion in FYE 31 December 2013 was much lower than the increase in revenue of 41.43% from RM2.10 billion in FYE 31 December 2011 to RM2.97 billion in FYE 31 December 2013.

The shareholders of PNHB should note that SYABAS has been in a net liabilities position for the financial years under review and its financial position is expected to continue deteriorating.

SYABAS managed to record positive operating cash flows and net increase in cash and cash equivalents during the financial years under review. Nonetheless, the shareholders of PNHB should note that the positive operating cash flows of SYABAS and net increase in cash and cash equivalents of SYABAS was achieved, among others, arising from the deferment of payment to water treatment operators for the monthly billings for water purchases, which was at the expense of high late payment interest incurred for the payment of the sales of treated water.

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Please refer to **Section 7.2.3.2 of this IAC** for further details.

(iv) Precedent transactions analysis

We are not able to compute the implied PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) based on the financial position of PNSB's water concession business and SYABAS as at 31 December 2013 and 30 September 2014 due to the aggregate net liabilities position of PNSB's water concession business and SYABAS. Hence, no comparison was made between the Proposed Disposals (excluding proposed disposal of SYABAS RCULS by PNHB to Air Selangor) and the precedent disposal transactions of water assets in other states of Malaysia.

Nonetheless, the Proposed Disposals are reasonable and are not detrimental to the shareholders of PNHB as the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) is more than the aggregate of net book value of PNSB's water concession business and the corresponding proportionate net book value of SYABAS of 70.00% based on the financial position of PNSB's water concession business and SYABAS as at 31 December 2013 and 30 September 2014.

Please refer to **Section 7.2.4 of this IAC** for further details.

(v) Effects of the Proposed Disposals

The Proposed Disposals will not have any effects on the share capital and the substantial shareholders' shareholdings of PNHB as it does not involve any issuance of new PNHB Shares.

The proforma effects of the Proposed Disposals on the EPS, NA and gearing of the Group are as follows:-

(a) PNHB Group is expected to realise an estimated EPS of approximately RM1.01;

(b) the proforma NA of the PNHB Group will increase from RM1.78 billion as at 31 December 2013 to RM2.19 billion; and

(c) the proforma gearing of the PNHB Group will decrease from 1.16 times as at 31 December 2013 to 0.15 time.

Please refer to **Section 7.2.5 of this IAC** for further details.

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EXECUTIVE SUMMARY

(vi) Overview and prospects of the water sector in PRC, the water sector in Malaysia, the oil and gas sector in Southeast Asia, the oil and gas sector in Malaysia and the oil palm plantation sector in Malaysia, the prospects of PNSB and SYABAS and the prospects of the Group upon completion of the Proposed Disposals

(a) Overview and prospects of the water sector in PRC

Under the PRC's 12th Five-Year Plan 2011-2015, the PRC government had targeted substantial investments into the water and environmental sector. The PRC government is also targeting an investment of Renminbi 380 billion on wastewater treatment systems including reuse, over half of which is expected to be from the private sector.

Please refer to **Section 7.2.6.1 of this IAC** for further details.

(b) Overview and prospects of the water sector in Malaysia

Based on the Tenth Malaysia Plan 2011-2015, the Federal Government intends to restructure the water services industry in Malaysia to ensure the sustainability of the water supply in Malaysia.

The Federal Government will undertake intensive efforts to increase the extent of treated water by upgrading and building new pipelines and water treatment plants and also to cover most of the rural houses with access to clean or treated water.

Please refer to **Section 7.2.6.2 of this IAC** for further details.

(c) Overview and prospects of the oil and gas sector in Southeast Asia

The oil sector in Southeast Asia is expected to deal with dwindling production trend. This may not be favourable to the PNHB Group in the event they expand their oil segment in the said region. However, we note that the gas production in the region is expected to further increase in the period to 2035. This may be favourable to the PNHB Group in the event they expand their gas segment in the said region.

Please refer to **Section 7.2.6.3 of this IAC** for further details.

(d) Overview and prospects of the oil and gas sector in Malaysia

The outlook of the oil and gas sector in Malaysia is expected to be challenging for the immediate future.

Please refer to **Section 7.2.6.4 of this IAC** for further details.

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(e) Overview and prospects of the oil palm plantation sector in Malaysia

The outlook of the oil palm plantation sector is expected to remain positive in the immediate future.

Please refer to **Section 7.2.6.5 of this IAC** for further details.

(f) Prospects of PNSB and SYABAS

The prospects of PNSB and SYABAS remain challenging due to various critical challenges and risk factors, which are as outlined in Section 7.2.2 of this IAC.

Please refer to **Section 7.2.6.6 of this IAC** for further details**.**

(g) Prospects of the Group upon completion of the Proposed Disposals

The prospects of the Group upon completion of the Proposed Disposals depend on, among others, the prospects of the existing segments of the Group and the prospects of the new asset(s) to be acquired. Save for the oil and gas sector, the industry outlook for the existing segments of the Group is generally positive. The prospects of the new asset(s) to be acquired could not be ascertained at this juncture as the new asset(s) has yet to be identified as at the LPD.

Please refer to **Section 7.2.6.7 of this IAC** for further details.

(vii) Risk factors in relation to the Proposed Disposals

The risk factors in relation to the Proposed Disposals include, among others, the completion risks, the loss of contribution and future income from PNSB and SYABAS and potential claims under the SPA.

Please refer to **Section 7.2.7 of this IAC** for further details.

(viii) Listing status and future plans of PNHB

(a) Listing status of PNHB

Upon completion of the Proposed Disposals, Bursa Securities may classify the Company as a Cash Company pursuant to paragraph 8.03 of the Listing Requirements and PN16 and may also classify the Company as an Affected Listed Issuer under PN17.

Notwithstanding the above, based on the proforma consolidated statement of financial position of PNHB as at 31 December 2013, the Company does not trigger PN16 and PN17 following the Proposed Disposals and the Proposed Distribution.

As the audited financial results of PNHB Group for FYE 31 December 2014 is not available as yet, we are unable to ascertain at this juncture on whether the Company would or would not trigger PN16 and/or PN17 following the Proposed Disposals and Proposed Distribution based on the proforma consolidated

EXECUTIVE SUMMARY

statement of financial position of PNHB as at 31 December 2014 or any other relevant quarterly results of PNHB as Bursa Securities deems fit.

The Board intends to maintain the listing status of the Company. In the event the Company is classified as a Cash Company or Affected Listed Issuer, the Board endeavours to take the necessary steps to identify new business(es) and/or asset(s) to be acquired by the Company. This will enable the Company to regularise its condition and to maintain its listing status on the Main Market of Bursa Securities after the completion of the Proposed Disposals in the event the Company falls into any or both of the above said categories.

(b) Future plans of PNHB

Upon completion of the Proposed Disposals, PNHB will still continue with the Group’s existing businesses, namely water treatment business, oil and gas business and construction business. The Group will also explore the possibilities of acquiring oil and gas assets or embarking on mergers and acquisitions to expand the oil and gas segment. The Group is also exploring opportunities in other business segments such as the oil palm plantation sector.

Please refer to **Section 7.2.8 of this IAC** for further details.

(ix) Alternative bids

The Board is not seeking any other alternative bids to make an offer for PNHB Shares, PNSB CCRPS, SYABAS Shares and SYABAS RCULS in view that the Proposed Disposals are undertaken as part of the Proposed Restructuring.

Please refer to **Section 7.2.9 of this IAC** for further details.

3. RECOMMENDATION

Based on the above and KAF Investment's evaluation as a whole, we are of the opinion that the Proposed Disposals are **NOT FAIR BUT REASONABLE** and are not detrimental to the interest of the shareholders of PNHB**.** Accordingly, we recommend that the shareholders of PNHB to **VOTE IN FAVOUR** for the special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals.

You should consider carefully the terms and conditions of the Proposed Disposals based on all the relevant and pertinent factors including those which are as set out above, and other considerations as set out in this IAC, the Circular and the appendices therein and any other publicly available information.

You are advised to read this IAC carefully for more information and not rely solely on the Executive Summary before forming an opinion on the Proposed Disposals.

You are also advised to consider carefully the information contained in this IAC, the Circular and the appendices therein before voting on the special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals.

Registered Office:

14th Floor, Chulan Tower
No. 3, Jalan Conlay
50450 Kuala Lumpur

19 December 2014

To : The shareholders of Puncak Niaga Holdings Berhad

Dear Sir/Madam,

INDEPENDENT ADVICE CIRCULAR TO THE SHAREHOLDERS OF PUNCAK NIAGA HOLDINGS BERHAD IN RELATION TO THE PROPOSED DISPOSALS

1. INTRODUCTION

On 11 November 2014, on behalf of the Board, HLIB announced that PNHB had, on even date, entered into a conditional sale and purchase agreement with Air Selangor for the Proposed Disposals.

The Proposed Disposals involve the disposal by PNHB to Air Selangor of the following:-

(i) the entire equity interest in PNSB comprising PNSB Shares for a cash consideration of RM1,069.5 million and PNSB CCRPS for a cash consideration of RM48.0 million; and

(ii) 70.00% equity interest held in SYABAS comprising SYABAS Shares for a cash consideration of RM225.8 million and SYABAS RCULS for a cash consideration of RM212.0 million.

The Proposed Disposals are deemed as major disposals pursuant to paragraph 10.11A of the Listing Requirements, meaning the disposal of all or substantially all of a listed issuer's assets which may result in the listed issuer being no longer suitable for continued listing on the Official List of Bursa Securities.

Accordingly, in compliance with paragraph 10.11A of the Listing Requirements, the Board had, on 14 May 2014, appointed KAF Investment as the Independent Adviser to advise the shareholders of PNHB in respect of the Proposed Disposals.

The purpose of this IAC is to provide the shareholders of PNHB with an independent evaluation of the fairness and reasonableness of the Proposed Disposals as far as the shareholders of PNHB are concerned and whether the Proposed Disposals are to the detriment of the shareholders of PNHB as well as to provide our recommendation in relation to the special resolution pertaining to the Proposed Disposals to be tabled at the forthcoming EGM of the Company, subject to the scope and limitations of our role and evaluation as specified herein. You should nonetheless rely on your own evaluation of the merits or demerits of the Proposed Disposals before making any decision on the course of action to be taken. The special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals is required to be approved by at least 75% in value of the shareholders present and voting either in person or by proxy pursuant to paragraph 10.11A(1)(d) of the Listing Requirements.

This IAC is solely for the use of the shareholders of PNHB for the purpose of considering the Proposed Disposals and should not be used or relied upon by any other party for any other purpose whatsoever.

THE SHAREHOLDERS OF PNHB ARE ADVISED TO READ BOTH THIS IAC TOGETHER WITH THE OTHER SECTIONS OF THE CIRCULAR AND TO CONSIDER CAREFULLY THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE SPECIAL RESOLUTION TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY IN RELATION TO THE PROPOSED DISPOSALS.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. DETAILS OF THE PROPOSED DISPOSALS

The details of the Proposed Disposals are as set out in Section 2 of the Circular, which should be read in its entirety by the shareholders of PNHB.

3. SCOPE AND LIMITATIONS OF OUR EVALUATION

KAF Investment's terms of reference pursuant to our appointment as the Independent Adviser to the shareholders of PNHB are in accordance with the requirements relating to an independent adviser as set out in paragraph 10.11(A) of the Listing Requirements. Our scope as Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the terms of the Proposed Disposals, based on and in reliance upon the publicly available information which we deemed relevant as well as the information, documents and representations provided or made available to us for which the Board are solely responsible for of which include, but not limited to, the following:-

(i) The information contained in the Circular and the appendices attached thereto;

(ii) The SPA;

(iii) The audited financial statements of PNSB for the past three financial years from FYE 31 December 2011 to FYE 31 December 2013 and the nine-month unaudited financial statements of PNSB for the FPE 30 September 2014;

(iv) The audited financial statements of SYABAS for the FYE 31 December 2011, the audited consolidated financial statements of SYABAS for the FYE 31 December 2012 to FYE 31 December 2013 and the nine-month unaudited consolidated financial statements of SYABAS for the FPE 30 September 2014;

(v) The Cash Flow Projections;

(vi) The Valuation Letters;

(vii) Discussions with and representations by the Board and the management of PNHB and both the management of PNSB and SYABAS; and

(viii) Other relevant information, documents, confirmations and representations furnished to us either directly or indirectly through the Independent Valuer, the Board and the management of PNHB and both the management of PNSB and SYABAS.

We have relied on PNHB, PNSB and SYABAS, the Board and the management of PNHB and both the management of PNSB and SYABAS to take due care to ensure that all information, documents and representations provided to us by them to facilitate our evaluation of the Proposed Disposals, are accurate, valid and complete in all material respects. Accordingly, we have not independently verified the information provided to us for its feasibility, reliability, accuracy and/or completeness and we express no opinion on any such information and have not undertaken any independent investigation of the same and of the contents of the Valuation Letters as prepared by the Independent Valuer and into the business and affairs of PNHB, PNSB, SYABAS and of all relevant parties involved in the Proposed Disposals. However, after making all reasonable enquiries and to the best of our knowledge and belief, we acknowledge that this IAC constitutes a full and true disclosure of all material facts concerning the Proposed Disposals and we are satisfied with the information obtained and have no reason to believe that the information was unreliable, incomplete, misleading and/or inaccurate as at the LPD. Our advice should be considered in the context of the entirety of this IAC.

KAF Investment, as the Independent Adviser, has evaluated the Proposed Disposals based on the sources of information highlighted above. In forming our opinion, we have considered factors which we believe would be of relevance and general importance to the shareholders of PNHB. In rendering our advice, we have taken note of the pertinent issues which we have considered important in enabling us to form our opinion on the fairness and reasonableness of the Proposed Disposals and would be of relevance and general concern to the shareholders of PNHB as a whole.

KAF Investment's views and recommendations in this IAC are to the shareholders of PNHB at large and not to any shareholder of PNHB individually. Hence, in carrying out our evaluation, we have not given any consideration to the specific objectives, financial situation and particular needs of any individual shareholder of PNHB or any specific group of shareholders of PNHB.

We recommend that any individual shareholder of PNHB or group of shareholders of PNHB who is in doubt as to the action to be taken or require advice in relation to the Proposed Disposals in the context of their individual objectives, financial situation or particular needs, to consult their respective stockbrokers, bankers, solicitors, accountants or other professional advisers. We shall not be liable for any damage or loss of any kind sustained or suffered by an individual shareholder of PNHB or any group of shareholders of PNHB in reliance on the opinion stated herein for any purpose whatsoever that is particular to such individual shareholder or group of shareholders.

Our evaluation and opinion as set out in this IAC are based on capital markets, economic, industry, regulatory, monetary, socio-political and other conditions (if applicable), and the information/documents made available to us, as at the LPD. Such conditions may change significantly over a short period of time. Accordingly, our evaluation and opinion in this IAC do not take into account the information, events and conditions arising after the LPD.

In the event, after the issuance of this IAC and up to the date of the forthcoming EGM of the Company, KAF Investment becomes aware that the information relied upon by us during our engagement has significantly changed or a material statement in this IAC is false, misleading and/or deceptive, KAF Investment shall inform the shareholders of PNHB as soon as practicable of any material change in information that would affect their decision to vote on the special resolution pertaining to the Proposed Disposals. KAF Investment, together with PNHB, is obliged and responsible to ensure that the said change is communicated appropriately to the shareholders of PNHB. If circumstances require, a supplementary IAC shall be issued and/or the EGM of the Company shall be postponed to provide the shareholders of PNHB with sufficient time to re-evaluate their decision in light of the new information.

The Board has seen and approved this IAC. They individually and collectively accept full responsibility for the accuracy, validity and completeness of the information given to us in enabling us to perform our evaluation and arrive at our conclusion including those presented herein and confirm that, after having made all reasonable enquiries, and to the best of their knowledge and belief, all relevant facts and information necessary for our evaluation of the Proposed Disposals have been disclosed to us and there are no material facts the omission of which will make any statement in this IAC misleading.

The responsibility of the Board in respect of our independent advice and expression of opinion in relation to the Proposed Disposals are limited to the accuracy of the information in relation to PNHB as provided to us by PNHB for our evaluation and all relevant facts and information necessary for our evaluation of the Proposed Disposals have been disclosed to us and there are no other material facts the omission of which will make any statement in this IAC misleading.

4. CREDENTIALS, EXPERIENCE AND EXPERTISE OF KAF INVESTMENT

KAF Investment is an investment bank in Malaysia with a strong reputation in the dealing of money market instruments and trading of debt securities. KAF Investment is also involved in providing capital market advisory services such as fund raising via the issuance of private debt securities, equity and equity-linked securities.

The credentials and experience of KAF Investment as an Independent Adviser, where we have been appointed in the past two years prior to the date of the SPA, include, but not limited to, the following proposals:-

(i) proposed conditional take-over offer by TS Law Group Sdn Bhd through Hong Leong Investment Bank Berhad to acquire all the remaining ordinary shares of RM1.00 each in Perduren (M) Berhad not already held by TS Law Group Sdn Bhd for a cash offer price of RM1.10 per ordinary share of RM1.00 each in Perduren (M) Berhad;

(ii) proposed entering into a bauxite mining works agreement by SE Satu Sdn Bhd, a 49%-owned associated company of WZ SATU Berhad, with Kreatif Selaras Mining Sdn Bhd for SE Satu Sdn Bhd to be engaged as a contractor to mine, extract and produce bauxite ore and proposed diversification of the existing core business of WZ SATU Berhad to include mining;

(iii) proposed unconditional take-over offer by Perspective Lane (M) Sdn Bhd, Kelana Ventures Sdn Bhd, Seaport Terminal (Johore) Sdn Bhd and Acara Kreatif Sdn Bhd (collectively, the “Joint Offerors”) through Maybank Investment Bank Berhad to acquire all the remaining ordinary shares of RM1.00 each in Padiberas Nasional Berhad not already owned by the Joint Offerors and parties acting in concert with them for a cash offer price of RM3.70 per ordinary share of RM1.00 each in Padiberas Nasional Berhad;

(iv) proposed disposal of the entire issued and paid-up share capital of Samudra Oil Services Sdn Bhd to Destini Berhad for a disposal consideration of RM80.00 million to be satisfied entirely by 228,571,428 new ordinary shares of RM0.10 each in Destini Berhad at an issue price of RM0.35 per ordinary share of RM0.10 each in Destini Berhad;

(v) proposed disposal of a commercial office building by Khuan Choo Property Management Sdn Bhd, a wholly-owned subsidiary company of Malton Berhad, to Bukit Damansara Development Sdn Bhd in exchange for office space in the redevelopment of a commercial office project ("Subject Entitlement") for a consideration of RM140.00 million and proposed shareholders' mandate for Khuan Choo Property Management Sdn Bhd to exercise a put option granted to Khuan Choo Property Management Sdn Bhd to require the put option grantor to acquire the Subject Entitlement; and

(vi) proposed joint venture between a wholly-owned subsidiary company of Land & General Berhad and a wholly-owned subsidiary company of Malaysia Land Properties Sdn Bhd to acquire and develop a parcel of commercial leasehold land located at Jalan Ampang Kiri for a total cash consideration of RM118.49 million via a joint venture company.

Based on, among others, our credentials and experience as stated above, we have the necessary resources and staff with the relevant skills, knowledge and experience to carry out our role and responsibilities as the Independent Adviser to advise the shareholders of PNHB in respect of the Proposed Disposals.

5. DECLARATIONS OF CONFLICT OF INTEREST

Save for the business relationship arising from KAF Investment's appointment as the Independent Adviser in respect of the Proposed Disposals, KAF Investment does not have any other business relationship with PNHB at the present time or at any time during the past two years prior to the date of the SPA.

KAF Investment is not aware of any existing conflict of interest or any circumstances which would or are likely to give rise to a possible conflict of interest by virtue of KAF Investment's appointment as the Independent Adviser in respect of the Proposed Disposals.

Save for the professional fees KAF Investment is entitled for as the Independent Adviser for the Proposed Disposals, KAF Investment does not receive or derive any financial interest or benefit from the Proposed Disposals and there is no interest to be derived from KAF Investment's appointment as the Independent Adviser to PNHB in respect of the Proposed Disposals.

Accordingly, we have given our confirmation to the Company that we are not aware of any conflict of interest which exists or is likely to exist in our capacity as the Independent Adviser in respect of the Proposed Disposals.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

We note from Section 11 of the Circular that none of the directors and/or major shareholders of PNHB and/or persons connected with a director or major shareholder of PNHB has any interest, either direct or indirect in the Proposed Disposals.

