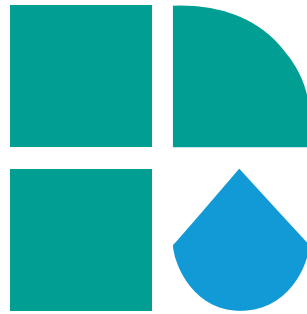


Serial Number:

Strictly Private & Confidential

INFORMATION MEMORANDUM



Pengurusan Air SPV

PENGURUSAN AIR SPV BERHAD
(Company No. 866847-H)

(Incorporated in Malaysia under the Companies Act 1965)

Proposed Issuance Of Islamic Medium Term Notes Pursuant To An Islamic Medium Term Notes Programme Of Up To RM20.0 Billion In Nominal Value And Islamic Commercial Papers Pursuant To An Islamic Commercial Papers Programme Of Up To RM20.0 Billion In Nominal Value, With Both Programmes Having A Combined Limit Of RM20.0 Billion In Nominal Value

Sole Principal Adviser/Sole Lead Arranger/Sole Lead Manager



CIMB Investment Bank Berhad
Company No. 18417-M

16 October 2009

IMPORTANT NOTICE

RESPONSIBILITY STATEMENTS

This Information Memorandum has been approved by the Directors of Pengurusan Air SPV Berhad (Company No. 866847-H) (“**Issuer**”) and Pengurusan Aset Air Berhad (Company No. 732544-D) (“**PAAB**”), and the Issuer and PAAB accept full responsibility for the accuracy of the information contained in this Information Memorandum. The Issuer and PAAB, after having made all reasonable enquiries, confirm that all information contained in this Information Memorandum is true and correct in all material respects in the context of the proposed issuance of Islamic medium term notes (“**IMTNs**”) pursuant to an Islamic medium term notes programme of up to RM20.0 billion in nominal value (“**IMTN Programme**”) and Islamic commercial papers (“**ICPs**”) pursuant to an Islamic commercial papers programme of up to RM20.0 billion in nominal value (“**ICP Programme**”, together with the IMTN Programme the “**Sukuk Programmes**”), with the Sukuk Programmes having a combined limit of RM20.0 billion in nominal value (“**Proposal**”). The IMTNs and the ICPs are collectively referred to as the “**Sukuk**”. The opinions and intentions expressed in this Information Memorandum are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, and there are no other facts the omission of which would make any statement in this Information Memorandum misleading in any material respect and all reasonable enquiries have been made by the Issuer and PAAB to ascertain such facts and to verify the accuracy of all such information and statements. No representation or warranty, expressed or implied, is made such that the information remains unchanged in any respect after the dates stated herein or if no dates have been specifically stated, after the date of this Information Memorandum, with respect to any matter or any statement made in this Information Memorandum. Any opinion or intention expressed in this Information Memorandum is honestly held as at the date hereof, and has been reached after considering all relevant circumstances and is based on reasonable assumptions.

Important Notice and General Statement of Disclaimer

This Information Memorandum is being furnished on a private and confidential basis solely for the purpose of enabling prospective investors to consider the purchase of the Sukuk falling within any one or more of the categories of persons specified in Schedule 6 or Section 229(1)(b), and Schedule 7 or Section 230(1)(b) and Schedule 9 or Section 257(3) of the Capital Markets and Services Act 2007 as amended from time to time (“**CMSA**”) at issuance and Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA thereafter.

In relation to the prospective investors, CIMB Investment Bank Berhad as the lead arranger and lead manager of the Sukuk (the “**Sole Lead Arranger/Sole Lead Manager**”) states that none of the information or data contained in this Information Memorandum has been independently verified by the Sole Lead Arranger. Accordingly, no representation, warranty or undertaking, express or implied, is given or assumed by the Sole Lead Arranger as to the authenticity, origin, validity, accuracy or completeness of such information and data or that the information or data remains unchanged in any respect after the dates stated herein or if no dates have been specifically stated, after the date of this Information Memorandum. The Sole Lead Arranger has not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the aforesaid proposed issuance of the Sukuk and shall not be liable for any consequences of reliance on any of the information or data in this Information Memorandum, except as provided under Malaysian laws.

The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or

warranty must not be relied upon as having been authorised by the Issuer, PAAB, the Sole Lead Arranger or any other person.

This Information Memorandum is not and is not intended to be a prospectus. Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdictions other than Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an issue, offer or sale of, or an invitation to subscribe or purchase the Sukuk or any other securities of any kind by any party in any Foreign Jurisdiction.

The distribution or possession of this Information Memorandum in or from certain jurisdictions may be restricted or prohibited by law. Each recipient is required to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer, PAAB nor the Sole Lead Arranger accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in or from any such Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to subscribe for or purchase the Sukuk under all jurisdictions to which the recipient is subject, (c) it has complied with all applicable laws in connection with such subscription or purchase of the Sukuk, (d) the Issuer, PAAB, the Sole Lead Arranger and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Sukuk, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Sukuk is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Sukuk can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Sukuk, and is able and is prepared to bear the economic and financial risks of investing in or holding the Sukuk, (g) it is subscribing or accepting the Sukuk for its own account, (h) if it is subscribing to the Sukuk at the issuance of the Sukuk, it is a person to whom an offer or invitation to subscribe the Sukuk and to whom the Sukuk are issued would fall within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) or Schedule 9 or Section 257(3) of the CMSA, as amended from time to time, and (i) if it is purchasing or acquiring the Sukuk after the said Sukuk has been issued, that it is a person to whom an offer or invitation to subscribe the Sukuk would fall within Schedule 6 or Section 229(1)(b) or Schedule 9 or Section 257(3) of the CMSA. Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Sukuk in relation to any recipient who does not fall within item (h) and/or item (i) above.

This Information Memorandum or any document delivered under or in relation to the issue, offer and sale of the Sukuk is not, and should not be construed as, a recommendation by the Issuer, PAAB and/or the Sole Lead Arranger to subscribe or purchase the Sukuk. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient should perform and is deemed to have made its own investigation and analysis of the Issuer, PAAB, the Sukuk and all other relevant matters, and each recipient should consult its own professional advisers. All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Sukuk shall in any circumstance imply that the information contained herein concerning the Issuer and/or PAAB is correct at any time subsequent to the date stated herein or if no dates have been specifically stated, subsequent to the date of this Information Memorandum or that any other information supplied in connection with the Sukuk is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Sole Lead Arranger nor any other advisers undertake to review the financial condition or affairs of the Issuer or PAAB during the tenor of the Sukuk or to advise any participants in the Sukuk issue of any information coming to their respective attention.

Certain statements, information, estimates and reports in this Information Memorandum are based on historical data, which may not be reflective of the future and others are forward-looking in nature and are subject to risks and uncertainties including, amongst others, the Issuer, PAAB and its advisers business strategy and expectations concerning each of its position in the Malaysian economy, future operations, growth prospects and industry prospects and although believed to be reasonable, these forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different than expected or indicated by such statements and estimates, and no assurance can be given that any such statements or estimates will be realized. In light of these and other uncertainties, and while the Board of Directors of the Issuer and PAAB believe that those forward-looking statements are reasonable, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or warranty by the Issuer nor PAAB that the future events as anticipated by the Issuer and/or PAAB will occur. Any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer and/or PAAB.

This Information Memorandum includes certain historical information, estimates, or reports thereon derived from sources mentioned in this Information Memorandum and other parties with respect to the Malaysian economy or that of other jurisdictions, the material businesses which the Issuer and PAAB operate and certain other matters. Such information, estimates, or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy or completeness of any information, estimates and/or reports thereon derived from such sources or from other third party sources.

Whilst the offering of the Sukuk has been structured under the guidance of CIMB Investment Bank Berhad as the Shariah adviser (the "**Shariah Adviser**") in order to comply with the principles of Shariah and a Shariah Pronouncement will be issued by the Shariah Adviser prior to the first issuance confirming such compliance, a prospective investor contemplating subscribing to the Sukuk should make his own independent investigation and determination of the acceptability of the offering and the investment in the Sukuk from a Shariah perspective. The Issuer does not represent or warrant that the Sukuk structure and mechanism described in this Information Memorandum and the transaction documents is or will be acceptable from a Shariah perspective and is not providing prospective Sukukholders with any legal business or tax advice or advice relating to Shariah principles in this Information Memorandum.

Acknowledgement

The Issuer and PAAB hereby acknowledge that they have authorised the Sole Lead Arranger to circulate or distribute this Information Memorandum on its behalf in respect of or in connection with the proposed offer or invitation to subscribe for and issue of the Sukuk on a confidential basis to prospective investors falling within the selling restrictions and that no further evidence of authorisation is required.

Statements of Disclaimer by the Securities Commission

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission of Malaysia (“SC”), who takes no responsibility for its contents.

The issue, offer or invitation in relation to the Sukuk in this Information Memorandum or otherwise are subject to the fulfilment of various conditions precedent including without limitation the applicable approval of the SC.

APPROVAL FROM THE SC FOR THE ISSUANCE OF THE SUKUK HAS BEEN OBTAINED ON 16 OCTOBER 2009.

PLEASE NOTE THAT THE APPROVAL OF THE SC SHALL NOT BE TAKEN TO INDICATE THAT THE SC RECOMMENDS THE SUBSCRIPTION OR PURCHASE OF THE SUKUK.

THE SC SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE ISSUER OR PAAB AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENT MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS INFORMATION MEMORANDUM.

EACH ISSUE OF THE SUKUK WILL CARRY DIFFERENT RISKS AND ALL INVESTORS SHOULD EVALUATE EACH ISSUE ON THEIR RESPECTIVE MERITS AND RISKS OF THE INVESTMENT.

INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT.

INVESTORS SHOULD READ THIS ENTIRE INFORMATION MEMORANDUM CAREFULLY AND AS A WHOLE, INCLUDING THE APPENDICES.

IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING FOR THE SUKUK.

[The rest of this page has been left blank intentionally]

Table of Content

<u>Section</u>	<u>Description</u>	<u>Page</u>
1.	EXECUTIVE SUMMARY	9
1.1	BRIEF INFORMATION ON THE ISSUER	9
1.2	BRIEF INFORMATION ON PAAB	9
1.3	BRIEF SUMMARY OF THE STRUCTURE OF THE SUKUK	9
1.4	LISTING.....	11
1.5	UTILISATION OF PROCEEDS	11
1.6	RATING	12
1.7	SELLING RESTRICTIONS	12
1.8	SUMMARY OF KEY FINANCIAL HIGHLIGHTS OF PAAB FOR FINANCIAL YEARS ENDED 31 DECEMBER 2007 AND 31 DECEMBER 2008	12
2.	THE SUKUK	13
2.1	SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE SUKUK	13
3.	INVESTMENT CONSIDERATIONS	42
3.1	CONSIDERATIONS RELATING TO THE SUKUK	42
3.2	CONSIDERATIONS RELATING TO THE IJARAH ASSETS AND THE MUSYARAKAH ASSETS	44
3.3	CONSIDERATIONS RELATING TO THE ISSUER.....	46
3.4	CONSIDERATIONS RELATING TO PAAB’S BUSINESS.....	46
3.5	CONSIDERATIONS RELATING TO THE INDUSTRY	51
3.6	GENERAL CONSIDERATIONS.....	52
3.7	FORWARD LOOKING STATEMENTS.....	54
4.	INFORMATION ON THE ISSUER.....	56
4.1	CORPORATE HISTORY AND PRINCIPAL ACTIVITIES	56
4.2	SHARE CAPITAL.....	56
4.3	SHAREHOLDING STRUCTURE.....	56
4.4	PROFILE OF DIRECTORS.....	56
4.5	EXISTING INDEBTEDNESS OF THE ISSUER.....	57
5.	INFORMATION ON PAAB	58
5.1	CORPORATE HISTORY AND PRINCIPAL ACTIVITIES	58
5.2	SHARE CAPITAL.....	58
5.3	SHAREHOLDING STRUCTURE.....	59
5.4	BUSINESS OVERVIEW	59
5.5	PROFILE OF DIRECTORS AND MANAGEMENT TEAM	59
5.6	EXISTING INDEBTEDNESS OF PAAB.....	64
6.	INDUSTRY OVERVIEW	65
6.1	OVERVIEW OF THE MALAYSIAN ECONONMY	65
6.2	OVERVIEW OF THE WATER SERVICES INDUSTRY.....	66

6.3	OBJECTIVES OF THE NATIONAL WATER POLICY AND THE ROLES OF SPAN AND PAAB	67
6.4	REGULATIONS.....	68
7.	THE ASSET MIGRATION EXERCISE	70
7.1	RESTRUCTURING TEMPLATE FOR THE WATER SERVICES INDUSTRY REFORM.....	70
7.2	ASSET ACQUISITIONS IN MELAKA, NEGERI SEMBILAN AND JOHOR	71
7.3	FUTURE ASSET ACQUISITIONS IN OTHER STATES.....	72
8.	OTHER INFORMATION	73
8.1	MATERIAL LITIGATION	73
8.2	MATERIAL CONTRACTS OUTSIDE THE ORDINARY COURSE OF BUSINESS	73
8.3	RELATED PARTY TRANSACTIONS	73
8.4	MATERIAL CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS.....	73

APPENDIX I

Audited Accounts of PAAB for the Financial Years Ended 31 December 2007 and 31 December 2008

APPENDIX II

Shariah Pronouncement in Respect of the Proposal

GLOSSARY OF DEFINITIONS

The following terms when used in the Information Memorandum shall bear the same meanings as set out below, except where the context otherwise requires:

BNM	Bank Negara Malaysia;
CA	Companies Act, 1965, as may be amended from time to time;
CIMB	CIMB Investment Bank Berhad (Company No. 18417-M);
CIMB Bank	CIMB Bank Berhad (Company No. 13491-P);
CMSA	Capital Markets and Services Act, 2007, as may be amended from time to time;
Consumer	a person who is supplied with water by a Service Licensee;
Facility Agent	CIMB;
Facilities Licensee	a person who is licensed under the WSIA to own a “water supply system” (as defined in the WSIA) or a “sewerage system” (as defined in the WSIA) or any part of the water supply system or sewerage system;
FAST	the Fully Automated System for Issuing/Tendering;
Federal Government / Government of Malaysia	the Federal Government of Malaysia;
ICP Programme	Islamic commercial papers programme of up to RM20.0 billion in nominal value (the IMTN Programme (as herein defined) and the ICP Programme are subject to a combined limit of RM20.0 billion in nominal value);
ICPs	Islamic commercial papers issued under the ICP Programme;
IMTN Programme	Islamic medium term notes programme of up to RM20.0 billion in nominal value (the IMTN Programme and the ICP Programme are subject to a combined limit of RM20.0 billion in nominal value);
IMTNs	Islamic medium term notes issued under the IMTN Programme;
Issuer	Pengurusan Air SPV Berhad (Company No. 866847-H);
Minister	has the same meaning accorded to it in the WSIA;
NRW	total water produced less water billed to Consumers, which are unaccounted for and does not generate any revenue;
PAAB	Pengurusan Aset Air Berhad (Company No. 732544-D);
Proposal	the proposed issuance of the IMTNs and ICPs;

PTC	the summary of the Principal Terms and Conditions of the Proposal as set out in Section 2.1;
RAM Ratings	RAM Rating Services Berhad (Company No. 763588-T);
RC Facility	the revolving credit facility of RM3.0 billion granted by CIMB Bank to PAAB;
RENTAS	the Real Time Electronic Transfer of Funds and Securities System;
RM	Ringgit Malaysia, being the lawful currency of Malaysia;
SAJH	SAJ Holdings Sdn Bhd (Company No. 476718-H);
SAMB	Syarikat Air Melaka Berhad (Company No. 712238-W);
SC	Securities Commission of Malaysia;
Service Licensee	a person who is licensed under the WSIA to provide “water supply services” (as defined in the WSIA) or “sewerage services” (as defined in the WSIA) or any part of the water supply services or sewerage services;
Shariah Adviser	CIMB;
Sole Lead Arranger/ Sole Lead Manager	CIMB;
SPAN	Suruhanjaya Perkhidmatan Air Negara as established under Section 3 of the SPAN Act;
SPAN Act	Suruhanjaya Perkhidmatan Air Negara Act, 2006, as may be amended from time to time;
State Government	the Government of a State in Malaysia;
Sukuk	collectively, the IMTNs and the ICPs;
Sukuk Programmes	collectively, the IMTN Programme and the ICP Programme;
Sukukholders	holders of the Sukuk;
Water Assets	the whole of the assets incorporating plants, equipments, public mains, pipes, treatment plants, pumping stations, services or balancing reservoirs or any combination thereof and all other structures, installations, buildings, equipments and appurtenances located on and forming part of those lands which are transferred or to be transferred to PAAB under the relevant agreements entered into by PAAB pursuant to the asset migration exercise under the national water services industry restructuring initiatives; and
WSIA	Water Services Industry Act, 2006, as may be amended from time to time.

1. EXECUTIVE SUMMARY

1.1 Brief Information on the Issuer

The Issuer was incorporated on 3 August 2009 under the CA as a public limited company and is a wholly owned subsidiary of PAAB. The principal activity of the Issuer is to act as a special-purpose vehicle to undertake the proposed issuance of IMTNs and ICPs in connection with PAAB under the national water services industry restructuring initiatives.

1.2 Brief Information on PAAB

PAAB was established on 5 May 2006 under the CA as a public limited company with the primary responsibility of developing the nation's water infrastructure in Peninsular Malaysia and the Federal Territory of Labuan.

As of 31 August 2009, the authorised capital of PAAB is RM1.0 billion divided into 1 billion ordinary shares of RM1.00 each and the issued and paid-up capital of PAAB is RM410.0 million.

PAAB is wholly-owned by the Government of Malaysia through the Minister of Finance (Incorporated), which holds 100% of the issued and fully paid-up capital of PAAB.

1.3 Brief Summary of the Structure of the Sukuk

In respect of the Sukuk Ijarah

The Sukukholders, through the Issuer, shall purchase certain Ijarah Assets (as defined in the PTC) from time to time from PAAB, by way of transfer of the beneficial ownership of the Ijarah Assets (as defined in the PTC) pursuant to an Asset Purchase Agreement.

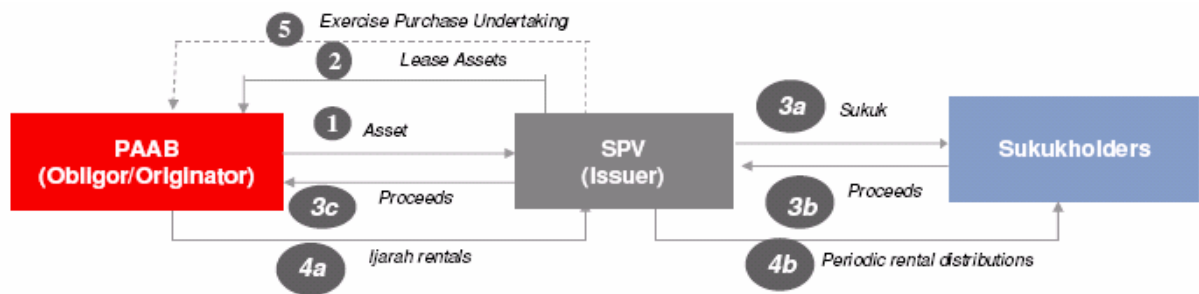
The Issuer (on behalf of the Sukukholders) (in such capacity, the “**Lessor**”) shall then, from time to time, lease the Ijarah Assets to PAAB (in such capacity, the “**Lessee**”) for a pre-determined Rental (as defined in the PTC) and tenure pursuant to the Ijarah Agreement (as defined in the PTC).

The Issuer shall declare a trust over the Ijarah Assets, the present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as defined in the PTC) and the proceeds of the foregoing (collectively the “**Ijarah Trust Assets**”) in favour of the Sukukholders, and shall issue the Sukuk Ijarah to the Sukukholders to represent the Sukukholders' undivided beneficial ownership in the Ijarah Trust Assets. The Sukuk proceeds shall be utilised by the Issuer to pay the Asset Purchase Price (as defined in the PTC) to PAAB under the relevant Asset Purchase Agreement.

Upon receipt by the Lessor from the Lessee of Rentals on the relevant Distribution Dates (i.e. One-Off Distribution Date/Periodic Distribution Dates), the Issuer will use such amounts to make payments of the distributions due under the Sukuk (i.e. One-off Distribution Amount/Periodic Distribution Amount) to the Sukukholders.

Pursuant to the Purchase Undertaking, PAAB shall purchase the Ijarah Assets from the Issuer, by way of transfer of the beneficial ownership, at the Exercise Price upon the occurrence of certain events (as set out in the PTC).

A diagrammatical representation of the structure of the Sukuk Ijarah is as below:



In respect of the Sukuk Musyarakah

Investors shall from time to time form a Musyarakah amongst themselves and subscribe to the Sukuk Musyarakah issued by the Issuer which represent their proportionate and undivided interest in the pool of Musyarakah Assets (as defined below) to be managed by PAAB.

The Issuer, on behalf of the Sukukholders, shall appoint PAAB as the Manager (“**Manager**”) whereby the Manager is appointed to manage the proceeds paid by the Sukukholders to the Manager (“**Musyarakah Capital**”) for the purposes of (i) purchase of existing assets of PAAB (“**Existing Assets**”) and/or (ii) funding and acquisition of assets under construction of PAAB (“**Future Assets**”) and/or (iii) funding of assets to be acquired by PAAB (“**Assets To Be Acquired**”, together with the Existing Assets and Future Assets, the “**Musyarakah Assets**”, as further defined in the PTC) to be identified prior to issuance and endorsed by the Shariah Adviser (the “**Musyarakah Venture**”) on behalf of the Issuer (for the Sukukholders).. The Musyarakah Assets shall form part of the Musyarakah Venture. The Musyarakah Assets will consist of at least 1/3 of Existing Assets and will be identified at or around the time of issuance of the Sukuk Musyarakah and the SC will be notified accordingly.

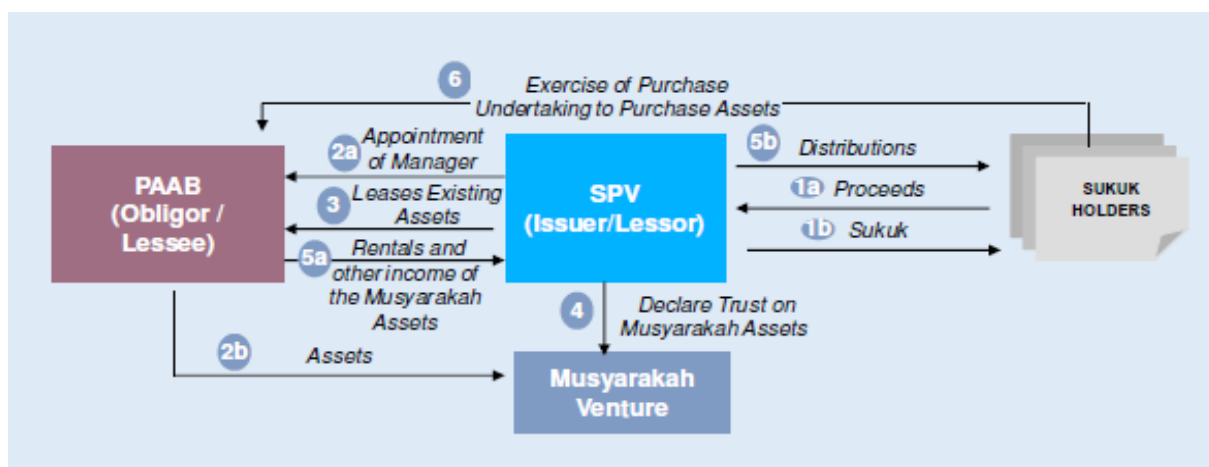
The Issuer, on behalf of the Sukukholders (in its capacity as the “**Lessor**”), shall then lease the Existing Assets in the Musyarakah Venture to PAAB for a pre-determined Rentals (as defined in the PTC) and tenure pursuant to the Ijarah Agreement.

The Issuer shall declare a trust over the Musyarakah Assets, its present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking and the proceeds of the foregoing (collectively the “**Musyarakah Trust Assets**”) in favour of the Sukukholders, and the Sukuk Musyarakah shall represent the Sukukholders’ undivided beneficial ownership in the Musyarakah Trust Assets.

The Sukukholders shall share any returns from the Musyarakah Venture (i.e. Rentals from the Ijarah Agreement between SPV and PAAB with respect to the Existing Assets in the Musyarakah Venture and any Shariah-compliant income generated from the Investments, Future Assets and Assets To Be Acquired which may include among others, the rental proceeds received from third parties via the lease of completed Future Assets or from delivered Assets To Be Acquired) in proportion to their respective holdings of the Sukuk Musyarakah while losses shall be borne by and limited to each Sukukholder’s respective capital contribution to the Musyarakah Venture. Returns generated from the Musyarakah Venture shall be distributed to the Sukukholders as Expected Return (as defined herein) of the Musyarakah Venture in the form of one-off or periodic distributions (“**Distributions**”). The Sukukholders shall agree that any returns in excess of the Expected Return shall be paid to the Manager as incentive fees.

Pursuant to the Purchase Undertaking, PAAB shall purchase the Musyarakah Assets from the Issuer, by way of transfer of the beneficial ownership, at the Exercise Price upon the occurrence of certain events (as set out in the PTC).

A diagrammatical representation of the structure of the Sukuk Musyarakah is as below:



Further details of both the Sukuk Ijarah and the Sukuk Musyarakah are as set out in the summary of the PTC (please refer to Section 2.1 herein).

1.4 Listing

The Sukuk may be listed on Bursa Malaysia Securities Berhad or any other stock exchange.

1.5 Utilisation of Proceeds

In respect of the Issuer:

Under the issuance of the Sukuk Ijarah, the proceeds shall be utilised by the Issuer to pay the Asset Purchase Price (as defined in the PTC) to PAAB under the Asset Purchase Agreement (as defined in the PTC).

Under the issuance of the Sukuk Musyarakah, the proceeds shall be utilised to invest in the Musyarakah Venture which consist of Musyarakah Assets to be managed by PAAB.

In respect of PAAB:

PAAB shall utilise the proceeds for the following Shariah-compliant purposes:

- (a) to refinance the principal amount of any existing banking facilities of PAAB obtained for the purposes of item (b) and/or item (c) below and to be endorsed by the Shariah Adviser;
- (b) to finance PAAB's acquisition of existing Water Assets, rights, liabilities and land from privatised water concessionaires or other operators or State Governments;

- (c) to finance PAAB's capital expenditure in relation to the Water Assets;
- (d) to fund the fees, costs, expenses and all other amounts payable under or in relation to the Sukuk Programmes; and
- (e) for any other Shariah-compliant general funding and Shariah-compliant working capital requirements of PAAB.

1.6 Rating

RAM Ratings has assigned an indicative long term rating of AAA to the IMTN Programme and an indicative short-term rating of P1 to the ICP Programme.

1.7 Selling Restrictions

At issuance,

The Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Sukuk and to whom the Sukuk are issued would fall within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230 (1)(b) and Schedule 9 or Section 257(3) of the CMSA.

Thereafter,

The Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Sukuk would fall within Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA.