We also note that YBhg Tan Sri Rozali Bin Ismail, being the Company's Executive Chairman and a major shareholder holding 40.87% direct and indirect equity interest as at the LPD, collectively in the Company, for which his rights and entitlements rank equally with all other shareholders of the Company and he has informed the Board that he intends to exercise his right as a shareholder of the Company to vote in favour of the special resolution pertaining to the Proposed Disposals to be tabled at the forthcoming EGM of the Company.

7. EVALUATION OF THE PROPOSED DISPOSALS

In arriving at the recommendation in respect of the Proposed Disposals, we have assessed the fairness and reasonableness of the Proposed Disposals in accordance with paragraphs 3.1 to 3.6 of Practice Note 15 of the Code.

In our evaluation of the Proposed Disposals, we have taken into consideration the following factors in forming our opinion:-

No.	Items	Sections
Assessment of the fairness of the Proposed Disposals		**Section 7.1**
1.	Fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value	Sections 7.1.1 and 7.1.2
Assessment of the reasonableness of the Proposed Disposals		**Section 7.2**
1.	Salient terms of the SPA	Section 7.2.1
2.	Rationale for the Proposed Disposals	Section 7.2.2
3.	Historical financial performance of PNSB and SYABAS	Section 7.2.3
4.	Precedent transactions analysis	Section 7.2.4
5.	Effects of the Proposed Disposals	Section 7.2.5
6.	(i) Overview and prospects of the water sector in PRC; (ii) Overview and prospects of the water sector in Malaysia; (iii) Overview and prospects of the oil and gas sector in Southeast Asia; (iv) Overview and prospects of the oil and gas sector in Malaysia; (v) Overview and prospects of the oil palm plantation sector in Malaysia; (vi) Prospects of PNSB and SYABAS; and (vii) Prospects of the Group upon completion of the Proposed Disposals	Section 7.2.6
7.	Risk factors in relation to the Proposed Disposals	Section 7.2.7
8.	Listing status and future plans of PNHB	Section 7.2.8
9.	Alternative bids	Section 7.2.9

7.1 Assessment of the fairness of the Proposed Disposals

The fairness of the Proposed Disposals will be determined by evaluating the fairness of the Disposal Consideration. The Proposed Disposals will be considered fair if the Disposal Consideration is fair.

KAF Investment's evaluations of the fairness of the Disposal Consideration are based on the fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value [(1)] and approximately 86.53% of SYABAS RCULS Fair Value [(2)], details of which are as set out in **Sections 7.1.1 and 7.1.2 of this IAC.**

Notes:-

[(1)] *Only 70.00% of SYABAS Fair Value is taken into account in this assessment as only SYABAS Shares held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal; and*

[(2)] *As at the LPD, SYABAS had issued RM245.0 million nominal value of redeemable convertible unsecured loan stocks to PNHB and KDEB. SYABAS RCULS held by PNHB represent approximately 86.53% of the said RM245.0 million nominal value of redeemable convertible unsecured loan stocks. As such, only approximately 86.53% of SYABAS RCULS Fair Value is taken into account in this assessment as only SYABAS RCULS held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal.*

The Proposed Disposals comprise the Proposed PNSB Disposal and Proposed SYABAS Disposal. As the Proposed PNSB Disposal and the Proposed SYABAS Disposal are of one proposal, in so far as the special resolution for the shareholders of PNHB is concerned, our conclusion on the fairness evaluation of the Disposal Consideration will be on a holistic basis, i.e. comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

In accordance with paragraph 3.2 of Practice Note 15 of the Code, in arriving at the fairness evaluation of the Proposed Disposals, KAF Investment had assessed:-

(i) the PNSB Disposal Consideration against the PNSB Fair Value;

(ii) the SYABAS Shares Disposal Consideration against 70.00% of SYABAS Fair Value;

(iii) the SYABAS RCULS Disposal Consideration against approximately 86.53% of SYABAS RCULS Fair Value; and

(iv) the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

Arising from the above analyses, in summary, the Disposal Consideration will be considered not fair if it is lower than the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value, or otherwise, the Disposal Consideration will be considered fair if it is equal to or higher than the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

In making this assessment, the fair value evaluation was conducted on PNSB's water concession business, SYABAS and the redeemable convertible unsecured loan stocks issued by SYABAS based on the assumption that the entire equity interests in PNSB's water concession business and SYABAS and the entire interest in the redeemable convertible unsecured loan stocks issued by SYABAS is being acquired. The individual fair value assessment and comparison of PNSB Disposal Consideration against the PNSB Fair Value, SYABAS Shares Disposal Consideration against 70.00% of SYABAS Fair Value and SYABAS RCULS Disposal Consideration against approximately 86.53% of SYABAS RCULS Fair Value are for illustrations to arrive at the fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

7.1.1 Fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value - DCF valuation conducted by the Independent Valuer

In determining PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value, we have relied on the Valuation Letters which contain the independent valuation conducted by Moore Stephens Associates PLT, the Independent Valuer appointed by PNHB, for the PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value.

In respect of the Valuation Letters, we have reviewed the contents of the same and are satisfied with the PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value based on the DCF valuation conducted by the Independent Valuer.

The Valuation Letters have been appended as Appendix V of the Circular.

The key bases and assumptions of the PNSB Cash Flow Projections and SYABAS Cash Flow Projections as adopted by the Board and the Independent Valuer are as set out in Section 4 of the PNSB Valuation Letter and SYABAS Valuation Letter, respectively.

The valuation parameters used by the Independent Valuer for the valuation of PNSB's water concession business and SYABAS are as set out in Section 3 of the PNSB Valuation Letter and SYABAS Valuation Letter, respectively.

The PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value based on the DCF valuation conducted by the Independent Valuer are as summarised in the table below.

No.	**Subject matters**	**Amount RM'million**
1.	PNSB Fair Value	1,262 to 1,442
2.	SYABAS Fair Value	925 to 1,057
3.	SYABAS RCULS Fair Value	198
Total		2,385 to 2,697

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KAF Investment's comments

(i) Summary of valuation methodologies

The valuation methodologies adopted by the Independent Valuer in conjunction with PNSB Fair Value, SYABAS Fair Value and SYABAS RCULS Fair Value can be summarised as those displayed in the table below.

No.	Subject matters	Workings	Valuation methodologies
1.	PNSB Fair Value	A	DCF Method
2.	SYABAS Fair Value	B	DCF Method
3.	SYABAS RCULS Fair Value	C	DCF Method

In establishing PNSB Fair Value and SYABAS Fair Value, the Independent Valuer had used the DCF Method. The Independent Valuer had selected DCF Method after taking into consideration that:-

(i) PNSB holds five water treatment concessions, the nature of the CA Related Business whereby the income and expenditure are predictable and the said water treatment concessions have finite life; and

(ii) SYABAS holds a concession for the supply and distribution of treated water in Selangor and the Federal Territories of Kuala Lumpur and Putrajaya, the DCF is more reflective of the income and expenditure of SYABAS and the said concession has a finite life.

The Independent Valuer first derived the firm value/EV of PNSB's water concession business and SYABAS by applying DCF Method which essentially calls for discounting the FCFF using WACC. This methodology adopted takes into account the net present value of all FCFF which also means factoring timing of cash flows and risk-adjusted required rate of return on capital into the appraisal.

The firm value/EV of PNSB's water concession business and SYABAS consists of the equity value and the debt value of the same. The valuation that is pertinent to the prospective acquirer of the equity stakes in respect of PNSB's water concession business and that of SYABAS is the equity value of PNSB's water concession business and SYABAS. As such, to derive the respective equity value of PNSB's water concession business and SYABAS from their respective firm value/EV, the Independent Valuer had added their respective cash and bank balances as at 30 June 2014 and deducted their respective market value of the existing debts as at 30 June 2014 from their respective firm value/EV.

As PNSB and SYABAS are private companies, an illiquidity discount of 20.00% to 30.00% was applied by the Independent Valuer in the valuation of PNSB's water concession business and SYABAS.

Although the equity interests to be disposed by PNHB pursuant to the Proposed Disposals are controlling stakes (100.00% equity interest in PNSB pursuant to the Proposed PNSB Disposal and 70.00% equity interest in SYABAS pursuant to the Proposed SYABAS Disposal), the Independent Valuer was of the opinion that the control premium attached to PNSB's water concession business and SYABAS is negligible as prior consent is required from the relevant authorities for any change in major water concessionaires and the powers vested with the Federal Government under Section 114 of the WSIA.

As the RM245.0 million nominal value of redeemable convertible unsecured loan stocks issued by SYABAS is treated as a liability and is assumed to be fully redeemed, the Independent Valuer had derived the SYABAS RCULS Fair Value by discounting the future cash flows attributable to the said RM245.0 million nominal value of redeemable convertible unsecured loan stocks issued by SYABAS using the estimated cost of debt of SYABAS.

(ii) Valuation parameters

(a) Equity value

Equity value is the value of a company attributable to the owners or shareholders. The Independent Valuer had computed PNSB Fair Value and SYABAS Fair Value using the formula stated below.

Equity value = EV/Firm value + Cash and bank balances - Market value of the existing debts

(b) FCFF

FCFF is the free cash flows available to the firm or capital holders of PNSB's water concession business and SYABAS after taking into consideration all operating incomes, operating expenses, movement in working capital, net investing cash flows including, but not limited to, capital expenditure and disposals of non-current assets and tax obligations. The value derived from the DCF valuation of the FCFF is equal to the net present value of all expected FCFF discounted at the appropriate tax-adjusted WACC.

(c) WACC

WACC used to discount the cash flows to the firm relates to the risk-adjusted rate of return on PNSB's water concession business and SYABAS as required by a generic capital holder.

For the purpose of determining the WACC of PNSB's water concession business and SYABAS, the Independent Valuer have considered the cost of equity of PNSB's water concession business and SYABAS, equity risk premium of PNSB's water concession business and SYABAS, risk free return on investment in long term MGS, expected Malaysia’s market return, systematic risk or Beta (β) of PNSB's water concession business and SYABAS, after tax cost of debt of PNSB's water concession business and SYABAS and capital structure of PNSB's water concession business and SYABAS.

The Independent Valuer had computed the WACC of PNSB's water concession business and SYABAS using the formula as stated below.

$$\mathbf{WACC} = \frac{E}{D + E}(K_e) + \frac{D}{D + E}(K_d)(1 - T)$$

Where:-

E	**=**	**proportion of equity of the capital structure**
D	**=**	**proportion of debt of the capital structure**
K_e	**=**	**cost of equity**
K_d	**=**	**cost of debt**
T	**=**	**statutory tax rate at 24%**

The valuation parameters adopted by the Independent Valuer in computing the WACC of PNSB's water concession business and SYABAS are as shown in the table below.

No.	Parameters	Key assumptions/Explanatory statements
1.	Risk free rate (R_f)	The R_f is the rate of return on ten-year MGS which is 3.96%. *(Source: Bloomberg)*
2.	Beta (β)	β for PNSB's water concession business and SYABAS are measures of the performance of PNSB and SYABAS relative to the market performance. <u>β for PNSB's water concession business</u> As PNSB is not a listed company, the Independent Valuer had extracted the unlevered β of PNHB as a proxy of the unlevered β for PNSB's water concession business which is equivalent to 0.61. The unlevered β of 0.61 for PNSB's water concession business was then relevered to adjust for its capital structure, which translates to a levered β of 0.74. This levered β of 0.74 reflects that the rate of return of PNSB's water concession business is generally in the same direction as the FBM 100, but is less sensitive than the movement in the said market index. <u>β for SYABAS</u> As SYABAS is not a listed company, the Independent Valuer had extracted the unlevered β of PNHB as a proxy of the unlevered β for SYABAS which is equivalent to 0.61. The unlevered β of 0.61 for SYABAS was then relevered to adjust for its capital structure, which translates to a levered β of 1.51. This levered β of 1.51 reflects that the rate of return of SYABAS is generally in the same direction as the FBM 100, but is more sensitive than the movement in the said market index.

No.	Parameters	Key assumptions/Explanatory statements
3.	Expected market return (R_m)	R_m is the annual equity market return of Malaysia, which is 9.60%. *(Source: Bloomberg)*
4.	Cost of equity (K_e)	The respective K_e of PNSB's water concession business and SYABAS are derived based on the CAPM, using the formula below:- $K_e = R_f + \beta \times (R_m - R_f)$ Based on the CAPM, the Independent Valuer had computed K_e to be 8.10% and 12.45% for PNSB's water concession business and SYABAS respectively.
5.	After tax cost of debt $(K_d)(1 - T)$	$(K_d)(1 - T)$ is the effective rate that a company pays on its debts, after taking into consideration the tax deductible element of interest expense. The tax rate adopted in the computation of $(K_d)(1 - T)$ of PNSB's water concession business and SYABAS is the statutory tax rate of 24%. The Independent Valuer had computed $(K_d)(1 - T)$ of 5.97% and 6.35% for PNSB's water concession business and SYABAS respectively.
6.	Capital structure	The debt to equity ratio of PNSB's water concession business adopted by the Independent Valuer is 0.28, which is based on the simple average of the debt to equity ratio during the period from FYE 31 December 2014 to FYE 31 December 2020. The debt to equity ratio of SYABAS adopted by the Independent Valuer is 1.95, which is based on the simple average of the debt to equity ratio during the period from FYE 31 December 2014 to FYE 31 December 2034.
7	Reference date for valuation parameters	30 June 2014, being the date used for R_f, β for PNSB's water concession business and SYABAS, R_m and $(K_d)(1 - T)$

Based on the above, the Independent Valuer had computed the WACC of 7.64% and 8.41% for PNSB's water concession business and SYABAS respectively.

We are satisfied with the basis of the parameters adopted by the Independent Valuer for the R_f, R_m and β for PNSB's water concession business and SYABAS. We opine that the profile of the said MGS being used as a proxy for R_f as being reasonable given, among others, the tenure of the said MGS and it being issued by the Federal Government. The R_m is computed using the FBM 100 as a proxy and it is consistent with the valuation methodology. In addition, the selection of the comparable company for the computation of the β for PNSB's water concession business and SYABAS is acceptable and the methodology used to arrive at the said β is consistent with valuation methodology.

In addition, the other parameters adopted by the Independent Valuer are consistent with the valuation methodologies.

(d) Terminal value

Terminal value is the present value at a future point in time of all future cash flows, growing at an assumed constant rate to perpetuity. However, as both the water concession businesses of PNSB and SYABAS have a finite timeframe, no terminal value is assumed in this DCF valuation.

(e) Illiquidity discount

A factor which may have an impact on valuation is the liquidity of the asset, i.e. the extent to which the asset can be freely bought and sold. For example, there may be an argument for the case that a publicly listed asset can be more freely traded than a similar asset which is not, thus the former should command a "liquidity premium". Under this scenario, an argument for a discount to the DCF valuation for PNSB's water concession business and SYABAS can be put forward. An illiquidity discount of 20.00% to 30.00% was applied by the Independent Valuer in the valuation of PNSB's water concession business and SYABAS.

We note that there is a lack of a set of readily available empirical data or database that could be analysed and compared against in arriving at the specific illiquidity discount of PNSB's water concession business and SYABAS and as such the illiquidity discount ranging from 20.00% to 30.00% adopted by the Independent Valuer is based on a rule of thumb [(1)].

Note:-

(1) Aswath Damodaran, in his book titled "Investment Valuation: Tools and Techniques for Determining the Value of Any Asset", discussed on similar range as a rule of thumb. In addition, based on case law in Business Valuation: Discounts and Premiums by Shannon P. Pratt, the estimated illiquidity discount ranging from 20.00% to 30.00% fall within the range.

(f) Control premium

The acquirers are often prepared to pay a "control premium" for buying a controlling stake in an asset. Under this scenario, an argument can be put for a premium to be applied to the DCF valuation of PNSB's water concession business and SYABAS.

The Independent Valuer was of the opinion that the control premium attached to PNSB's water concession business and SYABAS is negligible as prior consent is required from the relevant authorities for any change in major water concessionaires and the powers vested with the Federal Government under Section 114 of the WSIA.

(iii) Valuation of PNSB's water concession business

(a) DCF valuation of PNSB's water concession business

Using the DCF Method, PNSB Fair Value as at 30 June 2014 is as summarised in the table below.

No.	Items	Workings	Units	Values
1.	Firm value/EV of PNSB's water concession business	A	RM'million	3,386
2.	Add : Cash and bank balances of PNSB attributable to the PNSB's water concession business as at 30 June 2014	B	RM'million	160
3.	Less : Market value of debts attributable to the PNSB's water concession business as at 30 June 2014	C	RM'million	1,743
4.	Equity value of PNSB's water concession business (prior to the imputation of the illiquidity discount)	D = A + B - C	RM'million	1,803
5.	Illiquidity discount	E = D * (20.00% to 30.00%)	RM'million	361 to 541
6.	PNSB Fair Value	F = D - E	RM'million	1,262 to 1,442

(b) Key bases and assumptions of the PNSB Cash Flow Projections

Kindly refer to Section 4 of the PNSB Valuation Letter for the key bases and assumptions of the PNSB Cash Flow Projections as adopted by the Board and the Independent Valuer.

We wish to highlight that any significant departure in the assumptions mentioned therein would have a material impact on the PNSB Fair Value. The DCF valuation of PNSB is based on prevailing economic, market and other conditions as at the date of valuation, as well as publicly available information and information provided by the Group and such conditions may change significantly over a short period of time. The resultant effect of such changes may materially and/or adversely affect the valuation.

We would like to highlight on a few of the key bases and assumptions of PNSB Cash Flow Projections which we believe are critical to the achievability of the figures contained in the PNSB Cash Flow Projections, which are as summarised in the table below.

No.	Key bases and assumptions of PNSB Cash Flow Projections	KAF Investment's comments
1.	The long term receivables owed by SYABAS to PNSB amounting to RM3,000 million as at 31 December 2017 (prior to the collection of any of the said long term receivables in FYE 31 December 2017) is assumed to be fully paid by SYABAS in FYE 31 December 2017 and FYE 31 December 2018 (RM570 million in FYE 31 December 2017 and RM2,430 million in FYE 31 December 2018) and the late payment interest associated with the said long term receivables amounting to RM1,284 million is assumed to be paid by SYABAS on a staggered basis and when cash flow of SYABAS permits during the period between FYE 31 December 2018 to FYE 31 December 2030.	Without the collection of both the said long term receivables and the said late payment interest, PNSB appears to be in a cash deficit position of RM78 million as at 31 December 2017 and RM928 million as at 31 December 2018 and may be unable to fulfill its debt obligation which may lead to, among others, event of default and legal proceedings. If PNSB is able to collect the said long term receivables but fails to collect the said late payment interest, the PNSB Fair Value may be negatively affected by RM244 million to RM279 million (after imputation of the illiquidity discount of 20.00% to 30.00%), which translate to a PNSB Fair Value of RM1,018 million to RM1,163 million.
2.	The RSBs and BAIDs which are due for repayment in FYE 31 December 2016 will be restructured or refinanced, whichever case it may be, and repayment is scheduled to be in FYE 31 December 2017 and FYE 31 December 2018, respectively.	Without the said restructuring or refinancing, PNSB appears to be in a cash deficit position of RM1,281 million as at 31 December 2016 and may be unable to fulfill its debt obligation which may lead to, among others, event of default and legal proceedings.

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(iv) Valuation of SYABAS

(a) DCF valuation of SYABAS

Using the DCF Method, SYABAS Fair Value as at 30 June 2014 is as summarised in the table below.

No.	Items	Workings	Units	Values
1.	Firm value/EV of SYABAS	A	RM'million	3,747
2.	Add : Cash and bank balances of SYABAS as at 30 June 2014	B	RM'million	936
3.	Less : Market value of debts of SYABAS as at 30 June 2014	C	RM'million	(3,362)
4.	Equity value of SYABAS (prior to the imputation of the illiquidity discount)	D = A + B - C	RM'million	1,321
5.	Illiquidity discount	E = D * (20.00% to 30.00%)	RM'million	264 to 396
6.	SYABAS Fair Value	F = D - E	RM'million	925 to 1057

(b) Key bases and assumptions of the SYABAS Cash Flow Projections

Kindly refer to Section 4 of the SYABAS Valuation Letter for the key bases and assumptions of the SYABAS Cash Flow Projections as adopted by the Board and the Independent Valuer.

We wish to highlight that any significant departure in the assumptions mentioned therein would have a material impact on SYABAS Fair Value. The DCF valuation of SYABAS is based on prevailing economic, market and other conditions as at the date of valuation, as well as publicly available information and information provided by SYABAS and such conditions may change significantly over a short period of time. The resultant effect of such changes may materially and/or adversely affect the valuation.

We would like to highlight on a few of the key bases and assumptions of SYABAS Cash Flow Projections which we believe are critical to the achievability of the figures contained in the SYABAS Cash Flow Projections as follows:-

No.	Key bases and assumptions of SYABAS Cash Flow Projections	KAF Investment's comments
1.	Water tariff adjustment in accordance with the provisions of the SYABAS Concession Agreement is expected to resume on 1 January 2017.	Without the said water tariff adjustment and corresponding water tariff compensation and also the collection of water tariff compensation for the FYE 31 December 2009 to FYE 31 December 2016, SYABAS appears to be in a cash deficit position of RM2,235 million as at 31 December 2017 (assuming SYABAS will still pay the water treatment operators the amount as projected in the SYABAS Cash Flow Projections in FYE 31 December 2017) and may be unable to fulfill its debt obligation which may lead to, among others, event of default and legal proceedings.
2.	Water tariff compensation as computed in accordance with the SYABAS Concession Agreement for the FYE 31 December 2009 to FYE 31 December 2016 amounting to RM7,519 million as at 31 December 2016 is assumed to be collected from the State Government in FYE 31 December 2017 and FYE 31 December 2018 (RM1,054 million in FYE 31 December 2017 and RM6,465 million in FYE 31 December 2018).	If SYABAS fails to collect the said water tariff compensation due from the State Government, SYABAS appears to be in a cash deficit position of RM928 million as at 31 December 2017 and a cash deficit position of RM6,740 million as at 31 December 2018 (assuming SYABAS will still pay the water treatment operators the amount as projected in the SYABAS Cash Flow Projections in FYE 31 December 2017 and FYE 31 December 2018) and may be unable to fulfill its debt obligation which may lead to, amongst others, event of default and legal proceedings. Notwithstanding the above, SYABAS had initiated legal suit against the State Government to claim for the tariff compensation for the period from 1 January 2009 to 31 March 2011, which amounted to RM1,054 million. The solicitors in charge and handling this case is of the opinion that SYABAS' claim against the State Government has merit and is likely to succeed.

No.	Key bases and assumptions of SYABAS Cash Flow Projections	KAF Investment's comments
3.	The non-revenue water reduction program is expected to be carried out from FYE 31 December 2014 to FYE 31 December 2034 to reduce the non-revenue water.	In the event the non-revenue water reduction programme is not approved or allowed by SPAN and assuming the non- revenue water percentage remains at 34.53% (the non-revenue water percentage in FYE 31 December 2013), SYABAS will need to purchase more treated water and SYABAS appears to be in a cash deficit position of RM73 million as at 31 December 2022 and may be unable to fulfill its debt obligation which may lead to, among others, event of default and legal proceedings.
4.	The first issuance of BAMTN of RM1,030 million, which is due for redemption from FYE 31 December 2014 to FYE 31 December 2016 will be restructured or refinanced, whichever case it may be, and repayment is scheduled to be in FYE 31 December 2017.	Without the said restructuring or refinancing, SYABAS appears to be in a cash deficit position of RM354.35 million as at 31 December 2015 and may be unable to fulfill its debt obligation which may lead to, among others, event of default and legal proceedings.
5.	An additional loan of RM2,000 million is expected to be obtained in the FYE 31 December 2018 at an interest rate of 8.35%.	Without the said additional loan, SYABAS appears to be in a cash deficit position of RM1,217 million as at 31 December 2018 and may be unable to fulfill its debt obligation which may lead to, amongst others, event of default and legal proceedings.

(v) Valuation of SYABAS RCULS

Using the DCF Method, SYABAS RCULS Fair Value as at 30 June 2014 is RM198 million.

(vi) Discount of the Disposal Consideration over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value

Based on the DCF valuation conducted by the Independent Valuer, the discount/premium of the PNSB Disposal Consideration, SYABAS Shares Disposal Consideration, SYABAS RCULS Disposal Consideration and Disposal Consideration over the range of PNSB Fair Value, the range of 70.00% of SYABAS Fair Value, approximately 86.53% of SYABAS RCULS Fair Value and the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value respectively are as summarised below.

(a) Discount of the PNSB Disposal Consideration over the range of PNSB Fair Value

Range of PNSB Fair Value	PNSB Disposal Consideration	Discount of the PNSB Disposal Consideration over the range of PNSB Fair Value	
RM'million	RM'million	RM'million	%
1,262 to 1,442	1,117.5	144.5 to 324.5	11.45 to 22.50

(b) Discount of the SYABAS Shares Disposal Consideration over the range of 70.00% of SYABAS Fair Value

Range of 70.00% of SYABAS Fair Value	SYABAS Shares Disposal Consideration	Discount of the SYABAS Shares Disposal Consideration over the range of 70.00% of SYABAS Fair Value	
RM'million	RM'million	RM'million	%
648 to 740	225.8	422.2 to 514.2	65.15 to 69.49

(c) Premium of the SYABAS RCULS Disposal Consideration over approximately 86.53% of SYABAS RCULS Fair Value

Approximately 86.53% RCULS Fair Value	SYABAS RCULS Disposal Consideration	Premium of the SYABAS RCULS Disposal Consideration over approximately 86.53% of SYABAS RCULS Fair Value	
RM'million	RM'million	RM'million	%
171	212.0	41.0	23.98

(d) Discount of the Disposal Consideration over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value

Range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value	Disposal Consideration	Discount of the Disposal Consideration over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value	
RM'million	RM'million	RM'million	%
2,081 to 2,353	1,555.3	525.7 to 797.7	25.26 to 33.90

7.1.2 Fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value - Comparison of the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company

In cross-checking the fairness of the Proposed Disposals, we have also compared the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company. The shareholders of PNHB should note that this assessment is just for cross-checking purpose and our primary methodology in assessing the fairness of the Proposed Disposals is based on the DCF valuation conducted by the Independent Valuer.

We have applied the implied relative valuation multiples as stated in the table below.

No.	Valuation multiple	General description
1.	PE	PE multiple is a valuation methodology which compares an entity's share price against its EPS. PE multiple is sometimes referred to as "price multiples" or "earnings capitalisation" because it represents how much an informed buyer is willing to pay for every RM of an entity's earnings.
2.	PB	PB multiple is a valuation methodology used where the values of the entity being valued is derived by comparing the entity's market prices against its book value.
3.	EV/EBITDA	EV is an economic measure reflecting the market value for the ownership of the whole business or entity, which encompasses the combination of the values of equity and debt of an entity. EV used in calculating this ratio is calculated as market capitalisation plus debt and minority interest, minus total cash and cash equivalents. In essence, apart from the equity value which is observed based on the market capitalisation of the entity, it calls for the payment for debt owing by the entity as well as minority interest, by a buyer who so desires to own the whole business or entity. Payment of debt is deemed to be necessary as such debt is owed by the entity and takes precedence on claim over the entity's assets ahead of equity holders. Likewise, minority interest is the portion of the business not belonging to the entity thus is a necessary cost to be incurred in the event the buyer so desires to own the whole business or entity. As such, the computation of EV requires the imputation of debt and minority interest towards the cost of acquiring an entity. EV/EBITDA multiple is commonly used in valuation methodology as EBITDA is earnings of the entity not affected by the capital structure, different leverage level and borrowing cost, taxation planning, efficient or otherwise, as well as different depreciation and amortisation policies of the entity which may be influenced by the capital expenditure programme of the entity being valued.

Illiquidity discount may or may not exist in the Disposal Consideration but certainly not or negligible, if any, in the market price of the selected comparable company. For the purpose of this assessment only, we have assumed 20.00% to 30.00% illiquidity discount in the Disposal Consideration.

The table below sets out the adjusted PE multiple, adjusted PB multiple and adjusted EV/EBITDA multiple of the selected comparable company based on its closing market price as at 10 June 2014, being the last trading date prior to the announcement by the Company in relation to the agreement-in-principle for the Proposed Disposals and the implied adjusted multiples of PNSB's water concession business and SYABAS based on the Disposal Consideration.

Companies	FYE	Market	Par value RM	Principal activities	Market capitalisation as at 10 June 2014 RM'million	Adjusted PE [1] times	Adjusted PB [1] times	Adjusted EV/EBITDA [1] times
PNHB	31-Dec-13	Main	1.00	PNHB is an investment holding company. Through its subsidiary companies, the Company operates, maintains, manages, constructs and undertakes the rehabilitation and refurbishment of water treatment facilities. PNHB also operates, manages, maintains, and monitors the operation of dams.	1,276.78	7.52	0.73	7.98
PNSB's water concession business	31-Dec-13	Unlisted	1.00	PNSB is principally involved in the operation, maintenance, management, construction, rehabilitation and refurbishment of water treatment facilities.	[2] 1,117.50	4.56	0.94	5.89
SYABAS	31-Dec-13	Unlisted	1.00	SYABAS is principally involved in the supply and distribution of treated water within Selangor and the Federal Territories of Kuala Lumpur and Putrajaya and other water related services.	[3] 322.57	[4] n.a.	[5] n.a.	4.13
PNSB's water concession business and SYABAS, collectively	31-Dec-13	Unlisted	1.00	Not applicable.	[6] 1,440.07	9.80	[7] n.a.	3.64
PNSB's water concession business and SYABAS, collectively (after reversal of 20.00% illiquidity discount)	31-Dec-13	Unlisted	1.00	Not applicable.	[8] 1,728.09	11.75	[7] n.a.	[8] 4.91
PNSB's water concession business and SYABAS, collectively (after reversal of 30.00% of illiquidity discount)	31-Dec-13	Unlisted	1.00	Not applicable.	[9] 1,872.09	12.73	[7] n.a.	[9] 5.02

Notes:-

(1) *The PAT attributable to the owners of the company, NA and EBITDA of the selected comparable company, PNSB's water concession business and SYABAS have been normalised after taking into account the reversal of one-off incomes/expenses (net of taxes) such as tax indemnity received from previous shareholder of a subsidiary company, gain on disposal of short term investment, property, plant and equipment written off, loss on disposal of property, plant and equipment and gain on disposal of property, plant and equipment.*

(2) *Based on PNSB Disposal Consideration.*

(3) *Based on SYABAS Shares Disposal Consideration (adjusted based on the assumption that the entire equity interest in SYABAS is disposed).*

(4) *Not available due to SYABAS incurred LAT in FYE 31 December 2013.*
(5) *Not available due to net liabilities position of SYABAS as at 31 December 2013.*
(6) *Based on the aggregate of PNSB Disposal Consideration and SYABAS Shares Disposal Consideration (adjusted based on the assumption that the entire equity interest in SYABAS is disposed).*
(7) *Not available due to the aggregate net liabilities position of PNSB's water concession business and SYABAS as at 31 December 2013.*
(8) *Based on the aggregate of PNSB Disposal Consideration and SYABAS Shares Disposal Consideration (adjusted based on the assumption that the entire equity interest in SYABAS is disposed) and after taking into effect the reversal of 20.00% illiquidity discount.*
(9) *Based on the aggregate of PNSB Disposal Consideration and SYABAS Shares Disposal Consideration (adjusted based on the assumption that the entire equity interest in SYABAS is disposed) and after taking into effect the reversal of 30.00% illiquidity discount.*

(Sources: Based on the Annual Report of the selected comparable company for the FYE 31 December 2013 and the financial results of PNSB's water concession business and SYABAS for the FYE 31 December 2013)

KAF Investment's comments

From the table above, we note that:-

(i) the implied adjusted PE multiples of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) of 11.75 times to 12.73 times based on the financial results of PNSB's water concession business and SYABAS for the FYE 31 December 2013 is higher than the adjusted PE multiple of the selected comparable company of 7.52 times; and

(ii) the implied adjusted EV/EBITDA multiples of the Disposal Consideration of 4.91 times to 5.02 times based on the financial results of PNSB's water concession business and SYABAS for the FYE 31 December 2013 is lower than the adjusted EV/EBITDA multiple of the selected comparable company of 7.98 times.

We have not compared the implied adjusted PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) against the adjusted PB multiple of the selected comparable company in view of the aggregate net liabilities position of PNSB's water concession business and SYABAS based on their financial position as at 31 December 2013.

Premised on the above, we note that the Disposal Consideration is fair based on adjusted PE multiple of the selected comparable company, but is not fair based on adjusted EV/EBITDA multiple of the selected comparable company.

However, one should recognise that there is no company listed on Bursa Securities which may be considered to be identical to PNSB and SYABAS in terms of, *inter-alia,* composition of business activities, scale of business operations, risk profile, asset base, accounting and tax policies, track record, future prospects, competitive environment, financial positions and that such business may have fundamentally different profitability objectives. Hence, the fairness of the Disposal Consideration should not be determined solely by the comparison of the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company. The shareholders of PNHB should take note of the DCF valuation as conducted by the Independent Valuer as set out in Section 7.1.1 of this IAC, which is our primary methodology in assessing the fairness of the Disposal Consideration.

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7.1.3 Fairness of the Proposed Disposals

As the DCF valuation conducted by the Independent Valuer is our primary methodology in assessing the fairness of the Disposal Consideration, the Disposal Consideration is considered **NOT FAIR** as it represents discount over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value.

The implied adjusted EV/EBITDA multiples of the Disposal Consideration are also lower than the adjusted EV/EBITDA multiple of the selected comparable company.

However, the implied adjusted PE multiples of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) are higher than the adjusted PE multiple of the selected comparable company.

Given that there is no company listed on Bursa Securities which may be considered to be identical to PNSB and SYABAS, the comparison of the implied multiples of the Disposal Consideration against the traded multiples of the selected comparable company should bear less significance as compared with the DCF valuation conducted by the Independent Valuer, which is as set out in Section 7.1.1 of this IAC.

As stated above, the shareholders of PNHB should take note that the DCF valuation conducted by the Independent Valuer is our primary methodology in assessing the fairness of the Disposal Consideration.

Premised on the above, the Proposed Disposals are considered **NOT FAIR**.

7.2 Assessment of the reasonableness of the Proposed Disposals

In considering whether the Proposed Disposals are reasonable, in accordance with paragraphs 3.4 and 3.5 of Practice Note 15 of the Code, we have examined other significant factors to which the shareholders of PNHB may consider prior to accepting or rejecting the Proposed Disposals. The criteria in determining the reasonableness of the Proposed Disposals are as set out in the preceding Section 7 of this IAC.

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7.2.1 Salient terms of the SPA

7.2.1.1 KAF Investment's comments on the salient terms of the SPA

Our comments on the salient terms of the SPA as set out in Section 2.3 of the Circular are as set out below.

No.	Salient terms of the SPA	Our comments
1.	Pursuant to the SPA, PNHB agrees to sell and Air Selangor agrees to purchase the following:- (i) PNSB Shares; (ii) PNSB CCRPS; (iii) SYABAS Shares; and (iv) SYABAS RCULS, free from all encumbrances and together with all rights, benefits and accrued and unpaid dividends, interest or other entitlements attaching to them.	We note that 2,500,000 of the ordinary shares of RM1.00 each in PNSB and 16,800,000 of the ordinary shares of RM1.00 each in SYABAS are subject to a charge which was created in favour of the holders of RCSSI. As such, the sale of the said ordinary shares of RM1.00 each in PNSB and the said ordinary shares of RM1.00 each in SYABAS shall require the approval from the said holders. The term of the sale and purchase of PNSB Shares, PNSB CCRPS, SYABAS Shares and SYABAS RCULS is reasonable as they shall be sold and transferred to Air Selangor free from all encumbrances and together with all rights, benefits and accrued and unpaid dividends, interest or other entitlements attaching to them. PNHB will procure the consent from the holders of RCSSI to affect the Proposed Disposals.
2.	Disposal Consideration The Proposed Disposals involve the Disposal Consideration of RM1,555.3 million comprising:- (i) RM1,069.5 million for the PNSB Shares and RM48.0 million for the PNSB CCRPS; and (ii) RM225.8 million for the SYABAS Shares and RM212.0 million for the SYABAS RCULS.	The Disposal Consideration of RM1,555.3 million comprising RM1,117.5 million for the Proposed PNSB Disposal and RM437.8 million for the Proposed SYABAS Disposal is mutually agreed by both Air Selangor and PNHB. Kindly refer to Section 7.1 of this IAC for our assessment of the fairness of the Disposal Consideration.
3.	Payment terms An earnest deposit of RM1.0 million ("Earnest Deposit") shall be paid by Air Selangor to PNHB one business day from the date of the execution of the SPA, whilst the balance purchase price of RM1,554.3 million (“Balance Purchase Price”) shall be paid by Air Selangor to PNHB free of interest at Completion (as defined in Section 2.3.7 of the Circular).	This payment term is reasonable. The Earnest Deposit represents the commitment of Air Selangor in affecting the Proposed Disposals.

No.	Salient terms of the SPA	Our comments
4.	Terms	
	(i) Air Selangor will assume all the CA Related Business (including all CA related assets and liabilities), PNSB's CA related employees, SYABAS' employees and employees of PUAS upon Completion (as defined in Section 2.3.7 of the Circular).	(i) As the Proposed Disposals are to facilitate the Proposed Restructuring, it is reasonable for Air Selangor to only assume all the CA Related Business (including all CA related assets and liabilities), PNSB's CA related employees, SYABAS' employees and employees of PUAS upon completion of the Proposed Disposals.
	(ii) Concurrent with the Proposed Disposals, PNHB shall cause and procure PNSB to effect the following on the date falling seven days after the date on which the last of the special covenants and the conditions precedent (which have not been otherwise waived by Air Selangor) have been fulfilled and satisfied ("Completion Date of the SPA"):-	(ii) This clause outlines the course of actions to be taken by PNHB to facilitate, among others, the return of non-CA related business (including all non-CA related assets and liabilities) and non-CA related employees by PNSB to PNHB Group.
	(a) the transfer by PNSB of all of the shares in Unggul Raya (M) Sdn Bhd and Ideal Water Resources Sdn Bhd to PNHB and/or its subsidiaries;	(a) This clause is reasonable as Air Selangor only acquires the CA Related Business. As such, all of the shares in Unggul Raya (M) Sdn Bhd and Ideal Water Resources Sdn Bhd, both of which have ceased operation, shall be returned to PNHB Group.
	(b) the transfer of PNSB's non-CA related real properties ("Properties"), the non-CA related assets and the non-CA related motor vehicles by PNSB to PNHB and/or its subsidiaries;	(b) This clause is reasonable as Air Selangor only acquires the CA Related Business. As such, the Properties, the non-CA related assets and the non-CA related motor vehicles shall be returned to PNHB Group.
	(c) the novation of the non-CA related contracts and the specified non-CA contract to PNHB and/or its subsidiaries together with all liabilities and/or receivables arising therefrom;	(c) This clause is reasonable as Air Selangor only acquires the CA Related Business. As such, the non-CA related contracts and the specified non-CA contract with all liabilities and/or receivables arising therefrom shall be novated to PNHB Group.
	(d) the novation of all non-CA related liabilities to PNHB and/or its subsidiaries;	(d) This clause is reasonable as Air Selangor only acquires the CA Related Business. As such, the non-CA related liabilities shall be novated to PNHB Group.
	(e) the transfer of PNSB's non-CA related employees	(e) This clause is reasonable as Air Selangor only acquires the CA Related