1.8 Summary of Key Financial Highlights of PAAB for Financial Years Ended 31 December 2007 and 31 December 2008

	Year Ended 31 December	
	2008	2007
	(RM'mil)	(RM'mil)
Other income	10.97	3.39
Profit before taxation	3.55	(0.45)
Taxation	(1.24)	-
Profit after taxation	2.31	(0.45)
Issued and fully paid-up share capital	410.00	103.10
Shareholders' equity	411.13	101.92
Non-current assets	2,107.83	0.80
Total assets	2,476.05	102.10
Total borrowings	1,982.11	-

[The rest of this page has been left blank intentionally]

2. THE SUKUK

2.1 Summary of the Principal Terms and Conditions of the Sukuk

Issuer	Pengurusan Air SPV Berhad
Obligor	Pengurusan Aset Air Berhad
Facility and Amount	<u>Facility 1</u> IMTN Programme; and <u>Facility 2</u> ICP Programme. (collectively, the “ Sukuk Programmes ”). The Sukuk Programmes shall have a combined limit of RM20.0 billion in nominal value.
Sole Lead Arranger (“Lead Arranger”), Sole Lead Manager (“Lead Manager”) and Sole Bookrunner (if applicable)	CIMB
Facility Agent	CIMB
Legal Counsel	Messrs Albar & Partners
Trustee	Not Applicable
Shariah Adviser	CIMB
Central Depository and Paying Agent	Bank Negara Malaysia (“ BNM ”)
Reporting Accountant	Messrs. Hanafiah Raslan & Mohamad
Manager of the Musyarakah Venture	PAAB as the manager (“ Manager ”) of the Musyarakah Venture (as defined below) undertakes to manage the Musyarakah Capital (as defined below) paid by the holders of the Sukuk (“ Sukukholders ”) to the Manager for the following purpose, on behalf of the issuer: (i) purchase of Existing Assets (as defined below); (ii) funding and acquisition of Future Assets (as defined below);and/or (iii) funding of Assets To Be Acquired (as defined below) to be identified prior to issuance and endorsed by the Shariah Adviser.

Islamic Principle Used

The Islamic Medium Term Notes (“**IMTNs**”) issued pursuant to the Islamic Medium Term Notes Programme of up to RM20.0 Billion in nominal value (“**IMTN Programme**”) and Islamic Commercial Papers (“**ICPs**”) issued pursuant to the Islamic Commercial Papers Programme of up to RM20.0 Billion in nominal value (“**ICP Programme**”, together with the IMTN Programme, the “**Sukuk Programmes**”) respectively shall be based on either the Shariah principle of Ijarah or Musyarakah. The IMTNs and the ICPs are collectively referred to as the “**Sukuk**”.

The IMTNs and ICPs issued under the principle of Ijarah shall be known as “**Sukuk Ijarah**” and the IMTNs and ICPs issued under the principle of Musyarakah shall be known as “**Sukuk Musyarakah**”. The IMTNs and the ICPs are collectively referred to as the “**Sukuk**”.

Where:

- (a) the current structure described in this Principal Terms and Conditions is amended so as to comply with any future requirements of the Ijarah or the Musyarakah principle; or
- (b) the Sukuk are proposed to be issued based on a Shariah principle or principles other than Ijarah or Musyarakah; or
- (c) the structure of the IMTN Programme or the ICP Programme based on any Islamic principle (other than Ijarah or Musyarakah) is amended so as to comply with the requirements of such Islamic principle,

the prior approval from the Securities Commission (“**SC**”) and the Shariah Adviser will be sought. For avoidance of doubt, no approval of the Sukukholders shall be required.

Facility Description

Ijarah

The Sukukholders, through the Issuer, shall purchase certain Ijarah Assets (as defined below), from time to time from PAAB, by way of transfer of the beneficial ownership of the Ijarah Assets pursuant to an Asset Purchase Agreement.

The assets shall comprise of certain land(s), plant(s) and Shariah-compliant existing leasable assets (“**Ijarah Assets**” further as defined in Identified Assets below) which will be identified at or around the time of issuance of the Sukuk Ijarah, to be endorsed by the Shariah Adviser and the SC will be notified accordingly. The Issuer (on behalf of the Sukukholders) (in such capacity, the “**Lessor**”) shall then, from time to time, lease the Ijarah Assets to PAAB (in such capacity, the “**Lessee**”) for a pre-determined Rentals (as defined below) and tenure (“**Ijarah Lease Term**”) pursuant to the Ijarah Agreement (as described below).

The Issuer shall declare a trust (“**Trust**”) over the Ijarah Assets, the present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the “**Ijarah Trust Assets**”) in favour of the Sukukholders, and shall issue the Sukuk Ijarah to the Sukukholders to

represent the Sukukholders' undivided beneficial ownership in the Ijarah Trust Assets. The Sukuk proceeds shall be utilised by the Issuer to pay the Asset Purchase Price (as defined below) to PAAB under the relevant Asset Purchase Agreement.

Upon receipt by the Lessor from the Lessee of Rentals on the relevant Distribution Dates (i.e. One-Off Distribution Date/Periodic Distribution Dates), the Issuer will use such amounts to make payments of the distributions due under the Sukuk (i.e. One-off Distribution Amount/Periodic Distribution Amount) to the Sukukholders.

Pursuant to the Purchase Undertaking, PAAB shall purchase the Ijarah Assets from the Issuer, by way of transfer of the beneficial ownership:

- (a) upon the maturity date of the Sukuk ("**Scheduled Distribution Date**"); or
- (b) upon declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event) (as described below); or
- (c) upon the date of any early dissolution ("**Early Dissolution**") of the Sukuk ("**Early Dissolution Date**"),

at the Exercise Price (as described below). Upon the occurrence of any of the above, the Sukuk held by the Sukukholders shall be cancelled.

PAAB shall have the right via an exchange agreement, to substitute all or part of the Ijarah Assets throughout the tenure of the Sukuk Ijarah with qualified assets that are approved by the Shariah Adviser ("**Substitute Ijarah Assets**") including but not limited to in a Total Loss Event duly notified to the Facility Agent (on behalf of the Sukukholders) as provided herein.

The Substitute Ijarah Assets shall form part of the Ijarah Assets and thereby form part of the Ijarah Trust Assets.

A diagrammatical illustration of the Ijarah transaction and the other terms and conditions are as set out in Section 1.3 above.

Musyarakah

Investors shall from time to time form a Musyarakah amongst themselves and subscribe to the Sukuk Musyarakah issued by Pengurusan Air SPV Berhad which represent their proportionate and undivided interest in the pool of Musyarakah Assets (as defined below) to be managed by PAAB.

The Issuer, on behalf of the Sukukholders, shall, from time to time, appoint PAAB as the Manager whereby the Manager is appointed to manage the proceeds paid by the Sukukholders to the Manager ("**Musyarakah Capital**") for the purpose of (i) purchase of existing assets of PAAB ("**Existing Assets**") and/or (ii) funding and acquisition of assets under construction of PAAB ("**Future Assets**") and/or (iii) funding of assets to be acquired by PAAB ("**Assets To Be Acquired**",

together with the Existing Assets and Future Assets, the “**Musyarakah Assets**” as further defined in the Identified Assets below) to be identified prior to issuance and endorsed by the Shariah Adviser (the “**Musyarakah Venture**”) on behalf of the Issuer (for the Sukukholders). The Musyarakah Assets shall form part of the Musyarakah Venture. The Musyarakah Assets will consist of at least 1/3 of Existing Assets and will be identified at or around the time of issuance of the Sukuk Musyarakah and the SC will be notified accordingly. Prior to acquisition of the Assets To Be Acquired, the Musyarakah Capital shall be invested in Shariah-compliant income-generating asset-based instruments including Shariah-compliant securities recognized by SC such as Sukuk, Shariah-compliant shares recognized by SC, Shariah-compliant funds recognized by SC, Shariah-compliant asset based deposits with licensed Islamic financial institutions and other Shariah-compliant income generating asset-based instruments to be approved by the Shariah Adviser (“**Investments**”)

The Issuer (on behalf of the Sukukholders) (in its capacity as the “**Lessor**”) shall then, from time to time, lease the Existing Assets in the Musyarakah Venture to PAAB (as “**Lessee**”) for a pre-determined Rentals (as defined in below) and tenure (“**Ijarah Lease Term**”) pursuant to the Ijarah Agreement.

The Issuer shall declare a trust (“**Trust**”) over the Musyarakah Assets, its present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the “**Musyarakah Trust Assets**”) in favour of the Sukukholders, and the Sukuk Musyarakah shall represent the Sukukholders’ undivided beneficial ownership in the Musyarakah Trust Assets.

The Sukukholders shall share any returns from the Musyarakah Venture (i.e. Rentals from the Ijarah Agreement between SPV and PAAB with respect to the Existing Assets in the Musyarakah Venture and any Shariah-compliant income generated from the Investments, Future Assets and Assets To Be Acquired which may include among others, the rental proceeds received from third parties via the lease of completed Future Assets or from delivered Assets To Be Acquired) in proportion to their respective holdings of the Sukuk Musyarakah while losses shall be borne by and limited to each Sukukholder’s respective capital contribution to the Musyarakah Venture. Returns generated from the Musyarakah Venture shall be distributed to the Sukukholders as Expected Return (as defined herein) of the Musyarakah Venture in the form of one-off or periodic distributions (“**Distributions**”). The Sukukholders shall agree that any returns in excess of the Expected Return shall be paid to the Manager as incentive fees.

Pursuant to the Purchase Undertaking, PAAB shall purchase the Musyarakah Assets from the Issuer, by way of transfer of the beneficial ownership:

- (a) upon the Scheduled Distribution Date; or
- (b) upon declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event); or

(c) upon the Early Dissolution Date,

at the Exercise Price (as described below). Upon the occurrence of any of the above, the Sukuk held by the Sukukholders shall be cancelled.

PAAB shall have the right via an exchange agreement, to substitute all or part of the Musyarakah Assets throughout the tenure of the Sukuk Musyarakah with qualified assets that are approved by the Shariah Adviser (“**Substitute Musyarakah Assets**”) including but not limited to a Total Loss Event duly notified to the Facility Agent (on behalf of the Sukukholders) as provided herein.

A diagrammatical illustration of the Musyarakah transaction and the other terms and conditions are as set out in Section 1.3 above.

Details on Utilisation of Proceeds

Issuer

Under an issuance of Sukuk Ijarah, the proceeds of the Sukuk Ijarah shall be utilised by the Issuer to pay the Asset Purchase Price (as defined below) to PAAB under the relevant Asset Purchase Agreement.

Under an issuance of Sukuk Musyarakah, the proceeds of the Sukuk Musyarakah shall be utilised to invest in the Musyarakah Venture which consist of Musyarakah Assets to be managed by PAAB.

PAAB

PAAB shall utilise the proceeds for the following Shariah-compliant purposes:

- (a) to refinance the principal amount of any existing banking facilities of PAAB obtained for the purposes of item (b) and/or item (c) below and to be endorsed by the Shariah Adviser;
- (b) to finance PAAB’s acquisition of existing water assets, rights, liabilities and land from privatised water concessionaires or other operators or State Governments in Malaysia (“**Acquisitions**”);
- (c) to finance PAAB’s capital expenditure in relation to the water assets;
- (d) to fund the fees, costs, expenses and all other amounts payable under or in relation to the IMTN Programme and the ICP Programme; and
- (e) for any other Shariah-compliant general funding and Shariah-compliant working capital requirements of PAAB.

Tenure

Facility 1

Up to thirty (30) years from the date of first issue under the IMTN Programme provided that the first issue of IMTNs under the IMTN Programme shall not be later than 2 years from the date of the SC’s approval.

Facility 2

Up to seven (7) years from the date of first issue under the ICP Programme, provided that the first issue of ICPs under the ICP Programme shall not be later than 2 years from the date of the SC's approval.

Tenor of IMTNs

More than one (1) year and up to thirty (30) years provided that the IMTNs mature prior to the expiry of the IMTN Programme.

Tenor of ICPs

One (1), two (2), three (3), six (6), nine (9) or twelve (12) months provided that the ICPs mature prior to the expiry of the ICP Programme.

Yield to Maturity	The applicable yield to maturity, in respect of Sukuk Ijarah (" Yield to Maturity ") or the expected return to the Sukukholders in respect of Sukuk Musyarakah (" Expected Return "), as the case may be, which will be determined at the point of each issuance under the IMTN Programme and the ICP Programme.
Issue Size	The outstanding nominal value of the Sukuk issued under the Sukuk Programmes at any point in time shall not exceed RM20.0 billion.
Issue Price	The Sukuk may be issued at par, premium or at a discount to nominal value and will be determined at each point of issuance in accordance with the Rules on Fully Automated System for Tendering (" FAST ") issued by BNM, as amended or substituted from time to time (" FAST Rules ").
Coupon/ Profit or Equivalent Rate (%)	The Expected Return, in respect of Sukuk Musyarakah, or Profit Rate, in respect of Sukuk Ijarah, as the case may be, will be determined at the point of each issuance under the IMTN Programme and the ICP Programme (" Sukuk Return Rate ").
Coupon/ Profit Payment Frequency and Basis	<p><u>In respect of Sukuk Ijarah:</u></p> <p>Semi-annual basis ("Profit Period").</p> <p>Profit payment basis is actual/365 days.</p> <p><u>In respect of Sukuk Musyarakah:</u></p> <p>Semi annual basis ("Profit Period").</p> <p>Profit payment basis is actual/365 days.</p> <p>The dates on which the Periodic Distribution Amount (as defined below) is payable shall be known as "Periodic Distribution Dates".</p> <p>On each Periodic Distribution Dates, the Sukukholders will receive, from moneys received in respect of the Ijarah Trust Assets or the Musyarakah Trust Assets, as the case may be, a periodic distribution</p>

	amount (“ Periodic Distribution Amount ”) which is an amount equal to the product of (a) the Sukuk Return Rate (as defined above), (b) nominal value of the Sukuk and (c) the number of days in the Profit Period divided by 365.
Minimum Level of Subscription	The minimum level of subscription for each issuance of the Sukuk is five (5) % of the size of a particular issue.
Rating and Rating Agency	<p>The Sukuk will be rated by RAM Rating Services Berhad (“RAM Ratings”).</p> <p><u>Facility 1</u> Assigned long-term rating of AAA.</p> <p><u>Facility 2</u> Assigned short-term rating of P1.</p>
Security	None.
Status	<p>The Sukuk shall constitute trust obligations of the Issuer in relation to, and represent undivided beneficial ownership in the Ijarah Trust Assets or the Musyarakah Trust Assets, as the case may be, including the benefits therein under the relevant transaction documents i.e. the Ijarah Agreement and the Purchase Undertaking.</p> <p>The obligations of the Obligor pursuant to the relevant transaction documents i.e. Ijarah Agreement and the Purchase Undertaking in respect of the Sukuk shall constitute direct, unconditional, unsecured and unsubordinated obligations of PAAB (in its capacity as Obligor) and shall at all times rank pari passu, without discrimination, preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of PAAB (both actual and contingent) including any advances by its shareholders (if any) subject to those preferred by law or the transaction documents.</p>
Mode of Issue	<p><u>Facility 1</u> The IMTNs will be issued on a bought deal, book-building or private placement on a best effort basis.</p> <p><u>Facility 2</u> The ICPs will be issued on a bought deal or via a competitive tender on FAST or book-building or private placement on a best effort basis.</p> <p>In respect of the Sukuk Musyarakah, there shall be at least 2 Sukukholders upon issuance.</p>
Listing	The Sukuk may be listed on Bursa Malaysia Securities Berhad or any other stock exchange.
Transferability	Transferable, but subject to the selling restrictions described below.
Selling Restrictions	<p>(a) <u>At issuance</u></p> <p>The Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or</p>

invitation to subscribe the Sukuk and to whom the Sukuk are issued would fall within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230 (1)(b) and Schedule 9 or Section 257(3) of the CMSA.