No.	Salient terms of the SPA	Our comments
	to PNHB and/or its subsidiaries;	Business. As such, the non-CA related employees shall be transferred to PNHB Group.
	(f) the cancellation of PNSB's non-CA related performance bonds issued by RHB Bank Berhad and United Overseas Bank Berhad and termination of the facility granted by United Overseas Bank (Malaysia) Berhad to PNSB;	(f) This clause is reasonable as Air Selangor only acquires the CA Related Business. As such, the non-CA related performance bonds of PNSB shall be cancelled and the non-CA related facility granted to PNSB shall be terminated.
	(g) the transfer and/or novation of PNSB's non-CA related tenders submitted by PNSB prior to the date of the SPA, and all contracts arising from the acceptance of such tenders by the relevant counterparties to PNHB and/or its subsidiaries; and	(g) This clause is reasonable as Air Selangor only acquires the CA Related Business. As such, the non-CA related tenders and all contracts arising from acceptance of such tenders shall be transferred and/or novated to PNHB Group.
	(h) the waiver by PNSB of a sum not exceeding RM350.0 million due and owing by PNHB and its subsidiaries to PNSB.	(h) The waiver of by PNSB of a sum not exceeding RM350.0 million due and owing by PNHB Group to PNSB are mutually agreed by PNHB and Air Selangor. As at the LPD, the net amount due and owing by PNHB Group to PNSB amounted to RM319.93 million. Assuming the said amount remains at the Completion Date of the SPA, upon completion of the Proposed Disposals, no amount will be owed by PNHB Group to PNSB.
5.	Conditions Precedent The Proposed Disposals are conditional upon the following conditions precedent being fulfilled not later than two months from the date of the SPA, or any other extended date as the parties may mutually agree in writing:- (i) the unconditional approvals of the Government of Malaysia ("Federal Government") through the Unit Kerjasama Awam Swasta of the Prime Minister's Department (in satisfaction of the approval required from the Economic Planning Unit of the	 We note that these conditions are prerequisites for the Proposed Disposals to be completed within two months from the date of the SPA, or any other extended date as the parties may mutually agree in writing. (i) This approval is required as pursuant to clause 24.4 of the SYABAS Concession Agreement, any intention to change the shareholders and the shareholding structure of SYABAS after the period of the three years from the date of the SYABAS Concession Agreement, i.e. 15 December 2004 shall require the prior written approval

No.	Salient terms of the SPA	Our comments
	Prime Minister's Department), the State Government (through the Economic Planning Unit of the State Government), the SPAN and the Minister of Finance Incorporated;	of the Federal Government through the Economic Planning Unit, the Prime Minister's Department and the prior written approval of the State Government through the Unit Perancang Ekonomi Negeri. Further, pursuant to Section 109 of WSIA, in the event of any change in the shareholding in the licensee, which is PNSB and SYABAS, as the case may be, such change shall require the prior approval of SPAN. Finally, pursuant to the Golden Share held by the Minister of Finance Incorporated in SYABAS based on the rights attached to the said Golden Share as stated in the Appendix XIII of the SYABAS Concession Agreement, the approval of Minister of Finance Incorporated shall be obtained for the proposed disposal by PNHB of 70.00% equity interest held in SYABAS to Air Selangor.
	(ii) the approval of the shareholders of PNHB;	(ii) This approval is required to be in compliance with the Listing Requirements.
	(iii) the unconditional approvals of ACQUA SPV Bhd and the respective trustees of the bonds issued by PNSB and SYABAS, namely PB Trustee Services Berhad, OSK Trustees Berhad and CIMB Investment Bank Berhad;	(iii) This approval is required pursuant to the covenants imposed by the bondholders of PNSB and SYABAS.
	(iv) the unconditional approvals of RHB Bank Berhad and Bank Pembangunan Malaysia Berhad;	(iv) This approval is required pursuant to the covenants imposed by the financiers of PNSB and SYABAS.
	(v) (1) the approval of the holders of the RCSSI; and (2) the release and discharge of the existing charge over 2,500,000 of the ordinary shares of RM1.00 each in PNSB and 16,800,000 of the ordinary shares of RM1.00 each in SYABAS in favour of PB Trustee Services Berhad ("Charge") and in connection thereto, the approval of PB Trustee Services Berhad having been obtained for the release and discharge of the Charge and all documents relating thereto having been duly executed by the relevant parties and where relevant, filed with the Companies Commission of Malaysia;	(v) This approval and the release and discharge of the Charge are required, as the PNSB Shares and SYABAS Shares shall be sold and transferred to Air Selangor free from all encumbrances and together with all rights, benefits and accrued and unpaid dividends, interest or other entitlements attaching to them.

No.	Salient terms of the SPA	Our comments
	(vi) the execution of each of the (1) agreement between the State Government and Air Selangor for the transfer of water-supply related assets to Air Selangor; (2) the master agreement executed by Air Selangor, Pengurusan Aset Air Berhad ("PAAB"), the State Government and the Federal Government for the transfer to PAAB of water-supply related assets ("Master Agreement"); and (3) the lease agreement and facility agreement between Air Selangor and PAAB for the leaseback of the water-supply related assets acquired by PAAB (collectively, the "Transfer Agreements");	(vi) The execution of the Transfer Agreement is to facilitate the Proposed Restructuring and is pursuant to the new model for the water concession business in the State of Selangor, Federal Territory of Kuala Lumpur and Putrajaya as agreed by the State Government, Federal Government, Air Selangor and PAAB.
	(vii) the receipt by Air Selangor of (1) a written waiver by KPS of its pre-emption rights under the shareholders agreement dated 31 December 2004 entered into between PNHB, KDEB and SYABAS as supplemented by the supplemental shareholders' agreement dated 20 February 2009 entered into between PNHB, KDEB, SYABAS and KPS ("Shareholders Agreement"); and (2) KPS' written consent to terminate the Shareholders Agreement effective on the Completion Date of the SPA;	(vii) This waiver is required as under the Shareholders Agreement, KPS shall have the pre-emption rights for the change in shareholding of SYABAS. Such waiver is necessary to facilitate the Proposed Disposals.
	(viii) the due receipt by Air Selangor a sum not less than the Disposal Consideration paid by PAAB to Air Selangor under the Master Agreement ("PAAB Sum"); and	(viii) This clause is to ensure Air Selangor has adequate financial resources to affect the Proposed Disposals.
	(ix) the receipt by Air Selangor of a confirmation from PAAB that it is satisfied with the results of the due diligence inquiry carried out on PNSB, SYABAS and PUAS.	(ix) This is to safeguard the interest of PAAB as it will assume the water-supply related assets of PNSB, SYABAS and PUAS pursuant to the Master Agreement.
6.	Termination (i) Under the terms of the SPA, Air Selangor shall be entitled to issue to PNHB a written notice to terminate the SPA if, at any time before Completion (as defined in	 (i) This clause outlines the rights of Air Selangor to terminate the SPA in the event of any specific scenarios as mentioned herein taking place.

No.	Salient terms of the SPA	Our comments
	Section 2.3.7 of the Circular):- (a) PNHB:- (I) breaches any of the terms or conditions of the SPA which has a material adverse effect and is incapable of remedy, or if capable of remedy, is not remedied within fourteen business days of it being given notice to do so; or (II) fails to perform or observe any undertaking, obligation or agreement expressed or implied in the SPA which has a material adverse effect and is incapable of remedy, or if capable of remedy, is not remedied within fourteen business days of it being given notice to do so; (b) the occurrence of an insolvency event relating to PNHB and/or any of PNSB, SYABAS or PUAS; and (c) either PNHB, PNSB, SYABAS or PUAS commits any act or omits to do any act which results in the breach or non-fulfilment of any term or condition of any banking, finance or credit facility which results in an insolvency event.	Such termination clause is reasonable in view of the representations and warranties given by PNHB to Air Selangor under the SPA.

No.	Salient terms of the SPA	Our comments
	(ii) Upon termination of the SPA by Air Selangor:- (a) within five business days of the termination by Air Selangor, PNHB shall refund to Air Selangor the Earnest Deposit; and (b) within fourteen business days after receipt of the notice of termination, PNHB shall, inter alia, refund to Air Selangor any moneys received by or on behalf of PNHB other than the Earnest Deposit.	(ii) This clause outlines the responsibility of PNHB upon the termination of the SPA by Air Selangor. Such termination clause is reasonable as PNHB shall return any moneys received including the Earnest Deposit to Air Selangor in the event the SPA is terminated as a result of breach of the representations and warranties given by PNHB to Air Selangor under the SPA.
	(iii) PNHB shall be entitled to issue to Air Selangor a written notice to terminate the SPA if, at any time before Completion (as defined in Section 2.3.7 of the Circular):- (a) Air Selangor fails and/or refuses to pay the Disposal Consideration to PNHB in accordance with the terms of the SPA; or (b) the occurrence of an insolvency event leading to Air Selangor.	(iii) This clause outlines the rights of PNHB to terminate the SPA in the event of any specific scenarios as mentioned herein taking place. Such termination clause is reasonable in view of the representations and warranties given by Air Selangor to PNHB under the SPA.
	(iv) Upon termination of the SPA by PNHB, inter alia, PNHB shall be entitled to forfeit the Earnest Deposit as agreed liquidated damages and thereafter, PNHB shall have no further claims against Air Selangor.	(iv) This clause outlines the entitlement of PNHB upon the termination of the SPA by PNHB. Such termination clause is reasonable in view of the representations and warranties given by Air Selangor to PNHB under the SPA.
	(v) Either Air Selangor or PNHB may terminate the SPA by notice in writing to the other if any of the parties to the Transfer Agreements breaches any of the terms or conditions of any of the Transfer Agreements which has a material adverse effect on Air Selangor's ability to complete the Proposed Disposals (other than the non-execution of the Transfer Agreements or the non-payment of the PAAB Sum which shall be dealt with as a non-fulfilment of a condition precedent) and thereafter, inter alia, PNHB shall	(v) This clause outlines the rights of Air Selangor and PNHB to terminate the SPA if any of the parties to the Transfer Agreements breaches any of the terms or conditions of any of the Transfer Agreements which has a material adverse effect on Air Selangor's ability to complete the Proposed Disposals, and the entitlement of PNHB should the said termination occurred. Such clause is not detrimental to the shareholders of PNHB as PNHB is able to forfeit the Earnest Deposit as agreed liquidated damages under such event.

No.	Salient terms of the SPA	Our comments
	be entitled to forfeit the Earnest Deposit as agreed liquidated damages and thereafter, PNHB shall have no further claims against Air Selangor.	
7.	PNHB warranties and indemnities In respect of the CA-related business, (a) where PNHB's liability is proven in respect of all monetary claims for breach of any of the warranties under the SPA ("Claims") to be less than RM10,000,000 in aggregate, Air Selangor shall not make any claim against PNHB for such amounts; and (b) where the amount of a Claim or a series of connected Claims exceeds RM10,000,000 in aggregate, Air Selangor shall be entitled to claim against PNHB for such excess amount only but subject to any such claim being made within eighteen months from the Completion Date of the SPA.	This clause outlines the monetary claims by Air Selangor against PNHB for breach of any of the warranties under the SPA. This clause is reasonable in view of the representations and warranties given by PNHB to Air Selangor under the SPA.
8.	Completion Completion shall take place on the Completion Date of the SPA.	This clause is reasonable as the Proposed Disposals shall be deemed completed on a date falling seven days after the last of the special covenants and the conditions precedent (which have been otherwise waived by Air Selangor) have been fulfilled and satisfied.

<u>KAF Investment's comments</u>

Premised on the above, we are of the opinion that the salient terms of the SPA are reasonable as far as the interests of PNHB are concerned and that the salient terms of the SPA are not detrimental to the interests of the shareholders of PNHB.

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7.2.2 Rationale for the Proposed Disposals

The rationale for the Proposed Disposals is as set out in Section 5 of the Circular.

KAF Investment's comments

We note that the Proposed Disposals is pursuant to the Proposed Restructuring.

Based on the representation by the management of PNHB of which had also been affirmed by the Board, we note that PNSB and SYABAS are facing various critical challenges and risk factors stemming from the events which include, but not limited to, the following:-

Critical challenge and risk factor faced by both PNSB and SYABAS

No.	Critical challenge/risk factor	Position of PNSB and SYABAS
1.	The possibility of the invocation of Section 114 of the WSIA by the Federal Government on PNSB and SYABAS	As mentioned in Section 8.2 of the Circular, in the event the Proposed Disposals are not completed, the Group may still be subjected to certain legal risks. Pursuant to Section 114 of the WSIA, the Federal Government can assume control of the whole or part of the property, business and affairs of a licensee if it is necessary for national interest. There is no assurance that the Federal Government will not invoke Section 114 of WSIA. In the event the Federal Government invoke Section 114 of WSIA, a licensee is legally bound to comply with the provisions of WSIA and will lose control of its concession assets.

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Critical challenge and risk factor faced by PNSB

No.	Critical challenge/risk factor	Position of PNSB
1.	Termination and/or non-renewal of licenses of PNSB to abstract raw water after the expiry of the said license on 31 May 2014 by LUAS and the State Government	As mentioned in Section 8.4 of the Circular, the Company had, on 10 March 2014, announced that PNSB had been informed by LUAS that in line with the decision of the State Government on 12 February 2014, the water treatment concession companies in Selangor will only be allowed to conduct raw water abstraction activities until the expiry of the existing raw water abstraction license on 31 May 2014, following which there will be no renewal of license thereof unless further directive is issued by the State Government. PNSB will not be able to operate its water treatment plants without the renewal of the raw water abstraction licence from LUAS. Currently, PNSB conduct the raw water abstraction activities via a consent order for interim relief pending appeal obtained on 30 May 2014 from the Court of Appeal. The legal case is currently pending and the mention of PNSB's appeal against the decision of the Kuala Lumpur High Court on 29 May 2014 dismissing PNSB's substantive application for Judicial Review has been fixed on 16 February 2015. There is no assurance that PNSB's other water concession related licenses will not be terminated, revoked or not renewed by the State Government. In the event PNSB's water concession related licenses are terminated, revoked or not renewed, it will have an adverse material effect on PNSB's water concession business.

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Critical challenges and risk factors faced by SYABAS

No.	Critical challenges/risk factors	Position of SYABAS
1.	Freeze in SYABAS CAPEX Programme, which includes the non-revenue water reduction program	Based on the SYABAS Concession Agreement, SYABAS is required to carry out SYABAS CAPEX Programme from 2005 to 2034, which includes the non-revenue water reduction program to reduce the non-revenue water to certain percentages in each of the years of the SYABAS CAPEX Programme. SPAN's approval is required for all the SYABAS CAPEX Programme. However, since 2008, SPAN had frozen the SYABAS CAPEX Programme under the directive of the State Government, except for projects deemed very critical by SPAN. Consequently, SYABAS is facing difficulties in reducing the non-revenue water as previous planned non-revenue reduction programme are delayed or are not able to be effectively implemented due to the said freeze.
2.	Freeze in water tariff hike of SYABAS by the State Government and State Government's refusal to pay the compensation to SYABAS in lieu of the said freeze	Under the SYABAS Concession Agreement, SYABAS is entitled to adjust the water tariff rate in accordance with the schedule in the SYABAS Concession Agreement. The average water tariff rate had been revised from RM1.21 per cubic metre in 2005 to RM1.39 per cubic metre in 2006. The next scheduled water tariff hike were supposed to be in 2009 and 2012. However, since 2009, the State Government had refused to gazette the water tariff adjustment. Under the SYABAS Concession Agreement, in the event the State Government refuse and/or delay in gazetting the water tariff adjustment, tariff compensation in lieu of the said refusal and/or delay shall be given to SYABAS by the State Government. Nonetheless, the State Government have thus far refused to pay the said tariff compensation. SYABAS had initiated legal suit against the State Government to claim for the tariff compensation for the period from 1 January 2009 to 31 March 2011. The solicitors in charge and handling this case is of the opinion that SYABAS' claim against the State Government has merit and is likely to succeed. However, there is no assurance that SYABAS will be able to successfully claim the full or any amount of the said tariff compensation. Further, the timing of the recoverability of the said tariff compensation is also uncertain as it depends on the conclusion date of the said legal suit. In respect of the claim for the tariff compensation for the period after 31 March 2011, we have been made to understand that SYABAS will initiate the legal suit against the State Government on the same ground as the abovementioned legal suit if the abovementioned legal suit is ruled in favour of SYABAS.

No.	Critical challenges/risk factors	Position of SYABAS
3.	Inability of SYABAS to fulfill full payments to the water treatment operators including PNSB on the previous monthly billings for water purchases and the progress monthly billings for water purchases	From 2009 to 2013, the bulk supply rate of the water treatment operators had increased. Due to the freeze in water tariff hike and refusal of the State Government to pay the tariff compensation in lieu of the said freeze to SYABAS as mentioned above, SYABAS is facing difficulties in fulfilling full payments to the water treatment operators including PNSB on the previous monthly billings and the progress monthly billings for water purchases. SYABAS has to absorb the high water purchases costs and is unable to pass through the said costs to the consumers. Further, as a result of the freeze in SYABAS CAPEX Programme as mentioned above, SYABAS is unable to reduce the non-revenue water effectively. Arising from the high non-revenue water, SYABAS has to purchase more treated water from the water treatment operators to fulfill water demand of the consumers, which causes its water purchase costs to be higher.

If PNSB and SYABAS fail or are unable to effectively overcome any of the abovementioned challenges and risk factors, the Group's bottom line could be adversely affected.

The Proposed Disposals will eliminate the Group's exposure to the abovementioned challenges and risk factors that PNSB and SYABAS are facing currently and expected to run into going forward.

Premised on the above, we are of the opinion that the rationale for the Proposed Disposals is reasonable and is not detrimental to PNHB or its shareholders.

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7.2.3 Historical financial performance of PNSB and SYABAS

7.2.3.1 Historical financial performance of PNSB

The key financial information of PNSB based on the audited financial statements for the FYE 31 December 2011 to FYE 31 December 2013 and the unaudited nine-month FPE 30 September 2014 are summarised in table below.

		<-------------------Audited---------------->			Unaudited
		FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	Nine-month FPE 30 September 2014 RM'000
Revenue		709,895	777,613	684,411	427,529
PBT		360,795	255,085	282,088	219,832
PAT		258,292	209,602	234,164	174,710
Normalised PAT [(1)]		138,542	222,729	234,367	174,844
Net cash generated from operating activities	[(2)]	70,778	155,755	65,918	32,995
Net (decrease)/increase in cash and cash equivalents		(275,246)	41,665	(202,406)	(123,421)
Shareholders' funds/NA		1,208,946	1,418,548	1,652,712	1,827,422
Paid-up capital		10,000	10,000	10,000	10,000
Total interest bearing borrowings		1,666,194	1,684,355	1,691,458	1,697,033
PBT margin		50.82%	32.80%	41.22%	51.42%
PAT margin		36.38%	26.95%	34.21%	40.87%
Normalised PAT margin		19.52%	28.64%	34.24%	40.90%
NA per share (RM) [(3)]		120.41	141.37	164.79	182.26
EPS (sen)		25.83	20.96	23.42	17.47
Current ratio (times)		1.64	1.21	10.02	11.82
Gearing ratio (times)		1.38	1.19	1.02	0.93

Notes:-

(1) *The PAT has been normalised after taking into account the reversal of one-off incomes/expenses (net of taxes) such as gain on extinguishment of debt, gain on disposal of BAIDs, loss on disposal of property, plant and equipment, property, plant and equipment written off, impairment loss on property, plant and equipment and indemnity cost.*

(2) *The interest paid in FYE 31 December 2011 had been reclassified from net cash used in operating activities to net cash used in financing activities to be consistent with the treatment of interest paid in the statement of cash flows of PNSB for FYE 31 December 2013.*

(3) *NA per share is calculated by dividing the total equity attributable to owner of PNSB (excluding PNSB CCRPS) by the number of ordinary share outstanding as the PNSB CCRPS of RM4,800,000 is only attributable to the holders of PNSB CCRPS.*

(Sources: Audited accounts of PNSB for the respective financial years and unaudited quarterly financial results of PNSB for FPE 30 September 2014)

Commentaries:-

FYE 31 December 2011 compared with FYE 31 December 2010

PNSB registered a growth in revenue of 38.27% from RM513.41 million for the FYE 31 December 2010 to RM709.90 million for the FYE 31 December 2011. This was mainly attributed to the increase in construction revenue by 3016.67% from RM6.00 million for the FYE 31 December 2010 to RM187.00 million for the FYE 31 December 2011, arising from Project Bekalan Air Luar Bandar (BALB) in the state of Sarawak, which is a project in relation to design and implementation of various water supply schemes in rural areas of the state of Sarawak.

In tandem with the growth in revenue, PNSB achieved a growth in PAT by 79.96% from RM143.53 million for the FYE 31 December 2010 to RM258.29 million for the FYE 31 December 2011. This was mainly attributed to:-

(i) the aforementioned higher construction revenue contributed by Project Bekalan Air Luar Bandar (BALB);

(ii) recognition of one-off gain from the extinguishment of debt which amounted to RM155.55 million as a result of the sales of PNHB's entire holdings of the JNA to Acqua SPV Berhad; and

(iii) the late payment interest charged to SYABAS in relation to the supply of treated water to SYABAS increased by 133.51% from RM22.98 million in FYE 31 December 2010 to RM53.66 million in FYE 31 December 2011.

The increase in PAT was offset by:-

(i) the increase in construction contract expenses by 2454.66% from RM6.44 million in FYE 31 December 2010 to RM164.52 million in FYE 31 December 2011, mainly due to the Project Bekalan Air Luar Bandar (BALB) as mentioned above;

(ii) the impairment on receivables due from SYABAS which amounted to RM20.90 million in FYE 31 December 2011 due to change in the estimated timeframe of collection.

PNSB recorded an increase in PAT margin by 8.42% from 27.96% in FYE 31 December 2010 to 36.38% in FYE 31 December 2011. This was mainly attributed to:-

(i) the aforementioned one-off gain from the extinguishment from debt, and

(ii) lower percentage of raw materials and consumables, depreciation and amortisation expense, employee benefits expense and finance cost over the revenue under the financial year under review as compared with the preceding year.

The normalised PAT of PNSB decreased by 2.40% from RM141.95 million for the FYE 31 December 2010 to RM138.54 million for the FYE 31 December 2011, after taking into account the reversal of one-off items (net of taxes) of RM119.75 million for the FYE 31 December 2011.

PNSB recorded an increase in net cash generated from operating activities by 24.43% from RM56.88 million in FYE 31 December 2010 to RM70.78 million in FYE 31 December 2011, which was mainly attributed to the following:-

(i) the increase in the receipts from customers by 29.21% from RM354.08 million in FYE 31 December 2010 to RM457.52 million in FYE 31 December 2011, which was in tandem with the growth in revenue; and

(ii) the decrease in the payments for operating expenses by 10.42% from RM267.58 million in FYE 31 December 2010 to RM239.71 million in FYE 31 December 2011.

The increase in net cash generated from operating activities was offset by the increase in the payments to contractor by 571.33% from RM18.80 million in FYE 31 December 2010 to RM126.21 million in FYE 31 December 2011 mainly arising from Project Bekalan Air Luar Bandar (BALB) as mentioned above.

Despite recording an increase in net cash generated from operating activities, PNSB recorded a decrease of 115.54% in net change in cash and cash equivalents from a decrease of RM127.70 million in FYE 31 December 2010 to a decrease of RM275.25 million in FYE 31 December 2011. This was mainly attributed to increase in the net advances to PNHB by 35,678.33% from RM0.60 million in FYE 31 December 2010 to RM214.67 million in FYE 31 December 2011.

<u>FYE 31 December 2012 compared with FYE 31 December 2011</u>

PNSB achieved a growth in revenue of 9.54% from RM709.90 million for the FYE 31 December 2011 to RM777.61 million for the FYE 31 December 2012. The increase in revenue was mainly attributed to:-

(i) the increase in treated water sales by 7.08% from RM522.89 million for the FYE 31 December 2011 to RM559.91 million for the FYE 31 December 2012, where the total treated water produced by twenty nine water treatment plants of PNSB increased by 2.44% from 701.09 million cubic metre in FYE 31 December 2011 to 718.17 million cubic metre in FYE 31 December 2012 and the bulk supply rate for all water treatment plants increased except for Wangsa Maju water treatment plant which was based on a fixed rate throughout its concession period; and

(ii) the increase in construction revenue by 16.42% from RM187.00 million for the FYE 31 December 2011 to RM217.70 million for the FYE 31 December 2012, mainly arising from the aforementioned Project Bekalan Air Luar Bandar (BALB).

Despite registering a growth in revenue, PNSB recorded a decline in the PAT by 18.85% from RM258.29 million for FYE 31 December 2011 to RM209.60 million for the FYE 31 December 2012. This was mainly attributed to:-

(i) the decrease in other income of PNSB arising from non-recurring of aforementioned recognition of one-off gain from the extinguishment of debt which amounted to RM155.55 million in FYE 31 December 2011; and

(ii) increase in the construction contracts expenses by 16.85% from RM164.52 million in FYE 31 December 2011 to RM192.24 million in FYE 31 December 2012, mainly to remedy the works of non performing sub-contractors.

PNSB recorded a decrease in PAT margin by 9.43% from 36.38% in FYE 31 December 2011 to 26.95% in FYE 31 December 2012. This was mainly attributed to the aforementioned non-recurring of one-off gain from the extinguishment from debt.

Despite registering a decline in PAT, PNSB recorded an increase in the normalised PAT by 60.77% from RM138.54 million for the FYE 31 December 2011 to RM222.73 million for the FYE 31 December 2012, after taking into account the reversal of one-off item of RM13.13 million (net of taxes) for the FYE 31 December 2012.

PNSB recorded an increase in net cash generated from operating activities by 120.06% from RM70.78 million in FYE 31 December 2011 to RM155.76 million in FYE 31 December 2012, which was mainly attributed to the following:-

(i) the increase in receipts from customers by 42.15% from RM457.52 million in FYE 31 December 2011 to RM650.38 million in FYE 31 December 2012, which is in tandem with the growth in revenue; and

(ii) the decrease in the amount of tax paid by 82.17% from RM42.12 million in FYE 31 December 2011 to RM7.51 million in FYE 31 December 2012 as PNSB had submitted a zero tax payable for the FYE 31 December 2012 and is appealing for tax refund from Inland Revenue Board of Malaysia.

The increase in net cash generated from operating activities was offset by:-

(i) the increase in the payments for operating expenses by 27.92% from RM239.71 million in FYE 31 December 2011 to RM306.64 million in FYE 31 December 2012 mainly arising from overall growth in both water and construction segment; and

(ii) the increase in the payments to contractor by 72.34% from RM126.21 million in FYE 31 December 2011 to RM217.51 million in FYE 31 December 2012 mainly arising from Project Bekalan Air Luar Bandar (BALB) as mentioned above.

In tandem with the increase in net cash generated from operating activities, and coupled with the net advances of RM32.80 million received from PNHB, PNSB recorded a net increase in cash and cash equivalents of RM41.67 million in FYE 31 December 2012 as compared with net decrease in cash and cash equivalents of RM275.25 million in FYE 31 December 2011.

<u>FYE 31 December 2013 compared with FYE 31 December 2012</u>

PNSB registered a decline in revenue of 11.99% from RM777.61 million for the FYE 31 December 2012 to RM684.41 million for the FYE 31 December 2013. This was mainly attributed to the decrease in construction revenue by 45.19% from RM217.70 million for the FYE 31 December 2012 to RM119.32 million for the FYE 31 December 2013, mainly arising from the lower revenue for Project Bekalan Air Luar Bandar (BALB) in Sarawak as this project was at its final stage.

Despite registering a decline in revenue, PNSB achieved a growth in PAT by 11.72% from RM209.60 million for the FYE 31 December 2012 to RM234.16 million for the FYE 31 December 2013. This was mainly attributed to:-

(i) the construction contract expenses decreased by 31.00% from RM192.24 million in FYE 31 December 2012 to RM132.65 million in FYE 31 December 2013, mainly due to lower direct expenses incurred for Project Bekalan Air Luar Bandar (BALB) as this project was at its final stage;

(ii) the employee benefits expense decreased by 19.35% from RM109.59 million in FYE 31 December 2012 to RM88.38 million in FYE 31 December 2013, mainly due to the director's retirement benefits which amounted to RM20.00 million in FYE 31 December 2012 and the said expense was not recurring in FYE 31 December 2013;

(iii) an indemnity cost which amounted to RM15.00 million was paid to the Executive Chairman of the Company in FYE 31 December 2012 and the said expense was not recurring in FYE 31 December 2013;

(iv) the finance cost decreased by 11.12% from RM155.95 million in FYE 31 December 2012 to RM138.61 million, mainly due to the decrease in accreted finance cost of the loan instruments by 36.88% from RM28.04 million in FYE 31 December 2012 to RM17.70 million in FYE 31 December 2013; and

(v) the late payment interest charged to SYABAS in relation to the supply of treated water to SYABAS increased by 16.34% from RM110.31 million in FYE 31 December 2012 to RM128.33 million in FYE 31 December 2013.

The increase in PAT was offset by the increase in impairment on receivables due from SYABAS by 98.95% from RM24.82 million in FYE 31 December 2012 to RM49.38 million in FYE 31 December 2013. The impairment loss of RM49.38 million was recognised during the financial year under review due to change in estimated timeframe of collection and dispute in some late payment interest charged by PNSB.

PNSB recorded an increase in PAT margin by 7.26% from 26.95% in FYE 31 December 2012 to 34.21% in FYE 31 December 2013. This was mainly attributed to:-

(i) higher percentage of other income over the revenue under the financial year under review as compared with the preceding year; and

(ii) the water concession segment of PNSB contributed a better gross margin in FYE 31 December 2013 as compared with FYE 31 December 2012 mainly due to lower operations and maintenance costs incurred as compared with FYE 31 December 2012. The higher operations and maintenance costs incurred in FYE 31 December 2012 was mainly due to breakdown of transformers at a water treatment plant.

Due to the same reasons attributed to the increase in PAT for the FYE 31 December 2013, PNSB also recorded an increase in normalised PAT by 5.23% from RM222.73 million for the FYE 31 December 2012 to RM234.37 million for the FYE 31 December 2013.

PNSB recorded a decline in net cash generated from operating activities by 57.68% from RM155.76 million in FYE 31 December 2012 to RM65.92 million in FYE 31 December 2013, which was mainly attributed to a decline in the receipts from customers by 27.92% from RM650.38 million in FYE 31 December 2012 to RM468.79 million in FYE 31 December 2013 mainly arising from overall decline in revenue.

PNSB recorded a net decrease in cash and cash equivalents of RM202.41 million in FYE 31 December 2013 as compared with a net increase in cash and cash equivalents of RM41.67 million in FYE 31 December 2012. This was mainly attributed to the following:-

(i) the decline in net cash generated from operating activities for FYE 31 December 2013 with abovementioned reason;

(ii) decrease in the net advances received from PNHB by 60.23% from RM32.84 million in FYE 31 December 2012 to RM13.06 million in FYE 31 December 2013; and

(iii) increase in the deposit pledge which amounted to RM132.07 million as PNSB had executed the relevant supplemental agreements for the restructuring of the outstanding bonds comprising BAIDS, RSBs and JNA with Acqua SPV Berhad.

FPE 30 September 2014 compared with FPE 30 September 2013

PNSB registered a decrease in revenue by 11.20% from RM481.45 million for the FPE 30 September 2013 to RM427.53 million for the FPE 30 September 2014. This was mainly attributed to the decrease in construction revenue which only contributed RM11.72 million for the period under review.

In tandem with the decrease in revenue, and coupled with higher provision of impairment loss on long term trade receivables, PNSB registered a decrease in PAT by 15.83% from RM207.57 million for the FPE 30 September 2013 to RM174.71 million for the FPE 30 September 2014.

PNSB recorded a decrease in PAT margin by 2.24% from 43.11% in FPE 30 September 2013 to 40.87% in FPE 30 September 2014. This was mainly attributed to:-

(i) higher provision of impairment loss on long term trade receivables as mentioned above; and

(ii) the water concession segment of PNSB contributed a lower gross margin of 73.58% in FPE 30 September 2014 as compared with 80.23% in FPE 30 September 2013 mainly due to higher electricity costs incurred which was in line with the increase in electricity tariff rate by 16% and higher cost incurred on plant and dam insurance.

Due to the same reasons attributed to the decrease in PAT for the FPE 30 September 2014, PNSB recorded a decrease in normalised PAT by 16.16% from RM208.55 million for the FPE 30 September 2013 to RM174.84 million for the FPE 30 September 2014.

PNSB recorded a net cash generated from operating activities of RM33.00 million for the FPE 30 September 2014 as compared with a net cash used in operating activities of RM77.15 million for the FPE 30 September 2013, which was mainly attributed to the following:-

(i) decrease in payment for operating expenses by 6.85% from RM225.22 million in FPE 30 September 2013 to RM209.80 million in FPE 30 September 2014; and

(ii) decrease in payments to contractor from RM106.00 million in FPE 30 September 2013 to RM37.97 million in FPE 30 September 2014.

Despite recording positive net cash generated from operating activities, PNSB recorded a decrease in net change in cash and cash equivalents by 50.99% from a decrease of RM81.74 million in FPE 30 September 2013 to a decrease of RM123.42 million in FPE 30 September 2014. which was mainly attributed to the financing activities for FPE 30 September 2014.

KAF Investment's comments

The revenue of PNSB comprises two segments, which are water treatment concession and construction of water related facilities. The fluctuation of the revenue of PNSB over the financial years under review was mainly attributed to increased contribution from the construction revenue in certain years. The revenue from the water treatment concession is relatively stable as the production capacity has been on a high side for the financial years under review and the growth in the revenue of this segment was mainly attributed to the revision of the bulk supply rate as provided for under the PNSB Concession Agreements.

The fluctuation of PAT and PAT margins of PNSB was mainly attributed to, among others, the fluctuation of the revenue of the construction of water related facilities, the recognition of one-off gain from the extinguishment of debt in FYE 31 December 2011 and the higher late payment interest charged to SYABAS as the amount owing from SYABAS increased over the financial years under review.

Despite recording positive operating cash flows under the financial years under review, save for FYE 31 December 2012, PNSB had recorded a net decrease in cash and cash equivalents under the financial years under review, which was mainly attributed to, among others, the deferment of payment by SYABAS for the sales of treated water, high interest paid and the deposit pledged for borrowing facilities. The cash flow position of PNSB may continue to deteriorate in the event SYABAS continues to defer payment for the sales of treated water.

As the construction of water related facilities will be carried out by the Company and the other operating subsidiary companies of the Company going forward, there will not be any revenue contribution from this segment going forward. Hence, going forward, the revenue of PNSB will be contributed by the water treatment concession until the end of the concession period.

The shareholders of PNHB should note that PNSB is facing various critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC. If PNSB fails or is unable to effectively overcome any of the said challenges and risk factors, the bottom line of PNSB could be adversely affected.

However, we wish to highlight that the historical financial performance of PNSB does not represent the future financial performance of PNSB. The shareholders of PNSB should note that the future financial performance of PNSB would depend on, amongst others, its ability to overcome the various challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC.

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7.2.3.2 Historical financial performance of SYABAS

The key financial information of SYABAS based on the audited financial statements for the FYE 31 December 2011 (excluding certain prior year adjustments for the service concession assets and operating financial assets as described in Note 34 of the financial statements for the FYE 31 December 2013 that should be applied to restate the financial information), the audited consolidated financial statements for the FYE 31 December 2012 to FYE 31 December 2013 and the unaudited nine-month FPE 30 September 2014 are summarised in the table below.

		FYE 31 December 2011 RM'000	FYE 31 December 2012 RM'000	FYE 31 December 2013 RM'000	Nine-month FPE 30 September 2014 RM'000
Revenue		2,098,931	2,740,840	2,967,348	2,195,203
LBT		(451,740)	(15,357)	(90,960)	(221,534)
LAT		(358,227)	(7,059)	(98,012)	(168,366)
Normalised LAT [(1)]		(358,227)	(7,059)	(98,020)	(168,366)
Net cash generated from operating activities	[(2)]	487,078	316,573	361,121	275,275
Net increase in cash and cash equivalents		201,470	90,381	130,156	83,213
Shareholders' funds/Net liabilities		(1,875,114)	(1,942,663)	(2,041,868)	(2,210,235)
Paid-up capital		65,000	65,000	65,000	65,000
Total interest bearing borrowings		3,830,382	3,960,964	4,083,610	4,152,224
LBT margin		-21.52%	-0.56%	-3.07%	-10.09%
LAT margin		-17.07%	-0.26%	-3.30%	-7.67%
Normalised LAT margin		-17.07%	-0.26%	-3.30%	-7.67%
Net liability per share (RM)		(28.85)	(29.89)	(31.41)	(34.00)
Net LPS (sen)		(5.51)	(0.11)	(1.51)	(2.59)
Current ratio (times)		0.61	0.52	0.49	0.39
Gearing ratio (times)		(2.04)	(2.04)	(2.00)	(1.88)

Notes:-

(1) *The LAT has been normalised after taking into account the reversal of one-off income (net of taxes) such as gain on disposal of property, plant and equipment.*

(2) *The interest paid in FYE 31 December 2011 had been reclassified from net cash used in operating activities to net cash used in financing activities and the interest received in FYE 31 December 2011 had been reclassified from net cash generated from operating activities to net cash generated from investing activities to be consistent with the treatment of interest paid and interest received in the consolidated statement of cash flows of SYABAS for FYE 31 December 2013.*

(Sources: Audited accounts of SYABAS for the respective financial years and unaudited quarterly financial results of SYABAS for FPE 30 September 2014)

Commentaries:-

FYE 31 December 2011 compared with FYE 31 December 2010

SYABAS achieved a revenue growth of 2.94% from RM2.04 billion for the FYE 31 December 2010 to RM2.10 billion for the FYE 31 December 2011. This was mainly attributed to the increase in water consumption in industrial areas by 4.90% from 308.56 million cubic metre in FYE 31 December 2010 to 323.67 million cubic metre in FYE 31 December 2011 and the increase in water consumption in government offices by 2.04% from 82.85 million cubic metre in FYE 31 December 2010 to 84.54 million cubic metre in FYE 31 December 2011.

Despite registering a growth in revenue, SYABAS' LAT and normalised LAT was widen by 53.85% from RM232.84 million for the FYE 31 December 2010 to RM358.23 million for the FYE 31 December 2011. This was mainly attributed to:-

(i) the impairment on the receivables due from the State Government in relation to the water tariff compensation which amounted to RM75.26 million; and

(ii) the increase in finance cost by 12.52% from RM527.48 million in FYE 31 December 2010 to RM593.53 million in FYE 31 December 2011. The increase in finance cost was mainly attributed to the increase in late payment interest incurred by 131.63% from RM54.53 million in FYE 31 December 2010 to RM126.31 million in FYE 31 December 2011 as a result of the deferment of payment to water treatment operators for the monthly billings for water purchases.

SYABAS' LAT margin was worsen by 5.65% from 11.42% in FYE 31 December 2010 to 17.07% in FYE 31 December 2011, mainly attributed to the impairment of receivables and increase in finance cost as mentioned above.

SYABAS recorded an increase of 25.68% in net cash generated from operating activities from RM387.56 million in FYE 31 December 2010 to RM487.08 million in FYE 31 December 2011, which was mainly attributed to the following:-

(i) the increase in receipts from customers by 3.38% from RM1.48 billion in FYE 31 December 2010 to RM1.53 billion in FYE 31 December 2011;

(ii) the decrease in payments to water treatment operators by 5.66% from RM707.67 million in FYE 31 December 2010 to RM667.62 million in FYE 31 December 2011; and

(iii) the increase in net deposits received by 208.47% from RM8.38 million in FYE 31 December 2010 to RM25.85 million in FYE 31 December 2011 mainly arising from the additional deposits received from new account applications during the year.

SYABAS recorded an increase of 3.95% in net change in cash and cash equivalents from an increase of RM193.81 million in FYE 31 December 2010 to an increase of RM201.47 million in FYE 31 December 2011 which was mainly attributed to the following:-

(i) higher net cash generated from operating activities as analysed above; and

(ii) the decrease in net cash used in investing activities by 18.69% from RM145.17 million in FYE 31 December 2010 to RM118.04 million in FYE 31 December 2011, mainly attributed to the reduced amount of incurrence of service concession assets by 19.56% from RM160.61 million in FYE 31 December 2010 to RM129.19 million in FYE 31 December 2011.

The increase in the above said net change in cash and cash equivalents was offset by the increase in net cash used in financing activities by 244.94% from RM48.58 million in FYE 31 December 2010 to RM167.57 million in FYE 31 December 2011.

The lower net cash used in financing activities in FYE 31 December 2010 was mainly attributed to the issuance of RM131 million of redeemable preference shares during the said financial year.

FYE 31 December 2012 compared with FYE 31 December 2011

SYABAS achieved a revenue growth of 30.48% from RM2.10 billion for the FYE 31 December 2011 to RM2.74 billion for the FYE 31 December 2012. This was mainly attributed to the:-

(i) increase in water consumption in industrial areas by 6.80% from 323.67 million cubic metre to 345.67 million cubic metre, increase in water consumption in residential areas by 2.01% from 462.67 million cubic metre in FYE 31 December 2011 to 471.98 million cubic metre in FYE 31 December 2012 and increase in water consumption in government offices by 4.10% from 84.54 million cubic metre in FYE 31 December 2011 to 88.01 million cubic metre in FYE 31 December 2012; and

(ii) substantial increase in water tariff compensation for FYE 31 December 2012. Under the SYABAS Concession Agreement, SYABAS was entitled to adjust the water tariff on 1 January 2012. As such, the water tariff compensation was higher in FYE 31 December 2012 as compared with the previous financial year due to the higher water tariff adopted in determining the amount of the said water tariff compensation.