(b) Thereafter

The Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Sukuk would fall within Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA.

Form and denomination

The Sukuk shall be issued in accordance with:

(a) the “Rules on the Scripless Securities” under the RENTAS system issued by BNM (“**Rentas Rules**”); and

(b) the FAST Rules, or

their replacement thereof (collectively the “**Codes of Conduct**”) applicable from time to time.

Each tranche of the Sukuk shall be represented by a global certificate to be deposited with BNM, and shall only be exchanged for definitive bearer form only in certain limited circumstances. The denomination of the Sukuk shall be RM1,000 or in multiples of RM1,000 at the time of issuance.

Redemption

Unless previously redeemed or purchased and cancelled, the Sukuk will be fully redeemed at their maturity dates at 100% of their nominal value.

Repurchase and Cancellation

The Issuer, the Obligor or its related corporations may at any time purchase the Sukuk at any price in the open market or by private treaty, but these repurchased Sukuk shall not be counted for purposes of voting and may, if repurchased by the Issuer, be cancelled and in the event of such cancellation, cannot be reissued.

Availability

Upon completion of documentation and, unless waived by the Lead Manager, compliance of all conditions precedent and other applicable conditions to the satisfaction of the Lead Manager.

Identified Assets

In respect of Sukuk Ijarah

Ijarah Assets includes existing plants, equipments, public mains, pipes, treatment plants, pumping stations, services or balancing reservoirs or any combination thereof and all other structures located on and forming part of those lands (“**Water Assets**”) which is owned by PAAB pursuant to the asset migration exercise under the national water services industry restructuring initiatives and completed nation’s Water Assets developed by PAAB.

In respect of Sukuk Musyarakah

Musyarakah Assets includes existing plants, equipments, public mains,

pipes, treatment plants, pumping stations, services or balancing reservoirs or any combination thereof and all other structures located on and forming part of those lands (“**Water Assets**”) which is owned by or to be owned by PAAB pursuant to the asset migration exercise under the national water services industry restructuring initiatives and future nation’s Water Assets to be developed by PAAB.

Conditions Precedent for the Establishment of the Sukuk Programmes

To include the following (in form and substance acceptable to the Lead Manager):

A. MAIN DOCUMENTATION

- 1) The transaction documents have been duly executed and stamped or endorsed as exempted from stamp duty; and
- 2) All relevant notices and acknowledgements (where applicable) shall have been made or received as the case may be.

B. ISSUER AND OBLIGOR

The Lead Manager shall have obtained the following:-

- 1) Certified true copies of the Certificate of Incorporation and the Memorandum and Articles of Association, of the Issuer and Obligor;
- 2) Certified true copies of the latest Forms 24 and 49 of the Issuer and Obligor;
- 3) A certified true copy of board resolutions of the Issuer and Obligor authorising, among others, the execution of the transaction documents;
- 4) A list of the Issuer’s and Obligor’s authorised signatories and their respective specimen signatures;
- 5) A report of the relevant company search on the Issuer and Obligor conducted at the Companies Commission of Malaysia; and
- 6) A report of the relevant winding up search on the Issuer and Obligor conducted at the Department of Insolvency Malaysia wherein the Department of Insolvency Malaysia confirms that no winding up orders have been issued against the Issuer and the Obligor or a statutory declaration by a director of the Issuer and the Obligor to that effect.

C. GENERAL

- 1) The approval from the SC and, where applicable, all other regulatory authorities has been obtained;
- 2) The Sukuk have received their respective requisite ratings as stated in this term sheet;
- 3) Evidence of the confirmation from the Shariah Adviser that the

structure and transaction documents are in compliance with Shariah;

- 4) Evidence that all transaction fees, costs and expenses have been paid in full;
- 5) The Lead Manager has received from its Legal Counsel a favourable legal opinion addressed to it advising with respect to, among others, the legality, validity and enforceability of the transaction documents and a confirmation addressed to the Lead Manager that all the conditions precedent have been fulfilled;
- 6) Consent from the Obligor's lender under the RC Facility for the Obligor to transfer beneficial ownership of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, to the Issuer and to lease the Ijarah Assets and/or the Musyarakah Assets, as the case may be, from the Issuer under the Ijarah arrangement for the issuance of the Sukuk has been obtained;
- 7) Such other conditions precedent as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

**Representations and
Warranties of the Issuer
and the Obligor**

The Issuer and the Obligor will make customary representations for a transaction of this nature, including the following:

- 1) each of the Issuer and the Obligor is a company duly incorporated with limited liability and validly existing under the laws of Malaysia and has full power to carry on its business and to own its property and assets and to enter into, exercise its rights under and perform its obligations under the transaction documents and have complied in all material respects with all legal requirements in relation to its businesses;
- 2) the memorandum and articles of association of the Issuer incorporate provisions which authorise, and all necessary corporate actions and other relevant actions have been taken to authorise, and all relevant consents and approvals of any governmental or other authority or body in Malaysia have been duly obtained, renewed, fulfilled and remain in full force and effect which are required to authorise the Issuer to own its assets, the carrying on by the Issuer or the Obligor of the business it engages in or proposes to engage in and sign and deliver, and exercise its rights and perform the transactions contemplated in the transaction documents, to issue the Sukuk and the performance of the Issuer's or the Obligor's obligations under the transaction documents and under the Sukuk and in accordance with its terms;
- 3) neither the execution nor delivery of any of the transaction documents nor the performance of any of the transactions contemplated in the transaction documents does or will:
 - (a) contravene or constitute a default under any provision contained in any contract, undertaking, agreement,

instrument, law, ordinance, decree, judgment, order, rule, regulation, licence, permit or consent by which the Issuer or the Obligor or any of its assets is bound or which is applicable to it or any of its assets; or

- (b) cause any limitation on the Issuer or the Obligor or the powers of its directors, whether imposed by or contained in its memorandum and articles of association or in any agreement, instrument, law, ordinance, decree, order, rule, regulation, judgment or otherwise, to be exceeded; or
 - (c) result in the creation or imposition of, or any obligation to create or impose any mortgage, lien, pledge, charge, other security interest or restriction on any of the Issuer's or the Obligor's properties and assets pursuant to any such agreement, mortgage, bond, contract or other undertaking or instrument;
- 4)
 - (a) no litigation, arbitration or administrative proceeding or claim which might by itself or together with any other such proceedings or claims to the best of the Issuer's knowledge is presently in progress or pending or, to the best of the Issuer's knowledge, is threatened against the Issuer or any of its assets;
 - (b) no litigation, arbitration or administrative proceeding or claim which might by itself or together with any other such proceedings or claims to the best of the Obligor's knowledge, is threatened against the Obligor or any of its assets which would have a Material Adverse Effect;
- 5) the Issuer and the Obligor are subject to civil and commercial law with respect to its obligations under the transaction documents, the transactions contemplated hereby and thereby constitute private and commercial acts done for private and commercial purposes and it is not entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which may include, without limitation, suits, attachment prior to judgment, execution or other enforcement in Malaysia);
- 6) each of the transaction documents is or will when executed and/or issued, as the case may be, be in full force and effect and constitutes, or will when executed or issued, as the case may be, constitute valid and legally binding obligations on the Issuer and the Obligor enforceable in accordance with its terms;
- 7) the information supplied is true and accurate in all material respect and does not omit to state any fact the omission of which makes the statements therein, in the light of the circumstances under which they were made, misleading in any material respect and all expressions of expectation, intention, belief and opinion contained therein were honestly made on and are not misleading in any material respect except that, when the warranted information is a forecast, the warranty will be to the effect that the forecast has been made on the basis of assumptions which were reasonable at the time when they were made and after due enquiry;

- 8) there is no Event of Default or Potential Event of Default that has occurred or is continuing;

For the purpose of this term sheet, “**Potential Event of Default**” means any event which, upon the giving of notice and/or lapse of time and/or the issue of a certificate and/or the fulfillment of the relevant requirement as contemplated under the relevant transaction documents would constitute an Event of Default.

- 9) no event has occurred whether constituting, or which with the giving of notice and/or the lapse of time would constitute a contravention of, or default under, any agreement or instrument by which the Issuer or the Obligor or any of their assets is bound or affected or otherwise which would have a Material Adverse Effect;
- 10) no registration, recording, filing or notarisation of the relevant transaction documents and no payment of any duty or tax and no other action whatsoever is necessary or desirable to ensure the validity, enforceability or admissibility in evidence in Malaysia of its liabilities and obligations of the Issuer and/ or the Obligor under the transaction documents or the rights of the holders of the Sukuk, the Facility Agent and the Lead Manager under the transaction documents in accordance with their terms;
- 11) the Sukuk shall constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank equally and rateably (pari passu) without discrimination, preference or priority among themselves and at least pari passu with all other unsecured and unsubordinated obligations of the Issuer, subject to those preferred by law; and
- 12) such other representations and warranties as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

Positive Undertakings of the Issuer and the Obligor

To include the following (in form and substance acceptable to the Lead Manager):

- 1) it will exercise reasonable diligence in carrying on and operating its business and affairs in a proper and efficient manner in accordance with the financial and commercial standards and practices;
- 2) comply with all laws, regulations and best practices and maintain all necessary approvals and licenses, the absence of which would have a Material Adverse Effect (including under the Water Services Industry Act 2006) relating to or regulating (a) the ownership of its assets; (b) the carrying on by the Issuer and the Obligor of the business it engages in or proposes to engage in; and (c) the entry into and performance by the Issuer and the Obligor of its obligations under the transaction documents to which it is a

party including to ensure the validity, enforceability and priority of its liabilities and obligations and the rights of the holders of the Sukuk (or any of them) under the transaction documents;

- 3) perform and comply with all its obligations under the transaction documents and the terms and conditions of the Sukuk;
- 4) immediately notify the Facility Agent as soon as the Issuer or the Obligor becomes aware of the occurrence of a Potential Event of Default or an Event of Default or that such other right or remedy under the terms, provisions and covenants of the Sukuk and relevant transaction documents have become immediately enforceable and provide the Facility Agent with full details of any steps which it is taking, or is considering taking, in order to remedy or mitigate the effect of the Potential Event of Default or the Event of Default or otherwise in connection with it or take such steps as may have been notified to it by the Facility Agent following the occurrence of a Potential Event of Default or an Event of Default to remedy or mitigate the effect of any of the Potential Event of Default or the Event of Default or any other steps as the Facility Agent may request;
- 5) procure that BNM or such other financial institution licensed under the Banking and Financial Institutions Act 1989 (in the case where BNM ceases to be the Paying Agent) be appointed at all times as paying agent for the Sukuk;
- 6) give to the Facility Agent notice of its intention to appoint or remove any Paying Agent at least seven (7) days before notice of any change is given to the holders of the Sukuk in accordance with the relevant transaction documents;
- 7) the Obligor shall at all times during the tenure of the Sukuk be a direct or indirect wholly owned subsidiary of the Government of Malaysia;
- 8) such other covenants as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

Negative Undertakings of the Issuer and the Obligor

To include the following (in form and substance acceptable to the Lead Manager):

- 1) Issuer shall not incur or permit to exist any indebtedness for borrowed moneys (save for those notified to the Lead Manager prior to the date hereof) nor give any guarantees in respect of any indebtedness for borrowed moneys to any person or entity whatsoever. The Obligor shall not incur or permit to exist any indebtedness for borrowed moneys (save for those notified to the Lead Manager prior to the date hereof, any indebtedness created pursuant to any hire purchase agreements or leasing agreements entered into by the Obligor in respect of any vehicles, equipment or other items used or required by the Obligor for its operations in the Obligor's ordinary course of business and any overdrafts, trade

lines, bank guarantees and facilities with tenures of not more than twelve (12) months incurred or obtained in the course of carrying out its business) nor give any guarantees in respect of any indebtedness for borrowed moneys to any person or entity whatsoever if such borrowing or indebtedness will result in the downgrade of the rating of the Sukuk to below AAA;

- 2) each of the Issuer and the Obligor shall not create or permit to exist any encumbrance, mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment by way of security, trust arrangement for the purpose of providing security or other security interest of any kind including, without limitation, title transfer and/or retention arrangements having a similar effect or any agreement to create any of the foregoing, but excluding any security interest created by the operation of law and those arising from the ordinary course of each of their business over any of its undertaking, property, assets, revenues or rights;
- 3) each of the Issuer and the Obligor shall not take steps to wind up or dissolve itself;
- 4) the Issuer shall not declare or pay any dividends or make any distribution whether income or capital in nature to its shareholders or grant any advances or loans. The Obligor shall not declare or pay any dividends or make any distribution whether income or capital in nature to its shareholders or grant any advances or loans to its shareholders or repay any loans, financing or advances from its shareholders if:
 - a. a Dissolution Event/Event of Default has occurred, is continuing and has not been remedied or waived; or
 - b. any amount under the FRSA (as defined below) is due or any instalment on any of the payments under the arrangements pertaining to the Sukuk is overdue and unpaid or if any of the payments under the arrangements pertaining to the Sukuk which has become payable has not been paid as a consequence of default by the Issuer and/or Obligor;
- 5) the Issuer shall not invest in or create any subsidiary or associated company;
- 6) the Obligor shall not carry on any business other than the undertaking, developing, owning and provision of water infrastructure and as stipulated in the Facilities Licence issued to it under the WSIA;
- 7) neither the Issuer nor the Obligor shall add, delete, vary, amend or substitute its Memorandum or Articles of Association or change its financial year which may be in any way inconsistent with the provisions of the transaction documents unless otherwise required under the law;
- 8) neither the Issuer nor the Obligor shall reduce its authorised and/or paid-up capital and/or issued shares in existence at the date hereof

whether by varying the amount, structure or value thereof or the rights attached thereto or by converting any of its share capital into stocks, or by consolidating, dividing or sub-dividing all or any of its shares, or by any other manner;