Consequently, and coupled with the increase in other income by 49.47% from RM134.93 million in FYE 31 December 2011 to RM201.68 million in FYE 31 December 2012, mainly arising from accretion of interest on receivables due from the State Government in relation to the water tariff compensation which amounted to RM37.07 million and increase in the contributions by the property developers towards upgrading of the upstream work of water supply including trunk distribution system by 24.97% from RM43.78 million in FYE 31 December 2011 to RM54.71 million in FYE 31 December 2012, SYABAS registered a significant decline in LAT and normalised LAT by 98.03% from RM358.23 million for the FYE 31 December 2011 to RM7.06 million for the FYE 31 December 2012.

SYABAS' LAT margin narrowed by 16.81% from 17.07% in FYE 31 December 2011 to 0.26% in FYE 31 December 2012. This was mainly due to the increase in raw materials, consumables and maintenance expenses, cost of rehabilitation works, other operating costs and finance cost of 10.04% from RM2.69 billion in FYE 31 December 2011 to RM2.96 billion in FYE 31 December 2012 was much lower than the increase in revenue of 30.48% from RM2.10 billion in FYE 31 December 2011 to RM2.74 billion in FYE 31 December 2012.

SYABAS recorded a decrease in net cash generated from operating activities by 35.01% from RM487.08 million in FYE 31 December 2011 to RM316.57 million in FYE 31 December 2012, which was mainly attributed to the following:-

(i) the increase in payments to water treatment operators by 17.15% from RM667.62 million in FYE 31 December 2011 to RM782.09 million in FYE 31 December 2012; and

(ii) the increase in payment for operating expenses by 38.07% from RM270.07 million in FYE 31 December 2011 to RM372.88 million in FYE 31 December 2012 mainly arising from higher staff costs due to increase in number of staff, higher electricity cost due to the increase in electricity tariff and also increase in maintenance cost due to the higher number of pipe maintenance cases in FYE 31 December 2012.

SYABAS recorded a decrease in net change in cash and cash equivalents by 55.14% from an increase of RM201.47 million in FYE 31 December 2011 to an increase of RM90.38 million in FYE 31 December 2012, which was mainly attributed to the following:-

(i) lower net cash generated from operating activities as analysed above; and

(ii) the increase in net cash used in investing activities by 9.16% from RM118.04 million in FYE 31 December 2011 to RM128.85 million in FYE 31 December 2012, mainly attributed to the increase in incurrence of service concession assets by 20.45% from RM129.19 million in FYE 31 December 2011 to RM155.61 million in FYE 31 December 2012.

The decrease in the above said net change in cash and cash equivalents was offset by the decrease in net cash used in financing activities by 41.91% from RM167.57 million in FYE 31 December 2011 to RM97.34 million in FYE 31 December 2012, which was mainly attributed to:-

(i) the increase in amount of proceeds from drawdown of government loan by 213.78% from RM18.50 million in FYE 31 December 2011 to RM58.05 million in FYE 31 December 2012; and

(ii) the reduction in interest paid by 14.55% from RM179.21 million in FYE 31 December 2011 to RM153.14 million in FYE 31 December 2012.

FYE 31 December 2013 compared with FYE 31 December 2012

SYABAS achieved a revenue growth of 8.39% from RM2.74 billion in FYE 31 December 2012 to RM2.97 billion in FYE 31 December 2013. The growth in revenue was mainly attributed to increase in water consumption in industrial areas by 3.95% from 345.67 million cubic metre in FYE 31 December 2012 to 359.32 million cubic metre in FYE 31 December 2013, increase in water consumption in residential areas by 3.59% from 471.98 million cubic metre in FYE 31 December 2012 to 488.94 million cubic metre in FYE 31 December 2013 and increase in water consumption in government offices by 4.12% from 88.01 million cubic metre in FYE 31 December 2012 to 91.64 million cubic metre in FYE 31 December 2013.

Despite registering a growth in revenue, SYABAS recorded a significant increase in LAT by 1,288.24% from RM7.06 million for the FYE 31 December 2012 to RM98.01 million for the FYE 31 December 2013. This was mainly attributed to:-

(i) the increase in finance cost by 20.51% from RM632.71 million in FYE 31 December 2012 to RM762.45 million in FYE 31 December 2013, mainly arising from additional late payment interest as amounts owing to the water treatment operators have increased;

(ii) the increase in cost of rehabilitation works by 93.19% from RM109.69 million in FYE 31 December 2012 to RM211.91 million in FYE 31 December 2013, mainly arising from the higher work-in-progress capitalised to project development expenditure; and

(iii) the increase in impairment of receivables due from the State Government in relation to the water tariff compensation by 26.36% from RM145.59 million in FYE 31 December 2012 to RM183.97 million in FYE 31 December 2013 arising from the re-estimation of timing of receipt of the said water tariff compensation.

The widening of LAT was offset by the increase in other income by 21.81% from RM201.68 million in FYE 31 December 2012 to RM245.66 million in FYE 31 December 2013, which was mainly due to:-

(i) the increase in accretion of interest on receivables due from the State Government in relation to the water tariff compensation by 59.59% from RM37.07 million in FYE 31 December 2012 to RM59.16 million in FYE 31 December 2013; and

(ii) the increase in gain on re-estimation on the timing for the payment of trade payables and late payment interest by 32.90% from RM48.67 million in FYE 31 December 2012 to RM64.68 million in FYE 31 December 2013.

SYABAS' LAT margin also deteriorated by 3.04%from 0.26% in FYE 31 December 2012 to 3.30% in FYE 31 December 2013, which was mainly due to the aforementioned increase in finance cost and cost of rehabilitation works.

Due to the same reasons as mentioned above, SYABAS recorded an increase in normalised LAT by 1288.39% from RM7.06 million for the FYE 31 December 2012 to RM98.02 million for the FYE 31 December 2013.

SYABAS recorded an increase of 14.07% in net cash generated from operating activities from RM316.57 million in FYE 31 December 2012 to RM361.12 million in FYE 31 December 2013, which was mainly attributed to the following:-

(i) the increase in receipts from customers by 4.40% from RM1.59 billion in FYE 31 December 2012 to RM1.66 billion in FYE 31 December 2013; and

(ii) the decrease in payment for operating expenses by 4.78% from RM372.89 million in FYE 31 December 2012 to RM355.07 million in FYE 31 December 2013.

SYABAS recorded an increase in net change in cash and cash equivalents by 44.01% from an increase of RM90.38 million in FYE 31 December 2012 to an increase of RM130.16 million in FYE 31 December 2013, which was mainly attributed to the following:-

(i) higher net cash generated from operating activities as analysed above; and

(ii) the decrease in net cash used in financing activities by 85.08% from RM97.34 million in FYE 31 December 2012 to RM14.52 million in FYE 31 December 2013, mainly attributed to the increase in proceeds from drawdown of government loan by 139.28% from RM58.05 million in FYE 31 December 2012 to RM138.90 million in FYE 31 December 2013.

The increase in the above said net change in cash and cash equivalents was offset by the increase in net cash used in investing activities by 67.99% from RM128.85 million in FYE 31 December 2012 to RM216.45 million in FYE 31 December 2013, mainly attributed to the increase in incurrence of service concession assets by 63.25% from RM155.61 million in FYE 31 December 2012 to RM254.04 million in FYE 31 December 2013.

<u>FPE 30 September 2014 compared with FPE 30 September 2013</u>

SYABAS achieved an increase in revenue by 0.92% from RM2.18 billion for the FPE 30 September 2013 to RM2.20 billion for the FPE 30 September 2014. Revenue from tariff compensation increased by 4.78% from RM792.10 million for the FPE 30 September 2013 to RM830.00 million for the FPE 30 September 2014. However, the increase in revenue from tariff compensation was mitigated by the reduction of water consumption and water billing revenue during the water rationing in FPE 30 September 2014.

Despite registering increase in revenue, SYABAS recorded a LAT and normalised LAT of RM168.37 million for the FPE 30 September 2014 as compared with LAT and normalised LAT of RM14.06 million for the FPE 30 September 2013. This was mainly attributed to the increase in the impairment loss on the tariff compensation as a result of the change in assumptions used to estimate the receipt of the tariff compensation as well as the increase in water purchase cost by 9.82% from RM1.12 billion in FPE 30 September 2013 to RM1.23 billion in FPE 30 September 2014, which was mainly due to:-

(i) the increase in bulk supply rate and fixed monthly payment for certain water treatment plants; and

(ii) higher electricity cost incurred by water treatment operators due to electricity tariff hike by 16% with effect from January 2014, which was required to be absorbed by SYABAS.

SYABAS' LAT margin also deteriorated by 7.02% from 0.65% in FPE 30 September 2013 to 7.67% in FPE 30 September 2014, which was mainly attributed to the abovementioned increase in water purchase cost.

SYABAS recorded a decrease in net cash generated from operating activities by 26.90% from RM376.57 million in FPE 30 September 2013 to RM275.28 million in FPE 30 September 2014, which was mainly attributed to the following:-

(i) decrease in the net deposits received from customers by 46.45% from RM21.68 million in FPE 30 September 2013 to RM11.61 million in FPE 30 September 2014;

(ii) increase in the payments for operating expenses by 20.90% from RM296.76 million in FPE 30 September 2013 to RM358.79 million in FPE 30 September 2014; and

(iii) increase in the payments to water treatment operators by 6.13% from RM601.12 million in FPE 30 September 2013 to RM637.95 million in FPE 30 September 2014.

In tandem with the decrease in net cash generated from operating activities, SYABAS recorded a decrease in net change in cash and cash equivalents by 33.66% from an increase of RM125.43 million in FPE 30 September 2013 to an increase of RM83.21 million in FPE 30 September 2014.

KAF Investment's comments

The revenue of SYABAS had been on an upward trend from RM2.04 billion in FYE 31 December 2010 to RM2.97 billion in FYE 31 December 2013. The growth was mainly attributed to the increase in the water tariff compensation in FYE 31 December 2012 and the increase in water consumption over the financial years under review. Point to note that the said water tariff compensation has not been collected as at the LPD.

Despite registering revenue growth over the years, SYABAS registered LAT from FYE 31 December 2011 to FYE 31 December 2013, which was mainly attributed to, among others, the high late payment interest incurred as a result of deferment of payment to water treatment operators (including PNSB) for monthly billings for water purchases. However, SYABAS managed to narrow its LAT margin from 17.07% in FYE 31 December 2011 to 3.30% in FYE 31 December 2013, mainly due to the increase in raw materials, consumables and maintenance expenses, cost of rehabilitation works, other operating costs and finance cost of 22.68% from RM2.69 billion in FYE 31 December 2011 to RM3.30 billion in FYE 31 December 2013 was much lower than the increase in revenue of 41.43% from RM2.10 billion in FYE 31 December 2011 to RM2.97 billion in FYE 31 December 2013.

The shareholders of PNHB should note that SYABAS has been in a net liabilities position for the financial periods under review and its financial position is expected to continue deteriorating.

SYABAS managed to record positive operating cash flows and net increase in cash and cash equivalents during the financial years under review. Nonetheless, the shareholders of PNHB should note that the positive operating cash flows of SYABAS and net increase in cash and cash equivalents of SYABAS was achieved, among others, arising from the deferment of payment to water treatment operators for the monthly billings for water purchases, which was at the expense of high late payment interest incurred for the payment of the sales of treated water.

SYABAS is facing various critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC. If SYABAS fails or is unable to effectively overcome any of the said challenges and risk factors, it will be difficult for SYABAS to turnaround.

However, we wish to highlight that the historical financial performance of SYABAS does not represent the future financial performance of SYABAS. The shareholders of PNHB should note that the future financial performance of SYABAS would depend on, amongst others, its ability to overcome the various challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC.

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7.2.4 Precedent transactions analysis

We have considered the following announced disposal transactions of water assets in other states of Malaysia, which are as listed in the table below.

Date announced	Acquirer	Target	Consideration RM'billion	Assets value RM'billion	Liabilities value RM'billion	Equity value RM'billion	Valuation
December 2008	PAAB	Malacca water assets	0.12	0.89	0.77	0.12	1.00 time book value
January 2009	PAAB	Negeri Sembilan water assets	-	1.21	1.21	-	1.00 time book value (Equated asset value to liabilities)
March 2009	PAAB	Johor water assets	0.85	4.03	3.18	0.85	1.00 time book value
August 2010	PAAB	Perlis water assets	-	0.20	0.20	-	1.00 time book value (Equated asset value to liabilities)
June 2011	PAAB	Penang water assets	-	0.66	0.66	-	1.00 time book value (Equated asset value to liabilities)
May 2012	PAAB	Perak water assets	-	1.00	1.00	-	1.00 time book value (Equated asset value to liabilities)

Note:-
No PE multiples and EV/EBITDA multiples are computed for the disposal transactions of water assets above as the information for such computations is not available.

(Source: PAAB)

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KAF Investment's comments

The implied PB multiples of the PNSB Disposal Consideration, SYABAS Shares Disposal Consideration and Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) are computed as follows:-

(i) The implied PB multiples of the PNSB Disposal Consideration

(a) Based on the financial position of PNSB's water concession business as at 31 December 2013

No.	Items	Workings	Units	Values
1.	Book value of the CA related assets of PNSB	A	RM'million	3,384.10
2.	Book value of the CA related liabilities of PNSB	B	RM'million	2,194.49
3.	Net book value of the PNSB's water concession business	C = A - B	RM'million	1,189.61
4.	PNSB Disposal Consideration	D	RM'million	1,117.50
5.	Implied PB multiple of the PNSB Disposal Consideration	$E = \frac{D}{C}$	time	0.94

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(b) Based on the financial position of PNSB's water concession business as at 30 September 2014

No.	Items	Workings	Units	Values
1.	Book value of the CA related assets of PNSB	A	RM'million	3,583.00
2.	Book value of the CA related liabilities of PNSB	B	RM'million	2,278.94
3.	Net book value of the PNSB's water concession business	C = A - B	RM'million	1,304.06
4.	PNSB Disposal Consideration	D	RM'million	1,117.50
5.	Implied PB multiple of the PNSB Disposal Consideration	$E = \frac{D}{C}$	time	0.86

We note from the tables above that:-

(a) the implied PB multiple of the PNSB Disposal Consideration of 0.94 time based on the financial position of PNSB's water concession business as at 31 December 2013 is below the simple average PB multiple of the precedent disposal transactions of water assets in other states of 1.00 time; and

(b) the implied PB multiple of the PNSB Disposal Consideration of 0.86 time based on the financial position of PNSB's water concession business as at 30 September 2014 is below the simple average PB multiple of the precedent disposal transactions of water assets in other states of 1.00 time.

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(ii) The implied PB multiples of the SYABAS Shares Disposal Consideration

(a) Based on the financial position of SYABAS as at 31 December 2013

No.	**Items**	**Workings**	**Units**	**Values**
1.	Net book value of SYABAS	A	RM'million	(2,041.87)
2.	70.00% of net book value of SYABAS [1]	B	RM'million	(1,429.31)
3.	SYABAS Shares Disposal Consideration	C	RM'million	225.80
4.	Implied PB multiple of the SYABAS Shares Disposal Consideration	$D = \frac{C}{B}$	times	Not applicable

Note:-
[1] *Only 70.00% of net book value of SYABAS is taken into account in this assessment as only SYABAS Shares held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal.*

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(b) Based on the financial position of SYABAS as at 30 September 2014

No.	Items	Workings	Units	Values
1.	Net book value of SYABAS	A	RM'million	(2,210.24)
2.	70.00% of net book value of SYABAS [(1)]	B	RM'million	(1,547.17)
3.	SYABAS Shares Disposal Consideration	C	RM'million	225.80
4.	Implied PB multiple of the SYABAS Shares Disposal Consideration	$D = \frac{C}{B}$	times	Not applicable

Note:-
(1) *Only 70.00% of net book value of SYABAS is taken into account in this assessment as only SYABAS Shares held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal.*

We are not able to compute the implied PB multiple of the SYABAS Shares Disposal Consideration based on the financial position of SYABAS as at 31 December 2013 and 30 September 2014 due to the net liabilities position of SYABAS. Hence, no comparison was made between the proposed disposals of SYABAS Shares by PNHB to Air Selangor and the precedent disposal transactions of water assets in other states of Malaysia.

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(iii) The implied PB multiples of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration)

(a) Based on the financial position of PNSB's water concession business and SYABAS as at 31 December 2013

No.	Items	Workings	Units	Values
1.	Net book value of the PNSB's water concession business	A	RM'million	1,189.61
2.	70.00% of net book value of SYABAS [(1)]	B	RM'million	(1,429.31)
3.	Aggregate of net book value of the PNSB's water concession business and 70.00% of net book value of SYABAS	C = A + B	RM'million	(239.70)
4.	Disposal Consideration (excluding SYABAS RCULS Disposal Consideration)	D	RM'million	1,343.30
5.	Implied PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration)	$E = \frac{D}{C}$	times	Not applicable

Note:-
[(1)] *Only 70.00% equity interest in SYABAS is taken into account in this assessment as only SYABAS Shares held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal.*

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(b) Based on the financial position of PNSB's water concession business and SYABAS as at 30 September 2014

No.	Items	Workings	Units	Values
1.	Net book value of the PNSB's water concession business	A	RM'million	1,304.06
2.	70.00% of net book value of SYABAS [(1)]	B	RM'million	(1,547.17)
3.	Aggregate of net book value of PNSB's water concession business and 70.00% of net book value of SYABAS	C = A + B	RM'million	(243.11)
4.	Disposal Consideration (excluding SYABAS RCULS Disposal Consideration)	D	RM'million	1,343.30
5.	Implied PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration)	$E = \frac{D}{C}$	times	Not applicable

Note:-
(1) *Only 70.00% equity interest in SYABAS is taken into account in computation of the implied PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) as pnly SYABAS Shares held by PNHB are proposed to be disposed pursuant to the Proposed SYABAS Disposal.*

We are not able to compute the implied PB multiple of the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) based on the financial results of PNSB's water concession business and SYABAS as at 31 December 2013 and 30 September 2014 due to the aggregate net liabilities position of PNSB's water concession business and SYABAS. Hence, no comparison was made between the Proposed Disposals (excluding proposed disposal of SYABAS RCULS by PNHB to Air Selangor) and the precedent disposal transactions of water assets in other states of Malaysia.

Nonetheless, we are of the view that the Proposed Disposals are reasonable and are not detrimental to the shareholders of PNHB as the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) is more than the aggregate of net book value of PNSB's water concession business and the corresponding proportionate net book value of SYABAS of 70.00% based on the financial position of PNSB's water concession business and SYABAS as at 31 December 2013 and 30 September 2014.

7.2.5 Effects of the Proposed Disposals

In our evaluation, we have also considered the proforma effects arising from the Proposed Disposals as set out in Section 9 of the Circular, as summarised below.

7.2.5.1 Share capital and substantial shareholders' shareholdings

The Proposed Disposals will not have any effects on the share capital and the substantial shareholders' shareholdings of PNHB as the Proposed Disposals do not involve any issuance of new PNHB Shares.

7.2.5.2 Earnings and EPS

We note that save for the expected gain arising from the Proposed Disposals, the Proposed Disposals are not expected to have a material effect on the earnings of the Group for the FYE 31 December 2014.

Upon completion of the Proposed Disposals, the Group is expected to realise an estimated net gain attributable to the owners of the Company of approximately RM414.69 million net of transaction costs based on the proforma statement of financial position of the Group as at 31 December 2013. The estimated net gain attributable to the owners of the Company represents an EPS of approximately RM1.01.

The shareholders of PNHB should note that the actual gain will vary depending on the carrying value of the assets and liabilities of PNSB and SYABAS disposed of at the Completion Date of the SPA.

We note that in Section of 9.2 of the Circular, it was stated that assuming the benefits arising from the utilisation of proceeds materialise, the proceeds received from the Proposed Disposals are expected to strengthen the Group's future ability to generate earnings through the contributions from the proposed future investments.

Upon completion of the Proposed Disposals, the Group would cease to have any income contribution from its water concession businesses in the State of Selangor, Federal Territories of Kuala Lumpur and Putrajaya.