- 9) the Issuer shall not enter into any agreement with its shareholders (save for any transaction documents). Save and except for as provided by paragraph 10 below or in relation to any agreements entered into for purpose of any Islamic fund raising exercise(s) undertaken by the Obligor as permitted herein, the Obligor shall not enter into any agreement with its shareholders, subsidiaries or associated companies unless such agreement is entered into:
 - a. in the ordinary course of its business; and
 - b. on an arms-length basis;
- 10) the Issuer shall not lend/finance any money to any party save as contemplated under this term sheet. The Obligor shall not lend any money to any party, save and except for any loans/financing to the Obligor directors, officers or employees as part of their terms of employment and any advances to companies whose water assets are to be purchased by the Obligor under the Obligor's water asset purchase programme for the purposes of meeting such companies' operating expenses and advances in the ordinary course of business provided that such advances are required or directed by any regulator and/or the Government of Malaysia;
- 11) save and except in the ordinary course of business and on ordinary commercial terms and on the basis of arm's length transaction or for purpose of Islamic financing, neither the Issuer nor the Obligor shall sell, transfer, lease or otherwise dispose of or in any case cease to exercise control over, whether by a single transaction or a number of transaction, related or not, the whole or part of the Issuer's or the Obligor's undertaking, business or assets or undertake or permit any merger, consolidation or re-organisation;
- 12) the Obligor shall not vary, and shall not agree to any variation or proposed variation of its Facilities Licence which would materially prejudice the interest of the Sukukholders or any other security created under the security documents;
- 13) the Issuer shall not change or permit any change in its shareholder or its shareholding structure. The Obligor shall not change or permit any change in its shareholder or its shareholding structure which will result in the Obligor ceasing to be a direct or an indirect wholly owned subsidiary of the Government of Malaysia; and
- 14) such other negative covenants as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

Financial Covenants

Finance Service Reserve Account (“FSRA”)

The Issuer shall open and maintain a Shariah-compliant Finance Service Reserve Account with a bank to be appointed by the Issuer which is acceptable to the Lead Manager and the Shariah Adviser.

The FSRA shall be solely operated by the Issuer.

The Issuer shall make the following deposits into the FSRA:

- (i) a deposit equivalent to the first fifty (50) % of the amount payable in respect of any profit payment of the Sukuk six (6) months prior to the due date of such profit payment; and
- (ii) a deposit equivalent to the remaining fifty (50) % of the amount payable in respect of any profit payment of the Sukuk three (3) months prior to the due date of such profit payment

(collectively, the “**Minimum Required Balance**”).

The Issuer shall at all times throughout the tenure of the Sukuk maintain the Minimum Required Balance in respect of any profit payment of the Sukuk save and except during the build up of the FSRA. The monies in the FSRA may be withdrawn to fulfil the Issuer’s payments obligations in respect of the profit of the Sukuk as and when they fall due under the Sukuk Programmes, Provided Always that the Issuer shall transfer monies in the FSRA within thirty (30) days from the date of such withdrawal in order to meet the Minimum Required Balance. In the event that the balance in the FSRA exceeds the Minimum Required Balance, the excess may be released to the Issuer.

For the avoidance of doubt, any failure by the Issuer to maintain the Minimum Required Balance shall not tantamount to an Event of Default/Dissolution Event.

Events of Default/ Dissolution Events

The Sukuk will have the customary events of default/dissolution events for a transaction of this nature:

- 1) the Sukukholders cease or fail to be or remain the absolute beneficial owner of the Ijarah Trust Assets and/or the Musyarakah Trust Assets free from all security interest;
- 2) the occurrence of any termination event as may be specified in the relevant transaction documents i.e. the Ijarah Agreement and the Purchase Undertaking;
- 3) the Issuer or the Obligor defaults in the payment of any payments in respect of the Sukuk, i.e. pursuant to the Ijarah Agreement and the Purchase Undertaking and/or the transaction documents when the same shall become due and payable (whether formally demanded or not), or on demand, if so payable in accordance with the respective terms;
- 4) the Issuer or the Obligor shall fail to satisfy any judgment passed against it by any court of competent jurisdiction and no appeal

against such judgment has been made to any appropriate appellate court within the time prescribed by law or such appeal has been dismissed and in the case of any judgment obtained in default of appearance, such judgment has not been set aside within thirty (30) days of the Issuer or the Obligor becoming aware of the judgment and such event has a Material Adverse Effect;

- 5) the Issuer or the Obligor for the purposes of section 218(2) of the CA deemed to be unable to pay its debts or stops payment of all or a material part of its debts, takes any proceeding or other step with a view to readjustment, rescheduling or deferral of any of the indebtedness of the Issuer or the Obligor or makes a general assignment or any composition or arrangement with or for the benefit of the creditors of the Issuer or the Obligor (including pursuant to Section 176 of the CA) or a moratorium is agreed or declared in respect of or affecting all or a part of the borrowed money of the Issuer or the Obligor;
- 6) an encumbrancer takes possession of, or a trustee or administrative or other receiver or similar officer is appointed over the whole or a substantial part of the assets, business or undertaking of the Issuer or the Obligor; or other steps are taken for making an administration order against the Issuer or the Obligor or a distress or execution or other process pursuant to a judgment obtained against the Issuer or the Obligor, and such distress, execution or other process is not paid out, withdrawn or discharged within thirty (30) days;
- 7) the Issuer or the Obligor commits any breach of or omits to observe any of the obligations, undertakings or covenants expressed to be assumed by it under any of the transaction documents (other than a failure as referred to in paragraph (3) above or failure to maintain the Minimum Required Balance) and in respect of any such breach or omission which is capable of remedy, such breach or omission remains unremedied for thirty (30) days after the Issuer or the Obligor becomes aware of such breach or a written notice thereof has been delivered to the Issuer or the Obligor by the Facility Agent;
- 8) any representation, warranty or statement which is made (or acknowledged to have been made) by the Issuer or the Obligor in the transaction documents or which is contained in any certificate, statement, legal opinion or notice provided under or in connection herewith or therewith proves to be incorrect in any material respect on or as of the date made or given or deemed made or given and in respect of any such misrepresentation which is capable of remedy, such misrepresentation remains unremedied for thirty (30) days after the Issuer or the Obligor becomes aware of such breach or a written notice thereof has been delivered to the Issuer or the Obligor by the Facility Agent;
- 9) any provision of any of the transaction documents is or becomes invalid, illegal, unenforceable or void;
- 10) any indebtedness of the Issuer or the Obligor becomes capable, in

accordance with the relevant terms thereof, of being declared due prematurely by reason of a default by the Issuer or the Obligor in its obligations in respect of the same, or the Issuer or the Obligor fails to make any payment in respect thereof on the due date for such payment or if due on demand when demanded or the security for any such indebtedness becomes enforceable which would have a Material Adverse Effect;

- 11) any step or action is taken for the bankruptcy, winding up, dissolution or liquidation of the Issuer or the Obligor (including, without limitation, the presentation of a petition for the bankruptcy of or winding up against the Issuer or the Obligor or the making of any order or the passing of any resolution for the winding up, dissolution or liquidation of the Issuer or the Obligor) unless the Issuer or the Obligor has taken any steps to set aside or apply for stay of execution in respect of such petition or order within thirty (30) days of the petition or order being served on the Issuer or the Obligor (as the case may be);
- 12) any event occurs which under the laws of Malaysia has an analogous effect to any of the events referred to in paragraph 11 above;
- 13) the Issuer or the Obligor repudiates any of the transaction documents;
- 14) any Malaysian law is brought into effect which purports to render ineffective or invalid any provision of the transaction documents or which would prevent the Issuer or the Obligor from performing any of its payment obligations under the transaction documents;
- 15) any event or events has or have occurred or a situation exists which would, give the Facility Agent reasonable grounds to believe that such event or events would have a Material Adverse Effect;
- 16) the Obligor's Facilities Licence or any future licences required to be obtained by the Obligor to perform its functions is terminated;
- 17) the Obligor ceases to be a wholly owned subsidiary of the Government of Malaysia either directly or indirectly;
- 18) the occurrence of any Total Loss Event and PAAB does not notify the Facility Agent in writing by 5.00pm on the same date of its intention to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, (or, if so notified, does not thereafter proceed to actually effect such substitution); or
- 19) such other events as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

On the occurrence of any of the events above (save for paragraph 18 above) the Facility Agent may, or shall if directed to do so by a special resolution of the Sukukholders, declare that a Dissolution Event/Event

of Default has occurred and the Exercise Price under the Purchase Undertaking, shall become immediately due and payable and Ijarah Assets and the Musyarakah Assets shall be immediately repurchased by PAAB, as the case may be.

Thereafter, the Facility Agent may take proceedings against PAAB as it may think fit to enforce immediate payment of the Exercise Price or the Final Rental, as the case may be.

On the occurrence of the event in paragraph 18 above, the Facility Agent shall immediately declare that a Dissolution Event/Event of Default has occurred and the Final Rental (as defined below) under the Ijarah Agreement shall become immediately due and payable. For the avoidance of doubt, the Final Rental shall not be payable if the aggregate principal amount of the Sukuk outstanding is paid via Exercise Price.

Material Adverse Effect

means any event, circumstance or effect which would have a material adverse effect on the business or condition (financial or otherwise) or results of the operations of the Issuer and/or the Obligor which, in every case, would materially and adversely affect or impair the ability of the Issuer and/or the Obligor to perform any of its obligations under any of the transaction documents.

**Compensation
("Ta'widh")**

In respect of Sukuk Ijarah

In the event of overdue payments of any amount due under the Rentals for the Ijarah Assets, the Final Rental or the Purchase Undertaking, PAAB shall pay the compensation on such overdue amount at the rate and manner prescribed by the SC's Shariah Advisory Council from time to time in accordance with Shariah.

In respect of Sukuk Musyarakah

In the event of overdue payments of any amount due under the Rentals for the Existing Assets in the Musyarakah Venture, the Final Rental or the Purchase Undertaking, PAAB shall pay the compensation on such overdue amount at the rate and manner prescribed by the SC's Shariah Advisory Council from time to time in accordance with Shariah.

Taxation

All payments under the Sukuk shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia or any other applicable jurisdictions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law, in which event the payer shall be required to make such additional amount so that the payee would receive the full amount which the payee would have received if no such withholding or deductions are made.

Governing Laws

Laws of Malaysia.

Jurisdiction

The Issuer and Obligor shall unconditionally and irrevocably submit to the exclusive jurisdictions of the courts of Malaysia.

Other Conditions:

Priority of Distributions

Save and except in respect of any unclaimed moneys, all moneys received or recovered by the Facility Agent under or pursuant to the agency agreement, the Sukuk and the other transaction documents consequent upon a declaration of a Dissolution Event/Event of Default shall be held by the Facility Agent to apply the same in the following manner:

- (a) FIRST, in or towards the payment of or provision for all fees, costs, charges, expenses and liabilities incurred by the Facility Agent in or incidental to the exercise or performance or attempted exercise or performance of any power, right, discretion or authority conferred on the Facility Agent under the agency agreement or the Sukuk or the other transaction documents;
- (b) SECOND, in or towards payment *pari passu* and rateably of all arrears in amounts due and unpaid or not distributed in respect of the Periodic Distribution Amount;
- (c) THIRD, in or towards payment *pari passu* and rateably of all arrears in amounts due and unpaid or not distributed in respect of the original investment amount of the Sukukholders (being the nominal value of the Sukuk); and
- (d) FOURTH, in payment of the surplus (if any), without interest, to or to the order of the Issuer or such other person for the time being entitled thereto.

Other Expenses

Agency fees, legal and other professional fees (including such fees payable and agreed by PAAB in the event that the Sukuk issuance is aborted), rating fees, stamp duties (if any), penalties in connection with the Sukuk issuance, BNM and SC fees shall be borne by PAAB.

Other Terms and Conditions for Ijarah and Musyarakah

Rental

The Rental in respect of lease of the Ijarah Asset or the Existing Asset in the Musyarakah Venture and consists of:-

- (a) an amount equivalent to a one-off distribution amount (“**One-off Distribution Amount**”) or the Periodic Distribution Amount which are payable by the Lessee to the Lessor on the One-off Distribution Date (as defined below) or the relevant Periodic Distribution Date, as the case may be; and
- (b) the Allocated Expenses (as defined below) which are only payable by the Lessee to the Lessor in one lump sum on the Lease Expiry Date; and
- (c) the principal amount of the respective Sukuk Ijarah or the Sukuk Musyarakah, as the case may be, due under the Sukuk Ijarah or the Sukuk Musyarakah, as the case may be (“**Final Rental**”) upon execution of the Ijarah Agreement which are only payable by the Lessee to the Lessor in one lump sum on the Lease Expiry Date.

For the avoidance of doubt, the Final Rental shall not be payable if aggregate principal amount of the Sukuk Ijarah or the Sukuk Musyarakah, as the case may be, outstanding is paid via the Exercise Price

The One-off Distribution Amount/Periodic Distribution Amount is payable by the Lessee, under the terms of the Ijarah Agreement, on the One-off Distribution Date or the Periodic Distribution Dates, as the case may be, (“**One-off Distribution Date**” and “**Periodic Distribution Dates**” collectively known as the “**Distribution Date**”) to the Facility Agent’s account with BNM or such other accounts as the Facility Agent may notify to the Lessee. Upon receipt by the Lessor from the Lessee of each Rental on the relevant Distribution Dates, the Issuer will use such amounts to make payments of the distributions due under the Sukuk (i.e. One-off Distribution Amount/Periodic Distribution Amount). For the avoidance of doubt, the Distribution Date for One-off Distribution Amount shall be the maturity date of such Sukuk (“**One-off Distribution Date**”).

Rental are payable up to the Lease Expiry Date (as defined below) of the Ijarah Agreement.

Purchase Undertaking

PAAB shall on the execution of the Ijarah Agreement, enter into a Purchase Undertaking pursuant to which PAAB irrevocably and unconditionally undertakes to purchase from the Issuer the Ijarah Assets and the Musyarakah Assets at the Exercise Price on the Dissolution Dates, the earliest of:

- (a) declaration of Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event); or
- (b) the Scheduled Distribution Date; or
- (c) the Early Dissolution Date.

Exercise Price

Upon the exercise by the Issuer of its rights under the Purchase Undertaking:

(1) On the Scheduled Distribution Date:

- (i) in the case of Sukuk without Periodic Distribution
Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid One-off Distribution Amount plus any shortfall in the Allocated Expenses accrued up to Scheduled Distribution Date.
- (ii) in the case of Sukuk with Periodic Distribution
Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid Periodic Distribution Amount and/or One-off Distribution Amount (if any) plus any shortfall in the Allocated Expenses accrued up to Scheduled Distribution Date.

(2) On the declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event):

(i) in the case of Sukuk without Periodic Distribution

Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid One-off Distribution Amount and to be adjusted to be equivalent to the accreted value plus accrued but unpaid profit (if any) up to the declaration of a Dissolution Event/Event of Default plus any shortfall in the Allocated Expenses accrued up to Dissolution Event/Event of Default.

(ii) in the case of Sukuk with Periodic Distribution

Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid Periodic Distribution Amount and/or One-off Distribution Amount to be adjusted to be equivalent to the accreted value (if any) plus accrued but unpaid profit (if any) up to the declaration of a Dissolution Event/Event of Default plus any shortfall in the Allocated Expenses accrued up to Dissolution Event/Event of Default.

The Lessor shall waive the Final Rental due under the Ijarah Agreement, or in the event such Final Rental have been paid in full by the Lessee under the Ijarah Agreement, the Exercise Price shall be Ringgit Malaysia One (RM1.00) plus any shortfall in the Allocated Expenses accrued up to Scheduled Distribution Date or Dissolution Event/Event of Default, as the case may be.

(3) On Early Dissolution:

Exercise Price = Early Dissolution Amount (“**EDA**”) calculated by the Facility Agent (which calculation shall be final and binding on the Sukukholders) based on the formula set in Illustration I plus any shortfall in the Allocated Expenses accrued up to Early Dissolution event.

The Exercise Price payable by PAAB to the Facility Agent shall be set off against any shortfall of the Allocated Expenses.

Asset Purchase Agreement

In respect of the Sukuk Ijarah, pursuant to an asset purchase agreement, PAAB will sell to the Issuer the Ijarah Assets (free from all claims and encumbrances) at the purchase price (“**Asset Purchase Price**”). The Asset Purchase Price will be in compliance with SC Shariah Advisory Council Pricing Guidelines.

Ijarah Agreement

Under the terms of an Ijarah Agreement, the Lessor will agree to lease to the Lessee, and the Lessee will agree to lease from the Lessor, the Ijarah Assets and/or the Existing Assets in the Musyarakah Venture, as the case may be, during the term commencing on the lease commencement date and ending on the Lease Expiry Date.

“**Lease Expiry Date**” shall be the final maturity date of the Sukuk/ Scheduled Distribution Date.

The Ijarah Agreement is subject to early termination on the following events:

- (a) the date on which the Ijarah Asset and/or the Existing Assets in the Musyarakah Venture, as the case may be, is purchased by the Obligor pursuant to the Purchase Undertaking/the date of declaration of a Dissolution Event/Event of Default; or
- (b) upon the occurrence of a Total Loss Event and the Ijarah Assets and/or the Existing Assets in the Musyarakah Venture are not substituted with the Total Loss Substitute Assets in accordance with the provisions herein,

whichever is the earlier.

Service Agency Agreement

Under the terms of the Service Agency Agreement, PAAB (in such capacity as the service agent, “**Service Agent**”), on behalf of the Lessor, will be responsible for the performance of all maintenance in respect of the Ijarah Assets and the Musyarakah Assets, to insure/cover the Ijarah Assets and the Musyarakah Assets, to pay general ownership expenses, to ensure that the Ijarah Assets and the Musyarakah Assets are kept in good repair and to effect replacement of the Ijarah Assets and the Musyarakah Assets as and when necessary, to maintain an up-to-date accounts, information, records relating to the Ijarah Assets and the Musyarakah Assets, and preparing annual operating budget in relation to the Ijarah Assets and the Musyarakah Assets and to ensure compliance with provisions of all regulations and laws, licences, permissions and consents provided under such regulations and laws in accordance with the terms set out in the Service Agency Agreement.

Allocated Expenses

Allocated expenses shall be an amount determined prior to the execution of the Ijarah Agreement and allocated in the Rental payable by the Lessee on the Lease Expiry Date, to be ultimately used by the Lessor to pay the Service Agent for expenses incurred in relation to the maintenance of the Ijarah Assets and the Musyarakah Assets pursuant to the terms of the Service Agency Agreement (“**Allocated Expenses**”). In the event the Allocated Expenses are more than the actual maintenance expenses incurred, such excess shall be paid to the Service Agent as an incentive fee.

Any shortfall shall be set off against any payment due from PAAB pursuant to the Purchase Undertaking.

Dissolution of Trust

Upon a sale of the Ijarah Assets and the Musyarakah Assets to the Obligor pursuant to the Purchase Undertaking and/or the payment by the Lessee of the Final Rental pursuant to the Ijarah Agreement, and in accordance therewith, the Obligor will be required to deposit the Exercise Price and/or the Lessee will be required to deposit the Final Rental into the Facility Agent’s account with BNM on or before the relevant date for the redemption of the Sukuk and dissolution of the Trust.

Upon receipt of the Exercise Price from the Obligor in accordance with the terms of the Purchase Undertaking and/or the Final Rental from the

Lessee in accordance with the terms of the Ijarah Agreement, such amount, together with Rentals received until the date of the termination of the lease under the Ijarah Agreement, will be applied to redeem the Sukuk.

Early Dissolution of the Trust

Notwithstanding the Scheduled Distribution Date of the Sukuk, PAAB may at its option and pursuant to the Purchase Undertaking, purchase the Ijarah Trust Asset or the Musyarakah Trust Asset (as the case may be) in relation to any Sukuk Series (as defined below), in whole but not in part, from the Issuer subject to the following conditions:

- (a) PAAB shall give a written notice of its intention of not less than twenty one (21) days and not more than sixty (60) days to the Facility Agent; and
- (b) the Early Dissolution will be in the inverse order of maturity among the Sukuk.

For avoidance of doubt, a Sukuk Series is defined as Sukuk with the same issue date and maturity date, and each Sukuk Series shall be redeemed in whole and not in part.

The Exercise Price payable after netting off any shortfall of the Allocated Expenses on Early Dissolution shall be equivalent to the EDA.

Total Loss Event

A total loss event is defined as the total loss or destruction of, or damage to the whole of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, or any event or occurrence that renders the whole of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, permanently unfit for any use.

The occurrence of a Total Loss Event shall be confirmed in writing by the Lessee, provided at all times that the confirmation by the Lessee to the Facility Agent shall not be more than two (2) weeks from the occurrence of such event.

On the occurrence of a Total Loss Event, PAAB shall notify the Facility Agent in writing by 5.00pm on the same day of its inability or its intention not to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, then at once the Facility Agent shall:

- (1) by written notice to the Lessee, declare that the lease shall be terminated and that the Lessee shall pay the Sukukholders the Final Rental plus any accrued and unpaid Rentals; and
- (2) in accordance with the provisions of the agency agreement, by written notice to the Lessor, declare that a Dissolution Event/Event of Default has occurred.

Right to Substitute the Assets Following a Total Loss Event

Following the occurrence of a Total Loss Event, PAAB, as the Service Agent, shall have the right to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, with qualified assets that are approved by the Shariah Adviser (“**Total Loss Substitute Assets**”).

Under this right, PAAB must by 5.00pm on the same day as the occurrence of a Total Loss Event:

- (a) identify the Total Loss Substitute Assets;
- (b) obtain the Shariah Adviser's approval of the Total Loss Substitute Assets;
- (c) execute the necessary documentation ("**Exchange Agreement**") to, amongst others, allow the Total Loss Substitute Assets to be substituted as the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and form part of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and Ijarah Trust Assets and/or the Musyarakah Trust Assets, as the case may be;

AND

- (i) the consideration for the Total Loss Substitute Assets shall be paid on a deferred basis and shall be due and payable once the insurance/takaful proceeds are received. If the insurance/takaful proceeds are insufficient to cover the purchase consideration, the Service Agent shall be obliged to make good the difference, for not taking full insurance/takaful coverage on the Assets and the Musyarakah Assets pursuant to the terms of the Service Agency Agreement. Any excess from the insurance/takaful proceeds over the purchase consideration shall be paid to the Service Agent as an incentive fee; and
- (ii) In respect of Total Loss of the Ijarah Assets or the Existing Assets in the Musyarakah Venture, the Lessee and Lessor shall continue the lease with the Total Loss Substitute Assets under the terms of the existing Ijarah Agreement. All Rentals due and payable up to the date of occurrence of a Total Loss Event shall be payable by the Lessee to the Lessor in the following Periodic Distribution Date.

Additional Terms and Conditions for Musyarakah

Underlying Transaction and the Sukuk Musyarakah

There will be two (2) types of Sukuk Musyarakah namely those Sukuk Musyarakah with periodic distributions and those Sukuk Musyarakah without periodic distributions.

Sukuk Musyarakah with periodic distributions will be entitled to Periodic Distribution Amount on the Periodic Distribution Date and a payment of the Exercise Price.

Sukuk Musyarakah without periodic distributions will only be entitled to the One-off Distribution ("**One-off Distribution Amount**") on the One-off Distribution Date and a payment of the Exercise Price on the One-off Distribution Date.

For the avoidance of doubt, the One-off Distribution Date in respect of Sukuk Musyarakah without periodic distributions shall be the maturity date of such Sukuk Musyarakah.

Sukukholders Entitlement to Income

The Sukukholders, the Issuer and PAAB agree that the Sukukholders shall be entitled to share in the income generated from the Musyarakah Venture (“**Income Entitlement**”). This share of income attributable to the Sukukholders shall only be paid to the Sukukholders on the Dissolution Dates and/or Periodic Distribution Dates and/or the One-Off Distribution Date.

The Sukuk shall entitle the Sukukholders to the following:

- 1) an undivided share of beneficial ownership in the Musyarakah Trust Assets, (the quantum of which is evidenced by the Sukuk Musyarakah held by it);
- 2) a right to share the income generated from the Musyarakah Trust Assets (in proportion to their undivided ownership based on a pre-agreed percentage) but on the basis that payments of such share of the income shall:
 - (i) be equivalent to the Expected Return in relation to each tranche of the Sukuk Musyarakah;
 - (ii) be received by the Sukukholders on the Dissolution Dates and/or Periodic Distribution Dates and/or One-Off Distribution Date whereby, for avoidance of doubt, failure by PAAB to make such payments of Periodic Distribution Amount or the One-Off Distribution Amount, as the case may be, to the Sukukholders on the Dissolution Dates and/or Periodic Distribution Dates and/or One-Off Distribution Date shall constitute a Dissolution Event/Event of Default; and
- 3) the benefit of the Purchase Undertaking.

Periodic Distributions and Periodic Distributions Date

Sukuk Musyarakah with periodic distributions will be entitled to periodic distributions on the Periodic Distribution Dates (each as defined below).

Periodic distributions shall be equivalent to the Expected Return in relation to each tranche of the Sukuk Musyarakah.

The frequency of the periodic distributions for the Sukuk Musyarakah shall be on a semi annual basis or such period to be agreed between PAAB and the Lead Manager prior to each issuance of the Sukuk.

Periodic Distribution Amount is to be calculated based on the actual number of days elapsed over 365 basis (actual/365).

Partial Redemption of Sukuk Musyarakah

Upon partial redemption of the Sukuk Musyarakah, PAAB shall be the co-owner of the Musyarakah Venture. PAAB and the Sukukholders shall share the return from the Musyarakah Venture (i.e. Rental from the Ijarah Agreement between PAAB and the Issuer and any Shariah-compliant income generated from the Investments, Future Assets and Assets To Be Acquired which may include among others the rental proceeds from lease of the completed Future Assets or delivered Assets

To Be Acquired to a third party) based on the proportionate ownership of the Musyarakah Venture.

[The rest of this page has been left blank intentionally]

Illustration I

Early Dissolution Amount payable in the event of Early Dissolution

Early Dissolution Amount = the higher of PB or ERP

Where:

PB = Aggregate nominal value/face value of the Sukuk Series to be redeemed

ERP = Early Redemption Price to be calculated as follows:

$$ERP = \frac{PB \times ERF}{100}$$

ERF = Early Redemption Factor per RM100.00 (2 decimal places) subject to a minimum of RM100.00 based on the formula set out below.

For purposes of calculating the ERF, the following variables are used:

(i) “**Reference MGS**” shall be the MGS rates for the tenure which is equal to the remaining tenure of the Sukuk Series and shall be determined from:

- (i) the latest Consolidated Government Securities Rates (Conventional) published by BNM daily, two (2) business days prior to the call notice date; or if such is unavailable
- (ii) the arithmetic average of the mid-rates quoted by any five (5) principal dealers, two (2) business days prior to call notice date and/or in the case where the rate for a particular tenure is not available directly, then such rate shall be extrapolated on a linear basis using the available arithmetic average mid-rates;

PROVIDED THAT if the tenure of the Sukuk Series is not an integer, the Reference MGS shall be arithmetic mean of the rates of the two nearest tenures derived from (a) or (b) above.