7.2.5.3 NA and gearing

The proforma NA of the Group would increase from RM1.78 billion as at 31 December 2013 to RM2.19 billion subsequent to the Proposed Disposals after incorporating the estimated net gain of approximately RM414.69 million arising from the Proposed Disposals.

We note that the proforma gearing of the Group would decrease from 1.16 times as at 31 December 2013 to 0.15 time subsequent to the Proposed Disposals, due to increase in the proforma NA of the Group arising from the abovementioned estimated net gain and decrease in the interest bearing borrowings of the Group as the CA related borrowings of PNSB will no longer be consolidated in the Group.

KAF Investment's comments

Premised on the above, we are of the view that the proforma effects of the Proposed Disposals on the earnings, EPS, NA and gearing of the Group, taken as a whole, are not detrimental to PNHB or the shareholders of PNHB. The shareholders of PNHB should also note that the actual effects of the Proposed Disposals can only be ascertained at the

Completion Date of the SPA and they could be different with the abovementioned proforma effects.

7.2.6 Overview and prospects of the water sector in PRC, the water sector in Malaysia, the oil and gas sector in Southeast Asia, the oil and gas sector in Malaysia and the oil palm plantation sector in Malaysia, prospects of PNSB and SYABAS and prospects of the Group upon completion of the Proposed Disposals

7.2.6.1 Overview and prospects of the water sector in PRC

PRC has more than 100 cities with a population of 1 million or more and this sustained urban growth and the continued economic development have necessitated greater domestic utilities infrastructure. To ensure the water quality and sanitation of its municipalities, as well as to improve its water efficiency, the 12th Five-Year Plan has targeted substantial investments into the water and the environmental protection sector, whilst encouraging the private factor to follow.

Recognising the importance of water for sustainable growth, the PRC government remains committed to tackling the challenges of managing national water resources. It has set a target of 30 percent reduction in water consumption per unit of Gross Domestic Product in the 12th Five-Year Plan compared with 2011 levels, and to combat problems of water quality, a number of pollution targets have been implemented - cuts to ammonia levels for the first time, alongside cuts in chemical levels of nitrous oxides, sulphur dioxides and chemical oxygen demand. With the new ammonia targets, new monitoring and compliance technologies will need to be implemented, representing an opportunity for private sector providers.

The PRC government is also targeting an investment of Renminbi 380 billion on wastewater treatment systems including reuse, over half of which is expected to be from the private sector, representing a 14 percent increase in allocated investment over the previous plan.

Foreign investors are encouraged to invest in water treatment and wastewater treatment plants in urban areas through wholly owned foreign enterprises or joint ventures. With the current Five-Year Plan's goal of 85 percent wastewater treatment coverage nationwide, and 90 percent in urban areas, there is significant scope for investment.

(Source: PRC's 12th Five-Year Plan 2011-2015)

KAF Investment's comments

We note that under the PRC's 12th Five-Year Plan 2011-2015, the PRC government had targeted substantial investments into the water and environmental protection sector. We also note that the PRC government is also targeting an investment of Renminbi 380 billion on wastewater treatment systems including reuse, over half of which is expected to be from the private sector. We are of the view that the PRC's emphasis on water sector will benefit the Group as a water treatment operator and wastewater treatment operator in PRC.

7.2.6.2 Overview and prospects of the water sector in Malaysia

Malaysia is blessed with an abundance of water, with water resources of 21,500 cubic metre per capita per year. However, with a growing economy, Malaysia will need to become more prudent and efficient in its management of water resources and supply. The highest demand for water comes from the agricultural sector.

Given the expected rapid pace of economic development, sustainability of water resources is becoming an increasingly important issue. Some states have already experienced shortages. The challenges in water resource management lie in addressing the mismatch between regions that have abundant access to water resources and those where economic and population growth and hence demand is high.

Malaysia will reassess the management of its resources across the entire water cycle from where water is drawn to how water is treated and supplied to citizens and how wastewater is returned to the environment. During the Tenth Malaysia Plan period, Malaysia's strategy for ensuring sustainable water supply will have three areas of focus:-

(i) Developing a long term strategy for water resource management to achieve water security;

(ii) Continuing efforts to restructure the water services industry; and

(iii) Protecting rivers from pollution.

Efforts will be made during the Tenth Malaysia Plan period to ensure that the residents of Malaysia are provided with adequate supply of treated water and sanitation facilities. More intensive efforts will be undertaken to increase the extent of treated water by upgrading and building new pipelines and water treatment plants. Measures will also be intensified to improve services and maintenance to ensure water quality and sustainable supply. Alternative systems such as gravity systems, tube wells, underground water and rain harvest will be used in remote and isolated areas.

The targeted coverage of rural houses with access to clean or treated water in 2015 is 99% in Penisular Malaysia, 98% in Sabah and 95% in Sarawak. By the end of 2015, a total of 117,000 additional houses in Penisular Malaysia, 112,700 houses in Sabah and 87,400 houses in Sarawak will be supplied with clean or treated water.

(Source: The Tenth Malaysia Plan 2011-2015)

A major initiative by the Federal Government to address the water shortage problem is to increase distributable capacity and existing reserve margin by building new water treatment plants or upgrading existing water treatment plants. One of the initiatives is the construction of Langat 2 Water Treatment Plant and Distribution System Phase 1 in Selangor which started in May 2014 and is scheduled for completion in June 2017.

(Source: Economic Report 2014/2015, Ministry of Finance, Malaysia)

KAF Investment's comments

Based on the Tenth Malaysia Plan 2011-2015, we note that the Federal Government intends to restructure the water services industry in Malaysia to ensure the sustainability of the water supply in Malaysia. There is no assurance that the Federal Government will not invoke Section 114 of WSIA.

We also note that the Federal Government will undertake intensive efforts to increase the extent of treated water by upgrading and building new pipelines and water treatment plants and also to cover most of the rural houses with access to clean or treated water. As the Group has the expertise and experience in the construction of water related facilities, these provide opportunities for the Group to continue to expand its construction division going forward.

7.2.6.3 Overview and prospects of the oil and gas sector in Southeast Asia

Southeast Asia is a mature oil-producing region, with most countries facing decline in large mature fields and limited large new prospects. At the same time, strong economic and population growth is driving fast-rising oil demand across the region, which has led to increased imports. Southeast Asia had 12.9 billion barrels in proven oil reserves at end-2012, accounting for 0.8% of the world total reserves.

The region's dwindling oil resources and the trend of increasing imports underscores the importance of maximising recovery in discovered oil fields and increasing incentives for exploration in frontier or under-explored areas, such as in deepwater East Indonesia. Doing so requires that Southeast Asian countries work to reduce regulatory uncertainties and offer investment frameworks that are commensurate to the risks and rewards of exploring and developing more technically-challenging resources and projects.

Oil output in Southeast Asia hit a plateau in the 1990s (peaking at 3 million Bpd) and has been falling steadily since, reflecting the decline in Indonesia's production. In 2012, Southeast Asia's oil production was 2.5 million Bpd, the bulk from Indonesia (36%), Malaysia (27%). The region's output declines slowly, dropping to 1.7 million Bpd in 2035. Indonesia remains the largest producer, followed by Malaysia and Vietnam. Small but resource-rich countries like Brunei Darussalam and Malaysia, whose demand is expected to overtake production by the end of decade. With oil demand expected to continue to grow across Southeast Asia, declining output means that imports will continue to increase. The region's net imports of oil are projected to increase by two-and-a-half time over 2012 to 2035, from 2 million Bpd to over 5 million Bpd.

Gas production in Southeast Asia has more than doubled over the last two decades. Indonesia and Myanmar, and to a lesser extent Malaysia, will drive further increases in Southeast Asian gas production in the period to 2035. Thailand, however, sees its gas production drop by 75%. Total gas production in the region grows by 30%, from 203 Bcm in 2011 to about 260 Bcm in 2035. About three-quarters of incremental growth comes onstream in the period to 2020.

Southeast Asia is a key exporter of LNG to global markets, and increasingly a LNG importer as well. In mid-2013, it had almost 90 Bcm per year of LNG liquefaction capacity, accounting for almost one-quarter of the world total. This is located in Indonesia, Malaysia and Brunei Darussalam. Fast-rising demand and limited interconnections between countries in Southeast Asia have prompted the installation of several LNG regasification terminals in recent years: as of mid-2013, Indonesia, Malaysia, Singapore and Thailand were receiving LNG shipments. In the case of Indonesia and Malaysia, a geographical mismatch between the location of gas resources and demand has created the situation in which they are simultaneously importers and exporters of LNG. Net exports from the region are expected to increase in the medium term, approaching 70 Bcm in 2020, but then decline to 14 Bcm in 2035 as domestic gas demand ramps up.

(Source: Southeast Asia Energy Outlook, September 2013, International Energy Agency)

KAF Investment's comments

Based on the above, we note that the oil sector in Southeast Asia is expected to deal with dwindling production trend. This may not be favourable to the PNHB Group in the event they expand their oil segment in the said region. However, we note that the gas production in the region is expected to further increase in the period to 2035. This may be favourable to the PNHB Group in the event they expand their gas segment in the said region.

7.2.6.4 Overview and prospects of the oil and gas sector in Malaysia

The mining sector grew marginally by 0.6% during the first half of 2014 (January to June 2013: 1.3%) backed by higher production of natural gas amid moderate output of crude oil. During the first seven months of 2014, production of crude oil (including condensates) declined marginally by 0.7% to 582,156 Bpd (January to July 2013: 1%; 589,296 Bpd), due mainly to lower production from the maturing oil fields during the first quarter. However, output of crude oil (including condensates) expanded by 4.0% in the second quarter of 2014 driven by production enhancement efforts and commencement of production from new oil fields. For 2014, production of crude oil (including condensates) is estimated to rebound by 2.1% to 588,000 Bpd (2013: -1.6%; 576,000 Bpd), following the completion of Gumusut-Kakap Deepwater Development. Meanwhile, the Kebabangan field, which is located off the coast of Kota Kinabalu, Sabah, is expected to come on stream in the fourth quarter of 2014.

Production of natural gas declined marginally by 0.4% to 6,275 million standard cubic feet per day during the first seven months of 2014 (January to July 2013: 7.9%, 6,303 million standard cubic feet per day) due to the sharp decline in natural gas production in July 2014 (-17.3%). However, for 2014, gas production is projected to increase to 6,298 million standard cubic feet per day (2013: 6,271 million standard cubic feet per day) to meet higher demand from the power, industrial and petrochemical industries. Meanwhile, the commencement of Sabah Oil & Gas Terminal will further facilitate the production and export of oil and gas. For the year 2014, value-added of the mining sector is anticipated to remain steady at 0.7% (2013: 0.7%) on higher output of crude oil (including condensates) and natural gas during the second half of 2014.

PETRONAS continues to actively explore new fields in Malaysia. As at end-March 2014, exploration activity involved six fields in Sarawak and one in Peninsular Malaysia. The Kapal, Banang and Meranti Cluster Fields Development Project, located in offshore East Peninsular Malaysia, is expected to further boost oil output. Kapal fields commenced production in 2013, followed by Banang field in July 2014. Banang field is estimated to produce an average of 6,000 Bpd of oil.

(Source: Economic Report 2014/2015, Ministry of Finance)

Brent crude oil prices moderated to an average of USD103 per barrel in the third quarter (second quarter of 2014: USD110 per barrel), amid higher global supply and subdued demand from several key economies, including the PRC. During the quarter, the price premium on crude oil eased, as supply from the key oil-producing regions were not disrupted despite continued geopolitical developments. Meanwhile, OPEC contributed more to supply. The US, in particular, increased its supply of shale oil. Oil prices ended the quarter at USD94 per barrel, and declined further to USD86 per barrel as of 27 October 2014, the lowest level since November 2010.

(Source: Quarterly Bulletin, Third Quarter 2014, Bank Negara Malaysia)

West Texas International crude oil prices fell to USD66 per barrel and Brent crude oil prices dropped to USD 70 per barrel after OPEC's decision to not cut output. Following the fall in oil prices, oil companies may reduce capital expenditure on new projects. PETRONAS has forecasted Brent crude oil prices to average from USD70 to USD75 per barrel next year. Given the oversupply issue will only adjust if there is a reduction from US shale's production, oil price is expected to continue to remain weak.

PETRONAS has announced that it will cut capital expenditure by approximately 15% to 20% next year as a result of low crude oil prices and new risk service contracts will only be awarded if oil price is above USD80 per barrel albeit breakeven cost of USD65 per barrel. However, the refinery and petrochemical integrated development project worth USD27 billion that has received foreign direct investment is not expected to be affected.

(Source: HLIB Research dated 1 December 2014, Hong Leong Investment Bank)

KAF Investment's comments

Based on the above, we note that the outlook of the oil and gas sector in Malaysia is expected to be challenging for the immediate future, which was mainly due to the decrease of oil prices during the fourth quarter of 2014. PETRONAS is expected to cut its capital expenditure if oil prices continue to remain weak. The weak sentiment for the sector in the immediate future is not favourable to the Group in view that the Group intends to become a significant player in the oil and gas sector.

7.2.6.5 Overview and prospects of the oil palm plantation sector in Malaysia

Value added of the oil palm sector rose 8.1% in the first half of 2014 (January to June 2013: 7.6%) following higher CPO production. Production of CPO increased 6.6% to 10.7 million tonnes during the first seven months of 2014 (January to July 2013: 5.9%; 10.1 million tonnes), on account of higher FFB yield per hectare and expanded matured areas in Sabah and Sarawak. Average FFB yield increased to 10.09 tonnes per hectare (January to July 2013: 9.99 tonnes per hectare) amid improved weather conditions in the second quarter of 2014. Meanwhile, the OER grew to 20.6% (January to July 2013: 20.2%) supported by stronger FFB yields.

The total oil palm planted areas increased 2.8% to 5.3 million hectares as at end-June 2014 (end-June 2013: 5.2 million hectares) following the opening of 30,544 hectares of cultivated areas mainly in Sabah and Sarawak. Of the total cultivated areas, 28% or 1.5 million hectares are located in Sabah, followed by Sarawak with 1.2 million hectares. With the increase in matured areas, higher FFB yields and improved OER, the oil palm sector is expected to further increase in 2014. In addition, the ongoing implementation of Entry Point Projects under the NKEA on palm oil to enhance productivity of upstream and downstream activities will further boost the sector. Thus, the sector is expected to grow at a faster pace of 6.7% in 2014 (2013: 2.6%).

The average price of CPO strengthened to RM2,542 per tonne during the first eight months of 2014 (January to August 2013: RM2,309 per tonne). However, with production rising sharply in the second quarter of 2014 coupled with higher inventory level (end-August 2014: 201 million tonnes), the price of CPO moderated to RM2,162 per tonnes as at end-August 2014. The sharper-than-expected moderation in CPO prices was also due to a surge in global supplies of edible oils, particularly the bumper harvest of soybean in the US. The earlier expectation of the possible onset of El Nino weather phenomenon, which could disrupt production, also did not occur, thus, resulting in subdued CPO prices. Hence, CPO price is expected to moderate in the second half to register an average of RM2,400 in 2014 (2013: RM2,364 per tonne).

During the first seven months of 2014, export receipts of palm oil rebounded by 4.9% to RM25.8 billion (January to July 2013: -21.9%; RM24.6 billion) due to higher export prices averaging RM2,703 per tonne (January to July 2013: RM2,456 per tonne). Meanwhile, shipments of palm oil contracted 4.7% to 9.5 million tonnes (January to July 2013: 2.8%; 10

million tonnes) due to lower demand, particularly from PRC. As a measure to reduce the high inventory due to strong output, the Federal Government has exempted export tax on CPO for September and October 2014. The move is expected to boost exports of CPO in the near term.

The agriculture sector is expected to register growth of 3.1% in 2015 (2014: 3.8%). Production of CPO is estimated to increase further on account of higher FFB yields due to increased matured areas, particularly in Sabah and Sarawak.

(Source: Economic Report 2014/2015, Ministry of Finance)

KAF Investment's comments

Based on the above, we note that the outlook of the oil palm plantation sector in Malaysia is expected to remain positive in the immediate future, with the ongoing implementation of Entry Point Projects under the NKEA on palm oil which is expected to enhance productivity of upstream and downstream activities, as well as Federal Government's incentive to exempt export tax on CPO. The expectation of enhanced productivity and higher exports of CPO could benefit the Group if they enter into the said sector.

7.2.6.6 Prospects of PNSB and SYABAS

The current cash flow situation of PNSB is dependent on SYABAS. The inability of SYABAS to make full payments to PNSB which was mainly due to the freeze in water tariff increase enforced by the State Government has directly affected PNSB's cash flow position. PNSB does not foresee that the situation will improve in the near future as the legal case between SYABAS and the State Government in relation to the water tariff compensation claimed by SYABAS is still ongoing.

On the other hand, the Proposed Restructuring has remained unresolved since 2008. This situation will result in the cash flow position of PNSB to deteriorate further.

The prospects of SYABAS are highly dependent on whether the terms of the SYABAS Concession Agreement are honoured, the principal items being the implementation of the scheduled tariff and approval of the planned SYABAS CAPEX Programme.

For the period between 2005 and 2008, SYABAS has been implementing the SYABAS Concession Agreement successfully as planned. However, since 2008, with the Proposed Restructuring, the scheduled tariff has not been gazetted by the State Government and neither was the compensation for non-implementation of the said scheduled tariff being paid. In addition, the planned SYABAS CAPEX Programme has not been approved due to its freeze imposed by SPAN, again due to the Proposed Restructuring except for small value critical works. These have impacted negatively the going concern of SYABAS and its ability to provide the expected level of service. To ensure the sustainability of operation, SYABAS is only able to pay a portion of the monthly water purchase cost to the water treatment operators including PNSB.

Accordingly, a commercial decision has to be made by PNHB to consider relinquishing its equity interest in SYABAS.

(Source: The Board and the management of PNSB and SYABAS)

KAF Investment's comments

Based on the above, we note that the outlook of PNSB is not favourable in the near future. The long term receivables owed by SYABAS amounted to RM1.75 billion as at 31 December 2013. In the event if SYABAS is not able to pay PNSB for the said long term receivables, PNSB will need to impair the said long term receivables, which will adversely impact the NA position of PNSB. We also note that the outlook of SYABAS is expected to be challenging, mainly due to the freeze in water tariff hike and SYABAS CAPEX Programme. The going concern of SYABAS has been negatively impacted by the critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC.

Despite the PNSB Fair Value and 70.00% of SYABAS Fair Value as appraised by the Independent Valuer represents a discount to the PNSB Disposal Consideration and SYABAS Shares Disposal Consideration respectively, the shareholders of PNHB should note that the said PNSB Fair Value and SYABAS Fair Value are based on the key bases and assumptions of the Cash Flow Projections as stated in Section 7.1.1 of this IAC which we believe are critical to the achievability of the figures contained in the Cash Flow Projections. Kindly refer to Section 7.1.1 of this IAC for the possible impacts on the PNSB Fair Value and SYABAS Fair Value if the said key bases and assumptions are not met.

We are of the view that the prospects of PNSB and SYABAS are challenging due to various critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC. There is no assurance that all of the said challenges and risk factors are able to be overcome effectively.

7.2.6.7 Prospects of the Group upon completion of the Proposed Disposals

Upon completion of the Proposed Disposals, PNHB will no longer be operating in water concession businesses in the State of Selangor, Federal Territories of Kuala Lumpur and Putrajaya. In this regard, upon completion of the Proposed Disposals, in the interim, the Group’s core earnings will be primarily driven by the water treatment business, oil and gas business and construction business. The Group will continuously look into expanding its operations in areas related to the existing core businesses both locally and in other countries in particular the Association of Southeast Asian Nations countries. In addition to the existing businesses, the Group is also exploring for opportunities in other business segments such as the oil palm plantation sector.

The prospects of the Group upon completion of the Proposed Disposals depend on, among others, the prospects of the existing segments of the Group and the prospects of the new asset(s) to be acquired.

(Source: The Board and the management of the Company)

KAF Investment's comments

Kindly refer to Section 7.2.8.2 of this IAC for our commentaries on the future plans and prospects of each segment of the Group going forward. The prospects of the new asset(s) to be acquired could not be ascertained at this juncture as the new asset(s) has yet to be identified as at the LPD.

7.2.7 Risk factors in relation to the Proposed Disposals

In considering the Proposed Disposals, the shareholders of PNHB are advised to give due and careful regard to the potential risk factors as set out below.