(ii) “**PPR**” means the Profit Rate for the Sukuk Series expressed as a percentage per annum.

(iii) “**Spread**” shall be:

Remaining Tenure (Years) of the Sukuk at the time of Issuer’s notice for Early Dissolution	Spread (%)
5.0 or less	0.30
Above 5.0	0.45

(i) **For Sukuk with Periodic Distribution:**

$$ERF = \left[\frac{100}{[1 + (MktYTM / 2)]^{(N-1)+(T/E)}} \right] + \left[\sum_{k=1}^N \frac{[100x(PPR/2)]}{[1 + (MktYTM / 2)]^{(k-1)+(T/E)}} \right] - \left[\frac{S}{E} X \frac{100xPPR}{2} \right]$$

- N** = number of Periodic Payment Dates between the Early Dissolution Date and the Maturity Date, inclusive of both the Early Dissolution Date and the Maturity Date.
- T** = number of days from the Early Dissolution Date to the immediate next Periodic Payment Date
- E** = number of days between the immediate preceding Periodic Payment Date (from the Early Dissolution Date) to the immediate next Periodic Payment Date following the Early Dissolution Date
- Mkt YTM** = Reference MGS plus Spread
- S** = number of days from the immediate preceding Periodic Payment Date from the Early Dissolution Date to the Early Dissolution Date.

(ii) **For Sukuk without Periodic Distribution:**

$$ERF = \left[\frac{100}{[1 + (MktYTM / 2)]^{(M-1)+(U/V)}} \right]$$

- M** = number of Relevant Dates between the Early Dissolution Date and the Maturity Date, inclusive of both the Early Dissolution Date and the Maturity Date
- “**Relevant Date(s)**” means the date(s) which shall fall on the last day of the successive six (6) month periods (“**Relevant Period**”), the first period of which shall commence on the Issue Date
- U** = number of days from the Early Dissolution Date to the immediate next Relevant Date
- V** = number of days in the Relevant Period within which the Early Dissolution Date falls
- Mkt YTM** = Reference MGS plus Spread

[The rest of this page has been left blank intentionally]

3. INVESTMENT CONSIDERATIONS

Prospective investors of the Sukuk should consider carefully all information set out in this Information Memorandum and, in particular, the following risks involved. The following is a summary of risk factors relating to the Sukuk and their possible mitigating factors. This section does not purport to be comprehensive or exhaustive and is not extended to substitute or replace an independent assessment of the risk factors that may affect the Sukuk.

Each investor should carefully conduct his or her independent evaluation of the risks associated with investing in the Sukuk. Investors should also note that each issue of the Sukuk will carry different risks and all potential investors are strongly encouraged to evaluate each Sukuk on its own merit and to make a careful and informed assessment before proceeding with any decision to invest in the Sukuk.

3.1 Considerations Relating to the Sukuk

(a) Performance of contractual obligations

The ability of the Issuer to make payments in respect of the Sukuk will depend upon the due performance by PAAB of its obligations under the relevant transaction documents entered into pursuant to the Sukuk Programmes.

(b) There has been no prior public market for the Sukuk; the liquidity and market price of the Sukuk following the issue of a series of Sukuk may be volatile

There is no existing market for the Sukuk and there can be no assurances that a secondary market for the Sukuk will develop, or if a secondary market does develop, that it will provide Sukukholders with liquidity of investment or that it will continue for the life of the Sukuk. The market value of the Sukuk may fluctuate. Consequently, any sale of the Sukuk by Sukukholders in any secondary market which may develop may be at prices higher or lower than the initial offering price, depending on many factors, including the prevailing interest rates and the market for similar securities. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Sukuk and an investor in the Sukuk must be prepared to hold the Sukuk for an indefinite period of time or until their maturity, nor any assurance can be given as to the ability of the Sukukholders to sell their Sukuk, or the prices at which the Sukukholders would be able to sell their Sukuk.

(c) The market value of the Sukuk may be subject to fluctuation

Trading prices of the Sukuk may be influenced by numerous factors, including the operating results and/or financial condition of the Issuer and/or PAAB, political, economic, financial and any other factors that can affect the capital markets, the industry, the Issuer or PAAB. Adverse economic developments could have a material adverse effect on the market value of the Sukuk.

(d) An investment in the Sukuk is subject to interest rate risk

A Sukukholder may suffer unforeseen losses due to fluctuations in interest rates. Although the Sukuk are Islamic securities which do not pay interest, they are similar to fixed income securities and may therefore see their price fluctuate due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices. The Sukuk may be similarly affected resulting in a capital loss for the Sukukholders. Conversely, when interest rates fall, bond prices (this including the

prices at which the Sukuk trade) may rise. Sukukholders may enjoy a capital gain but profit received may be reinvested for lower returns.

(e) An investment in the Sukuk is subject to inflation risk

Sukukholders may suffer erosion on the return of their investments due to inflation. Sukukholders would have an anticipated rate of return based on expected inflation rates on the purchase of the Sukuk. An unexpected increase in inflation could reduce the actual return.

(f) The ratings of the Sukuk Programmes may be changed at any time and this may adversely affect the market value of the Sukuk

The IMTN Programme and the ICP Programme have been assigned with an indicative long term rating of AAA and an indicative short term rating of P1 respectively by RAM Ratings. A rating is not a recommendation to purchase, hold or sell the Sukuk as such rating does not comment as to market price or suitability for a particular investor. There is no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by an assigning rating organisation in the future, if, in its judgment, circumstances in the future so warrant. In such circumstances, the market price and liquidity of the Sukuk may decrease, and no person or entity would be obligated to provide any additional credit enhancement with respect to the Sukuk. Any reduction, suspension or withdrawal of a rating of the Sukuk will not constitute a Dissolution Event with respect to the Sukuk.

(g) Suitability of investments

The Sukuk issued under the Sukuk Programmes may not be a suitable investment for all investors. Each potential investor in the Sukuk must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk, the merits and risks of investing in the Sukuk and the information contained in this Information Memorandum;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk and the impact the Sukuk will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk, including where the currency of payment is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

(h) Sukuk subject to early dissolution

An early dissolution feature of any Sukuk is likely to limit its market value. During any period when PAAB may elect to purchase the Ijarah Trust Asset or the Musyarakah Trust Asset (as the case may be) in relation to each Sukuk series on whole from the Issuer, the market value of those Sukuk generally will not rise substantially above the Early Dissolution Amount (as defined in the PTC) payable. This also may be true prior to any dissolution period.

3.2 Considerations Relating to the Ijarah Assets and the Musyarakah Assets

(a) The purchase price paid by the Issuer for the Ijarah Assets or the Musyarakah Assets (as the case may be) may not reflect their current market value

The purchase price payable by the Issuer to PAAB, for the purchase of the Ijarah Assets or the Musyarakah Assets (as the case may be), is based on the value of the respective Ijarah Assets or the Musyarakah Assets (as the case may be), at cost or at a premium not exceeding 1.33 times of asset's market value or at a discount not less than 0.67 times of the asset's market value (as permitted by the SC's Shariah Advisory Council and the Shariah Adviser). Such valuation of the Ijarah Assets or the Musyarakah Assets (as the case may be) would be approximate to the proceeds of the Sukuk to be issued.

Accordingly, at the time of the issue date in respect of a Sukuk series, the current market value of the relevant assets may be higher or lower than the purchase price paid by the Issuer. The ability of the Issuer to pay amounts due in respect of the Sukuk will be primarily dependent upon PAAB fulfilling its obligations to make rental payments under the Ijarah Agreement and to purchase the Ijarah Assets or the Musyarakah Assets (as the case may be) at the applicable Exercise Price under the Purchase Undertaking upon occurrence of certain events and to indemnify the Issuer pursuant to the terms of the Sukuk Programmes. Such obligations of PAAB however, do not tantamount to a legal guarantee from PAAB for payments under the Sukuk.

(b) Recourse to the Issuer and the Ijarah Trust Assets or the Musyarakah Trust Assets (as the case may be) is limited

Each Sukuk issue represents a fraction of undivided interest in the Ijarah Trust Assets or the Musyarakah Trust Assets (as the case may be).

In order to mitigate the investment risk or uncertainty of income, the Sukukholders rely on the Purchase Undertaking provided by PAAB. Payments of amounts due in respect of the Sukuk are ultimately dependent on the performance of PAAB in making those payments as well as in observing the Purchase Undertaking.

Following the declaration of a dissolution event pursuant to the terms of the Sukuk Programmes, the sole rights of each of the Issuer, the Facility Agent and the Sukukholders of the relevant series of Sukuk will be against PAAB to pay the Exercise Price in respect of such series. The Sukukholders will otherwise have no recourse to the Issuer or the Ijarah Trust Assets or the Musyarakah Trust Assets (as the case may be). The Issuer's obligations are not secured by the Ijarah Trust Assets or the Musyarakah Trust Assets (as the case may be), or any other assets of the Issuer or PAAB. The Ijarah Trust Assets or the Musyarakah Trust Assets (as the case may be) are not intended to be security for the Sukuk.

- (c) The Issuer has not made searches and investigations relating to the Ijarah Assets or the Musyarakah Assets (as the case may be)

Neither the Issuer nor the Sole Lead Arranger/ Sole Lead Manager has or will make or caused to be made on their behalf enquiries, searches, investigations and due diligence on the Ijarah Asset or the Musyarakah Asset. Accordingly, the precise terms and conditions on which the assets were sold to PAAB will not be known to the Issuer (including whether there are any restrictions on transfer or any further obligations required to be performed by PAAB to give effect to the transfer of the assets or otherwise).

However, the Issuer and the Sole Lead Arranger/ Sole Lead Manager will rely on the representations and warranties by PAAB as contained in the transaction documents and on PAAB's due diligence enquiries in acquiring those Ijarah Assets and Musyarakah Assets in the first place and the sufficiency thereof. Ultimately payments of amounts due in respect of the Sukuk will be dependent upon PAAB performing its obligations under the Purchase Undertaking.

- (d) Claims for Specific Performance

In the event that PAAB fails to perform its obligations under the Purchase Undertaking, then the potential remedies available to the Issuer include obtaining an order for specific performance of PAAB's obligations or a claim for damages. There is no assurance that a court will provide an order for specific performance which is a discretionary remedy.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors. No assurance is provided on the quantum of damages which a court may award in the event of a failure by PAAB to perform its obligations set out in the Purchase Undertaking.

- (e) Substitution of Ijarah Assets and Musyarakah Assets throughout the Tenure of the Sukuk

PAAB may at any time throughout the tenure of the Sukuk, or on the occurrence of a Total Loss Event duly notified to the Facility Agent (on behalf of the Sukukholders), substitute the Ijarah Asset or the Musyarakah Asset with qualified assets that are approved by the Shariah Adviser. Such substitution of the Ijarah Asset or the Musyarakah Asset shall be done via an asset exchange agreement to be executed between the Lessor and PAAB as the service agent for the relevant Ijarah Asset or Musyarakah Asset, as the case may be. Events leading to a substitution of Ijarah Assets or Musyarakah Assets (other than in a Total Loss Event) include situations where PAAB disposes Water Assets in its ordinary course of business and hence requiring the substitution of the Ijarah Assets or the Musyarakah Assets under an exchange agreement.

- (f) Funding of assets to be acquired by PAAB under Musyarakah

The Issuer on behalf of the Sukukholders shall from time to time form a Musyarakah Venture and appoint PAAB as the manager to manage the Musyarakah Capital for the purpose of (i) purchase of existing assets of PAAB and/or (ii) funding and acquisition of assets under construction of PAAB and/or (iii) funding of assets to be acquired by PAAB ("**Assets To Be Acquired**"). Prior to acquisition of the Assets To Be Acquired, the Musyarakah Capital shall be invested in Shariah-compliant income-generating

asset-based instruments including Shariah-compliant securities recognized by SC such as sukuk, Shariah-compliant shares recognized by SC, Shariah-compliant funds recognized by SC, Shariah-compliant asset based deposits with licensed Islamic financial institutions and other Shariah-compliant income generating asset-based instruments to be approved by the Shariah Adviser (“**Investments**”). However, this is mitigated by the requirement that the Assets To Be Acquired are to be identified prior to issuance and to be endorsed by the Shariah Adviser. Upon the availability of the Assets To Be Acquired, PAAB shall then liquidate the Investments and invest the proceeds thereof in the funding of the Assets To Be Acquired.

3.3 Considerations Relating to the Issuer

(a) Issuer is a special purpose company

The Issuer is a special purpose company, incorporated with limited liability on 3 August 2009, and has no operating history. The Issuer will not engage in any business activity other than in connection with the issuance of the Sukuk under the Sukuk Programmes, the acquisition of the Ijarah Assets or the Musyarakah Assets (as the case may be), and other activities incidental or related to the foregoing as required under the transaction documents of the Sukuk Programmes. The Issuer will have no material assets other than the beneficial ownership, held by the Issuer on behalf of the Sukukholders, in the Ijarah Trust Assets or the Musyarakah Trust Assets (as the case may be) relating to the Sukuk.

The ability of the Issuer to pay amounts due under the Sukuk will solely be dependent upon PAAB performing its obligations under the Ijarah Agreement and the Purchase Undertaking.

(b) Issuer’s ability to meet its obligations under the Sukuk

The Sukuk are unsecured. There is no assurance that there will be sufficient cashflow to meet payments under the Sukuk. However, the Issuer has no borrowings to date and has covenanted that it will not incur further indebtedness without the consent from the Sukukholders. Furthermore, payments of amounts due in respect of the Sukuk will ultimately be dependent upon PAAB performing its obligations under the Ijarah Agreement and the Purchase Undertaking.

3.4 Considerations Relating to PAAB’s Business

(a) Lease Rental Receipts

PAAB is the nation’s designated Water Assets owner. Its main stream of income is the collection of lease rentals from its leasing of Water Assets to the relevant state water operators licensed by SPAN for the carrying out of such operations and maintenance. The leasing arrangements with these state water operators are typically long term in nature, ranging from 30 years to 45 years.