7.2.7.1 Failure/delay in the completion of the Proposed Disposals

The completion of the Proposed Disposals is conditional upon the conditions precedent of the SPA as set out in Section 2.3.4 of the Circular being met. The non-fulfillment of the conditions precedent unless waived may result in the SPA being terminated. There is no assurance that the Proposed Disposals can be completed within the timeframe permitted under the SPA.

Should a delay or non-completion occur, the Group will not be able to utilise the proceeds from the Proposed Disposals in the manner set out in Section 6 of the Circular.

We note that the Company will ensure that all reasonable steps will be taken in relation to the completion of the Proposed Disposals to ensure that the conditions precedent are met within the stipulated timeframe and that every effort is made to obtain all the necessary approvals for the Proposed Disposals.

7.2.7.2 Loss of contribution and future income from PNSB and SYABAS

Upon completion of the Proposed Disposals, PNSB which is a major contributor to the Group in terms of revenue and profitability will no longer be a subsidiary company of PNHB and PNHB will cease from consolidating the results of PNSB. For the FYE 31 December 2013, PNSB contributed approximately 60% to the Group's total revenue and the entire PBT of the Group.

SYABAS is classified as a joint venture of the Group in accordance with the Malaysian Financial Reporting Standard 11 – Joint Arrangements whereby the results of SYABAS are accounted by PNHB under the equity method of accounting. For the FYE 31 December 2013, SYABAS recorded consolidated revenue of RM2.97 billion and incurred LAT of RM98.01 million.

The Company intends to utilise approximately RM1,017.7 million from the proceeds arising from the Proposed Disposals for future investments to enhance the income-generating capability of the Group. However, there is no assurance that the Company will be successful in finding suitable investments or that the future investments will be successful and able to generate sufficient earnings to compensate for the loss of contribution arising from the Proposed Disposals.

We note that the Company will actively seek to identify suitable investments as well as take reasonable steps including assessing the merits and risks of each investment as well as conducting due diligence on the proposed investments.

7.2.7.3 Potential claims under SPA

We note that under the terms of the SPA, where the claims are in excess of RM10,000,000, Air Selangor is entitled to claim against PNHB for such excess amount but subject to any such claim being made within 18 months from the Completion Date of the SPA. There can be no assurance that Air Selangor will not make any claims during the said period under the

SPA. In the event of such claims and depending on the amount of such claims, it may have a material adverse effect on the financial position of the Group.

We note that the Board has confirmed that, to the best of their knowledge, as at the LPD, there are no circumstances which would give rise to a breach of PNHB's warranties under the SPA.

7.2.8 Listing status and future plans of PNHB

7.2.8.1 Listing status of PNHB

Upon completion of the Proposed Disposals, Bursa Securities may classify the Company as a Cash Company pursuant to paragraph 8.03 of the Listing Requirements and PN16 and may also classify the Company as an Affected Listed Issuer under PN17.

Pursuant to paragraphs 8.03(5) and 8.04(3) of the Listing Requirements, the Company is required to regularise its condition within twelve months from the day it becomes a Cash Company or Affected Listed Issuer. In the event the Company fails to regularise its condition within the stipulated timeframe, the Company's listed securities may be suspended and the Company may be de-listed from the Official List of Bursa Securities. The shareholders of PNHB may end up holding PNHB Shares which may be suspended from trading on Bursa Securities and the Company may be delisted from the Official List of Bursa Securities.

Notwithstanding the above, we note that based on the proforma consolidated statement of financial position of PNHB as at 31 December 2013, the Company does not trigger PN16 and PN17 following the Proposed Disposals and the Proposed Distribution.

As the audited financial results of PNHB Group for FYE 31 December 2014 is not available as yet, we are unable to ascertain at this juncture on whether the Company would or would not trigger PN16 and/or PN17 following the Proposed Disposals and Proposed Distribution based on the proforma consolidated statement of financial position of PNHB as at 31 December 2014 or any other relevant quarterly results of PNHB as Bursa Securities deems fit.

We note that the Board intends to maintain the listing status of the Company. In the event the Company is classified as a Cash Company or Affected Listed Issuer, the Board endeavours to take the necessary steps to identify new business(es) and/or asset(s) to be acquired by the Company. This will enable the Company to regularise its condition and to maintain its listing status on the Main Market of Bursa Securities after the completion of the Proposed Disposals in the event the Company falls into any or both of the above said categories.

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7.2.8.2 Future plans of PNHB

The future plans of PNHB are as set out Section 7.3 of the Circular.

KAF Investment's comments

Our comments in respect of the future plans of the each segment of the Group are as set out below.

(i) Water treatment

We note that the Group will continue their water treatment business in the PRC. The Group currently holds two water treatment concessions in the PRC which involves the operation and maintenance of water treatment plants and distribution facilities which expires in year 2038 and 2039, respectively. The Group also holds one wastewater treatment concession which involves the operation and maintenance of wastewater treatment plant which expires in 2035. We note that the Group will continuously explore opportunities to provide solutions to improve the existing water infrastructure and to increase the supply of treated water in rural areas. As stated in Section 7.2.6.1 of this IAC, PRC's emphasis on water sector under the PRC's 12^{th} Five-Year Plan 2011-2015 will benefit the Group as a water treatment operator and wastewater treatment operator in the PRC. The prospects of this segment, will also depend on, among others, the ability of the Group in securing projects in respect of water treatment and water solutions.

(ii) Oil and gas

We note that oil and gas will be one of the main segments that the Group focuses on upon completion of the Proposed Disposals as it is the vision of the Group to become a significant player in the oil and gas industry.

As stated in Section 7.2.6.4 of this IAC, the outlook of the Malaysian oil and gas sector is expected to be challenging for the immediate future. However, we note that the Group will continue its efforts to bid for oil and gas related projects locally and overseas to increase the earnings contribution of the oil and gas segment to the Group.

Further, the shareholders of PNHB should note that the oil and gas segment of the Group incurred a loss of RM30.35 million in FYE 31 December 2013, mainly due to the reduced scope of work of the existing contracts as PETRONAS had deferred certain works. As such, any further delay by PETRONAS could adversely affect the profitability of this segment. The expected decrease of capital expenditure by PETRONAS could also impact this segment adversely.

We note that the Group will explore the possibilities of acquiring oil and gas assets or embarking on mergers and acquisitions to expand the oil and gas segment. As at the LPD, the Group has yet to identify any oil and gas asset(s) to be acquired. Hence, we are not able to ascertain the prospects of the new oil and gas asset(s) at this juncture.

(iii) Construction

We note that the Group has secured water-related construction projects which have an estimated total contract value of RM544.4 million spanning over the next three years. The construction division of the Group incurred a segmental loss of RM13.28 million in FYE 31 December 2013, mainly arising from the lower revenue for Project Bekalan Air Luar Bandar (BALB) in Sarawak as this project was at its final stage.

As stated in Section 7.2.6.2 of this IAC, the Federal Government will undertake intensive efforts to increase the extent of treated water by upgrading and building new pipelines and water treatment plants and also to cover most of the rural houses with access to clean or treated water. As the Group intends to continue with its construction of water related facilities business, the said initiative will provide opportunities to the Group to expand this segment.

(iv) Others

We note that in addition to the existing businesses, the Company is also exploring for opportunities in other business segments such as the oil palm plantation sector, taking into consideration, amongst others, the positive outlook for the sector. As at the LPD, the Group has yet to identify any oil palm plantation asset(s) to be acquired. Hence, we are not able to ascertain the prospects of the new oil palm plantation assets at this juncture.

7.2.9 Alternative bids

The Board is not seeking any other alternative bids to make an offer for PNSB Shares, PNSB CCRPS, SYABAS Shares and SYABAS RCULS in view that the Proposed Disposals are undertaken as part of the Proposed Restructuring.

There are no specific clauses under the PNSB Concession Agreements in relation to the approval of the Federal Government and the approval of the State Government required for the change in shareholders or the shareholding structure of PNSB.

However, pursuant to clause 24.4 of the SYABAS Concession Agreement, there shall be no change in the shareholders and the shareholding structure of SYABAS for a period of three years from the date of the SYABAS Concession Agreement, i.e. 15 December 2004 and any intention to change the shareholders and the shareholding structure of SYABAS after the said period shall require the prior written approval of the Federal Government through the Economic Planning Unit, the Prime Minister's Department and the prior written approval of the State Government through the Unit Perancang Ekonomi Negeri.

In view of the absence of alternative bids to make an offer for PNSB Shares, PNSB CCRPS, SYABAS Shares and SYABAS RCULS, we are of the view that the Proposed Disposals are reasonable.

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8. POTENTIAL OUTCOME OF THE PROPOSED DISPOSALS

The Proposed Disposals are conditional upon the special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals to be approved by at least 75% in value of the shareholders present and voting either in person or by proxy pursuant to paragraph 10.11A(1)(d) of the Listing Requirements.

We provide below a summary of the possible outcomes:-

No.	Scenario	Possible outcomes
1.	The special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals is approved by at least 75% in value of the shareholders present and voting either in person or by proxy	Upon completion of the Proposed Disposals, PNHB will no longer be operating in water concession businesses in the State of Selangor, Federal Territories of Kuala Lumpur and Putrajaya. Bursa Securities may classify the Company as a Cash Company pursuant to paragraph 8.03 of the Listing Requirements and PN16 and may also classify the Company as an Affected Listed Issuer under PN17. Pursuant to paragraphs 8.03(5) and 8.04(3) of the Listing Requirements, the Company is required to regularise its condition within twelve months from the day it becomes a Cash Company or Affected Listed Issuer. In the event the Company fails to regularise its condition within the stipulated timeframe, the Company's listed securities may be suspended and the Company may be de-listed from the Official List of Bursa Securities. The shareholders of PNHB may end up holding PNHB Shares which may be suspended from trading on Bursa Securities and may be delisted from the Official List of Bursa Securities. As illustrated in Section 7.1 of the Circular, the percentage of the Group's cash and cash equivalents and short-term investments upon completion of the Proposed Disposals and the Proposed Distribution is approximately 66.6% of the Group's total assets based on the proforma consolidated statement of financial position of PNHB as at 31 December 2013 (assuming the full exercise of 40,792,666 outstanding warrants and full conversion of the outstanding RCSSI as at 31 December 2013 prior to the Proposed Distribution, and assuming cash dividend payment of RM534.3 million pursuant to the Proposed Distribution). As such, it appears that PNHB will not become a 'Cash Company' based on the said proforma consolidated statement of financial position.
2.	The special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals is approved by less than 75% in value of the shareholders present and voting either in person or by proxy	PNHB will remain as status quo and continue to operate in water concession businesses in the State of Selangor, Federal Territories of Kuala Lumpur and Putrajaya. The future prospects of PNHB will depend on, among others, whether PNSB and SYABAS are able to effectively overcome the challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC.

9. RECOMMENDATION FROM THE BOARD

We note from Section 12 of the Circular that the Board has recommended shareholders of PNHB to vote in favour for the special resolution pertaining to the Proposed Disposals to be tabled at the forthcoming EGM of the Company.

10. INTENTION OF THE MAJOR SHAREHOLDER OF THE COMPANY

The Executive Chairman and the major shareholder of the Company, YBhg Tan Sri Rozali Bin Ismail holding 40.87% direct and indirect equity interest as at the LPD, collectively in the Company, for which his rights and entitlements rank equally with all other shareholders of the Company, has informed the Board that he intends to exercise his right as a shareholder of the Company to vote in favour of the special resolution pertaining to the Proposed Disposals to be tabled at the forthcoming EGM of the Company.

11. ADEQUACY OF FINANCIAL RESOURCES OF THE PURCHASER

As stated in Section 12 of the Circular, the Board is satisfied that Air Selangor has adequate financial resources to acquire PNSB and SYABAS in view that Air Selangor is a wholly-owned subsidiary company of KDEB, which in turn is a wholly-owned subsidiary company of MBI and is the State Government's investment arm.

KAF Investment is satisfied that Air Selangor has adequate financial resources to acquire PNSB Shares, PNSB CCRPS, SYABAS Shares and SYABAS RCULS after taking into consideration, among others, Air Selangor is a wholly-owned subsidiary company of KDEB, which in turn is a wholly-owned subsidiary company of MBI and is the State Government's investment arm, the Proposed Disposals are to facilitate the Proposed Restructuring, which is initiated by the State Government and as stated in Section 2.3.4 of the Circular, the Proposed Disposals are conditional upon the due receipt by Air Selangor a sum not less than the Disposal Consideration paid by PAAB to Air Selangor under the Master Agreement.

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12. CONCLUSION AND RECOMMENDATION

The shareholders of PNHB should take into account all the merits and demerits of the Proposed Disposals based on all relevant pertinent factors including those which are set out in the Circular, the relevant appendices thereof, this IAC and other publicly available information.

In arriving at our conclusion and recommendation, we have considered the fairness and reasonableness of the Proposed Disposals based on all relevant and pertinent factors including those which are set out above and the summary below is the pertinent factors which you should consider carefully prior to making a decision whether to accept or reject the Proposed Disposals.

12.1 Assessment of the fairness of the Proposed Disposals

No.	Item	Assessment
1.	Fair value assessment and comparison of the Disposal Consideration against the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value	As the DCF valuation conducted by the Independent Valuer is our primary methodology in assessing the fairness of the Disposal Consideration, the Disposal Consideration is considered not fair as it represents discount over the range of aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value. Premised on the above, the Proposed Disposals are considered not fair.

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12.2 Assessment of the reasonableness of the Proposed Disposals

No.	Item	Assessment
1.	Salient terms of the SPA	The salient terms of the SPA are reasonable as far as the interest of PNHB is concerned and are not detrimental to the interests of the shareholders of PNHB.
2.	Rationale for the Proposed Disposals	If PNSB and SYABAS fail or are unable to effectively overcome any of the critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC, the Group's bottom line could be adversely affected. The Proposed Disposals will eliminate the Group's exposure to the challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC that PNSB and SYABAS are facing currently and expected to run into going forward.
3.	Historical financial performance of PNSB and SYABAS	PNSB and SYABAS are facing various critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC. If they are unable to effectively overcome any of the said challenges and risk factors, the bottom line of PNSB could be adversely affected and it will be difficult for SYABAS to turnaround.
4.	Precedent transactions analysis	The Proposed Disposals are reasonable and are not detrimental to the shareholders of PNHB as the Disposal Consideration (excluding SYABAS RCULS Disposal Consideration) is more than the aggregate of net book value of PNSB's water concession business and the corresponding proportionate net book value of SYABAS of 70.00% based on the financial position of PNSB's water concession business and SYABAS as at 31 December 2013 and 30 September 2014.
5.	Effects of the Proposed Disposals	The Proposed Disposals will not have any effects on the share capital and the substantial shareholders' shareholdings of PNHB as it does not involve any issuance of new PNHB Shares. The proforma effects of the Proposed Disposals on the earnings, EPS, NA and gearing of the Group, taken as a whole, are not detrimental to PNHB or the shareholders of PNHB.
6.	(i) Overview and prospects of the water sector in PRC; (ii) Overview and prospects of the water sector in Malaysia;	The water sector in PRC Under the PRC's 12th Five-Year Plan 2011-2015, the PRC government had targeted substantial investments into the water and environmental sector. The PRC government is also targeting an investment of Renminbi 380 billion on wastewater treatment systems including reuse, over half of

No.	Item	Assessment
	(iii) Overview and prospects of the oil and gas sector in Southeast Asia; (iv) Overview and prospects of the oil and gas sector in Malaysia; (v) Overview and prospects of the oil palm plantation sector in Malaysia; (vi) Prospects of PNSB and SYABAS; and (vii) Prospects of the Group upon completion of the Proposed Disposals	which is expected to be from the private sector. <u>The water sector in Malaysia</u> Based on the Tenth Malaysia Plan 2011-2015, the Federal Government intends to restructure the water services industry in Malaysia to ensure the sustainability of the water supply in Malaysia. The Federal Government will undertake intensive efforts to increase the extent of treated water by upgrading and building new pipelines and water treatment plants and also to cover most of the rural houses with access to clean or treated water. <u>The oil and gas sector in Southeast Asia</u> The oil sector in Southeast Asia is expected to deal with dwindling production trend. This may not be favourable to the PNHB Group in the event they expand their oil segment in the said region. However, we note that the gas production in the said region is expected to further increase in the period to 2035. This may be favourable to the PNHB Group in the event they expand their gas segment in the said region. <u>The oil and gas sector in Malaysia</u> The outlook of the oil and gas sector in Malaysia is expected to be challenging in the immediate future. <u>The oil palm plantation sector in Malaysia</u> The outlook of the oil palm plantation sector is expected to remain positive in the immediate future. <u>PNSB and SYABAS</u> The prospects of PNSB and SYABAS are challenging due to the critical challenges and risk factors stemming from the events as stated in Section 7.2.2 of this IAC. <u>The Group upon completion of the Proposed Disposals</u> The prospects of the Group upon completion of the Proposed Disposals depend on, among others, the prospects of the existing segments of the Group and the prospects of the new asset(s) to be acquired. Save for the oil and gas sector, the industry outlook for the existing segments of the Group is generally positive. The prospects of the new asset(s) to be acquired could not be ascertained at this juncture as the new asset(s) has yet to be identified.

No.	Item	Assessment
7.	Risk factors in relation to the Proposed Disposals	The key risk factors have been considered, addressed and mitigated by the Board. Although measures could be taken by PNHB to attempt to limit the risks associated with the Proposed Disposals, no assurance can be given that one or a combination of these risk factors as stated in the Circular and this IAC will not occur.
8.	Listing status and future plans of PNHB	Listing status of PNHB The Board intends to maintain the listing status of the Company. In the event the Company is classified as a Cash Company or Affected Listed Issuer, the Board endeavours to take the necessary steps to identify new business(es) and/or asset(s) to be acquired by the Company. This will enable the Company to regularise its condition and to maintain its listing status on the Main Market of Bursa Securities after the completion of the Proposed Disposals in the event the Company falls into any or both of the above said categories. Future plans of PNHB Upon completion of the Proposed Disposals, PNHB will still continue with the Group's existing businesses, namely water treatment business, oil and gas business and construction business. The Group will also explore the possibilities of acquiring oil and gas assets or embarking on mergers and acquisitions to expand the oil and gas segment. The Group is also exploring opportunities in other business segments such as the oil palm plantation sector.
9.	Alternative bids	The Board is not seeking any other alternative bids to make an offer for PNSB Shares, PNSB CCRPS, SYABAS Shares and SYABAS RCULS in view that the Proposed Disposals are undertaken as part of the Proposed Restructuring.

12.3 Conclusion and recommendation from KAF Investment

The Proposed Disposals are considered **NOT FAIR** as the Disposal Consideration is lower than the aggregate of PNSB Fair Value, 70.00% of SYABAS Fair Value and approximately 86.53% of SYABAS RCULS Fair Value. However, we consider the Proposed Disposals as **REASONABLE** after evaluating other significant factors to which the shareholders of PNHB may give consideration to prior to accepting or rejecting the Proposed Disposals, which are as set out in Section 7.2 of this IAC.

Premised on the foregoing and on our evaluation of the Proposed Disposals, we are of the opinion that the Proposed Disposals are **NOT FAIR BUT REASONABLE** and are not detrimental to the interest of the shareholders of PNHB.

Accordingly, we recommend that the shareholders of PNHB to VOTE IN FAVOUR for the special resolution to be tabled at the forthcoming EGM of the Company in relation to the Proposed Disposals.

Yours faithfully,
For and on behalf of
KAF INVESTMENT BANK BERHAD

ROHAIZAD ISMAIL
Deputy Chief Executive Officer

MICHAEL HO
Director
Corporate Finance

1. CONSENTS

1.1 Principal Adviser

HLIB, being the Principal Adviser for the Proposed Disposals has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which they appear in this IAC.

1.2 Independent Adviser

KAF Investment, being the Independent Adviser for the Proposed Disposals has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which they appear in this IAC.

1.3 Independent Valuer

Moore Stephens Associates PLT, being the Independent Valuer for the Proposed Disposals has given and has not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which they appear in this IAC.

2. OTHER MATTERS

The shareholders of PNHB should also refer to the Circular for, among others, the following information:-

(i) Material commitments, material contracts and material litigation;

(ii) Documents available for inspection;

(iii) Notice of EGM with the Proxy Form; and

(iv) All other information relating to the Proposed Disposals that is contained in the Circular which the shareholders of PNHB might need to make an assessment prior to voting on the special resolution pertaining to the Proposed Disposals.