PAAB faces the risk of not receiving lease rental from these state water operators in full. State water operators in Categories 1 and 2 (as set out in Section 7.1) are less financially independent and may require forbearance from PAAB in making such lease rentals.

However, PAAB has put in place stringent measures and controls to ensure prompt payment of lease rental by the state water operators. Amongst others, payments by the Consumers shall be made to the accounts of the relevant state water operators which are assigned or to be assigned to PAAB. All state water operators are required to issue an irrevocable letter of instruction to the bank with which their accounts are being maintained to remit the lease rental to PAAB's lease rental collection account by no later than the 7th day of each month. These controls and measures are periodically reviewed and revised as the state water operator's performance improves and approaches financial independence over time.

Ultimately, the ability of state water operators to pay lease rentals is largely dependent on certain factors and considerations, which include the following:

(i) Tariff

The state water operators' revenue stream is largely driven by the tariff charged to Consumers.

Tariff structure should be equitable and affordable and at the same time promote conservative use of water, and distinguish between non-domestic usage and domestic consumption.

SPAN, as the regulator, would evaluate proposals from the state water operators for tariff reviews, taking into cognizance Consumers' affordability on the tariff change and state water operators' cost recovery aspects. The lease rental payable by the state water operators to PAAB is subject to review every 3 years, in line with the provisions for tariff review under the WSIA.

(ii) Supply of Raw Water – Quality & Quantity

The quality and quantity of supply of raw water affect the performance of state water operators, which are obligated to meet the standards for treated water stipulated in the respective water treatment concession agreements whereby such standards are based on the National Guidelines for Drinking Water Quality (“**National Guidelines**”) issued by Kementerian Kesihatan Malaysia.

The responsibilities in maintaining the appropriate quality and quantity of raw water ultimately lie with the respective State Governments.

(iii) Quality of Treated Water

a. Treated Water Produced by State Water Operators

There is a risk that water leaving the state water operators' treatment plants does not meet the required quality standards. This risk is mitigated by:

- (a) new water treatment technologies;
- (b) introduction of Supervisory Control and Data Acquisition and Telemetry Systems;
- (c) establishment of laboratories;
- (d) establishment of operating manuals; and
- (e) improvement in monitoring of water catchment areas and rivers.

b. Treated Water Purchase From Third Parties

Some state water operators predominantly purchase their treated water from water treatment plant operators. Each of these parties is obliged to meet the standards for treated water stipulated in the respective water treatment concession agreement. These standards are based on the National Guidelines.

(iv) Water Demand

The state water operators' revenue would be, to a large extent, dependent on the actual water demand from Consumers. Historically, the leading factor affecting water demand has generally been, and is expected to continue to be, the level of economic activity. Other factors which have in the past affected water demand and are expected to continue to do so include the level of commercial, industrial and residential developments and household income.

(v) State Water Operators' Collection

The state water operators' financial performance is also driven by the rate of collection from Consumers. Should such rate of collection fall, the state water operators' revenue is expected to be adversely affected and higher provisions for doubtful and bad debts may have to be allowed for.

Measures undertaken or expected to be undertaken by the state water operators to address state water operators' collection risk include the following:

- a. setting-up of credit control and monitoring unit;
- b. water supply cut using clamping system;
- c. electronic meter reading by Automatic Meter Reading;
- d. outsourcing of collection of water bill payments to external collection agencies;
- e. easing methods of water bill payments, such as through enabling online payments and extension of opening hours at collection counters; and
- f. improvement in customer services in addressing billing-related enquiries.

(vi) NRW

A certain percentage of water treated and distributed by the state water operators does not generate any revenue due to factors which include:

- a. pipe bursts and leakages (mainly due to old asbestos cement pipes);
- b. system maintenance (i.e. flushing of pipes after repairs of bursts, washing of reservoirs, periodic testing of hydrants and others) and fire fighting;
- c. reservoir overflow;
- d. pilferages (illegal connections in squatter colonies and other thefts of water); and
- e. meter under registration (the quantity of water registered by a meter is less than the actual quantity passing through the meter as it ages).

To address the NRW issue, state water operators have undertaken or are expected to undertake various efforts which include pipe replacement programme, expediting response time on repairs for pipe bursts, curbing of water thefts via campaigns to consumers to report illegal tapping and disconnection exercise of illegal tapping, control of reservoirs overflow, leak detection and repairs and pressure management.

(vii) State Water Operators' Operations

The operation of a state water operator's water supply system will be affected by water treatment breakdowns, cessation of supply due to drought, inadvertent supply of water unfit for consumption, labour disputes and catastrophic events such as earthquakes, fires or similar events. These events may adversely affect the state water operator's revenues or increase operating and maintenance costs, thereby affecting the economic viability of the state water operator.

Measures undertaken or expected to be undertaken to mitigate state water operators' operational risk include utilising experienced technical staff teams, proper and timely maintenance Water Assets and adequate insurance coverage.

(b) Asset maintenance and related expenditure

PAAB, as the owner of the Water Assets, leases these Water Assets to state water operators that are licensed by SPAN to facilitate the operations and maintenance of these Water Assets. Such Water Assets are susceptible to operational risks such as water treatment breakdowns, cessation of supply due to pipe leaks, pipe bursts and droughts, inadvertent supply of water unfit for consumption, power failures at treatment plants and pumping installations, raw water pollution forcing treatment plants to shut down, labour disputes and catastrophic events such as earthquakes, fires or landslides. These events may adversely affect the state water operators' revenues or increase their operating and maintenance costs of the Water Assets, thereby affecting the ability of the state water operators to pay their lease rental.

Measures adopted or expected to be adopted to mitigate these risks include the following:

- (i) the state water operators, who are responsible for the Water Assets operations and maintenance works, are expected to utilise experienced and reputable technical teams to carry out such works;
- (ii) adequate insurance covers for the Water Assets taken up or to be taken up to insure against loss, damage etc. and third party liability against accident; and
- (iii) regular inspections on the operations of the state water operators by PAAB and SPAN.

(c) Considerations Relating to Capital Expenditure, Construction and Cost Overrun

In addition to being a Water Asset owner, PAAB is also responsible for developing the water infrastructure for the States that have sold their Water Assets to PAAB.

PAAB conducts periodic reviews of its capital expenditure requirements based on performance of the respective state water operators to ensure efficient use of capital expenditure. PAAB has the flexibility to increase or scale down on capital expenditure if required.

To mitigate construction and cost overrun risks, experienced turnkey contractors with reputable track records are expected to be appointed to undertake such works on a lump sum basis. PAAB is also required to ensure that its capital expenditure requirements are looked into in detail by engaging the state water operators in discussions to identify its priorities, margin for project cost, execution schedule and any other relevant matters.

(d) Adequacy of insurance coverage

Although PAAB has taken the necessary measures to ensure that all their assets are adequately covered by insurance in accordance with standard industry practice, there can be no assurance that the proceeds thereof would be adequate to cover the replacement cost of the assets or any consequential losses arising thereof.

(e) Dependence on Directors, Senior Management and Key Technical Personnel

PAAB's continued success will depend to a significant extent upon the abilities and continued efforts of its executive directors and senior management. The departure of any of PAAB's executive directors or key members of the senior management may adversely affect its performance. Efforts are being made to groom younger members of the management team to eventually succeed the existing executive directors and senior management in the future. PAAB's future success will also depend upon its ability to attract and retain skilled personnel. In addition, the existing management of PAAB has formulated a succession plan in order to facilitate the development of a competent management team and to ensure continuity in the management of PAAB.

3.5 Considerations Relating to the Industry

(a) Industry Restructuring

The aim in restructuring the water services industry is to achieve a long-term sustainable operating model without undue constraint to public funding by the Federal Government. One of PAAB's roles in this respect is to facilitate fund raising from the capital markets to finance the acquisition and development of Water Assets.

The success in the water services industry restructuring is dependent on the following main factors:

- (i) willingness of the industry participants to play an active and effectual role to enable holistic and efficient management of water services;
- (ii) reasonable return on investment for the state water operators;
- (iii) keeping water tariff in check by exploring avenues of cost savings arising from efficient and effective operations;
- (iv) capability of the water services industry to collectively raise funding through PAAB; and
- (v) transparency in the award of contracts for supply of water services as well as the construction of Water Assets.

By virtue of its position as the industry's regulator, SPAN plays a crucial role in ensuring the success of the water services industry restructuring. The Minister, with SPAN's recommendations, has the authority to award service and facility licences to competent and effective state water operators and likewise the authority to revoke these licenses from non-performing licensees. Through an annual 3-year rolling business planning framework, SPAN sets Key Performance Indicators ("KPIs") for the licensees to achieve and evaluate their performances. The KPIs are tailored towards attaining a certain level of efficiency and effectiveness in the operations and financial performance of the state water operators.

(b) Re-negotiation of water concession agreements

Certain States had privatised their water services prior to the water industry reform efforts with the entry into various concession agreements.

These privatisation exercises were done on a piecemeal basis whereby the water treatment segment is segregated from the water distribution segment. This segregation of the water services value chain has given rise to challenge in transfer pricing between the different state water operators and such fragmented approach does not promote an effective and efficient value chain.

Restructuring of the industry promotes state water operators who are prepared to operate the whole value chain in a holistic manner to achieve the level of efficiency envisioned, especially in terms of costs. Hence, re-negotiation of the existing water concession agreements is an imperative step in the water services industry restructuring.

Concessionaires are encouraged to shift to the licensing regime under the WSIA whereby current concession agreements will be terminated and qualified

concessionaires are given licenses to continue to operate. The upside of this arrangement for the concessionaires is that they are able to continue to be in the business beyond the period of their concession, provided they perform to SPAN's standards.

For concessionaires that are not willing to shift to the licensing regime, SPAN is taking active steps to ensure the terms of their concession agreements are renegotiated by the relevant parties. SPAN will be the moderator of these negotiations on the terms of their concession agreements to ensure Consumers' interest is protected. The unwillingness of certain concessionaires to shift to the licensing regime may delay the achievement of certain goals of the industry reform.

(c) Dependence on PAAB and the Federal Government

Presently, given that tariff is not structured on a full-cost recovery basis, the state water operators are not expected to generate sufficient cash flows to fund the acquisition and replacement of their water infrastructure assets. Efforts are currently in place to turn these state water operators around to reach full cost recovery by first promoting efficient and effective operations through good governance. In the process of doing so, the industry is dependent on PAAB and the Federal Government to raise funds to rehabilitate and develop the water infrastructure, as well as to achieve financial stability. Essentially, PAAB is a subsidy model put in place by the Federal Government to enable the water operating companies to raise funds for the water industry to turn around without having to implement massive tariff increase. Tariff is expected to be increased gradually over the long term until full cost recovery is achieved by the industry.

Some state water operators require additional financial assistance to meet their operating expenses. These state water operators receive subsidy in the early years of the industry reform in the form of operational expense advances and reduced lease rental rate. The financial assistance extended by PAAB is for a limited number of years only, during which time the state water operators will be subject to strict financial monitoring and controls by PAAB. PAAB aims to place a financial officer with each of these state water operators to assist in managing and controlling their financials. A Business Turnaround Committee is also expected to be set-up to promote and oversee initiatives for these state water operators to achieve financial sustainability. As it is the Federal Government's vision to bring about a sustainable water services industry, the Federal Government is expected to extend full support to PAAB towards achieving this goal.

3.6 General Considerations

(a) Exposure to inflation rate

PAAB will be exposed to inflationary pressures in respect of operating costs such as maintenance costs, insurance premiums, local assessment charges and administration costs. These operating costs would typically rise with inflation rate.

The effect of inflationary pressures in respect of general and administration, permitting and licensing, insurance, land assessment, and owner's cost in relation to the Water Assets are mitigated in the respective lease agreements to the extent that the fixed operating rate and variable operating rate are adjustable every 4 years during the term of the lease.

(b) Foreign Exchange Risk

As the operations and assets of PAAB are situated exclusively in Malaysia, PAAB is not subject to substantial foreign exchange exposures. Foreign exchange exposure is present when there is a need to source for spare parts or construction materials from abroad. However, locally manufactured products of comparable quality are given priority when sourcing for materials.

(c) Liquidity Risk

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

(d) Interest Rate Fluctuation Risk

The investment in financial assets is short term in nature and they are not held for speculative purposes but have been and would continue to be placed in fixed deposits, repos and other financial instruments which are expected to yield better returns than cash at bank.

(e) Changes in General Economic, Political and Regulatory Conditions

Like all other business entities, changes in political, economic and regulatory conditions in Malaysia and elsewhere could materially and adversely affect the financial and business prospects of PAAB and the Issuer. Amongst the political and economic and regulatory uncertainties are the changes in political leadership, expropriation, nationalisation, re-negotiation or nullification of existing orders and regulations, changes in methods of taxation and currency exchange rules and contracts. There can be no assurance that these changes will not materially affect the Issuer nor the business of PAAB.

Adverse developments in the political, economic and regulatory conditions in Malaysia and any adverse change in government policies could materially affect the financial and operational condition of PAAB and the Issuer.

While PAAB continues to take measures such as prudent financial management and efficient operating procedures, no assurance can be given that Malaysia's law, administrative practice, economic, political and governmental policies will not change after the date hereof or that such change will not adversely impact the structure of the transaction and the treatment of the Sukuk. Political and economic uncertainties, which may affect PAAB and the Issuer include the risk of war, expropriation, nationalisation, renegotiation, or nullification of existing contracts, changes in rates of interest and methods of taxation.

Further, PAAB itself is regulated by SPAN. In order to own the Water Assets, PAAB is required to, and has obtained, a Facilities License from SPAN. Further, for the purposes of establishing the Issuer, PAAB is required, and has obtained, an exemption from SPAN under Regulation 16(b)(ii) of the Water Services Industry (Licensing) Regulations 2007 for the incorporation of the Issuer for purposes of the Proposal.

Under the SPAN Act, SPAN has the power to do all things necessary or expedient for or in connection with the performance of its functions under the water supply and sewerage services laws. Accordingly, potential investors should be aware that SPAN

could, in the future, impose conditions or introduce guidelines which may impact on the operations or financial condition of PAAB and the Issuer.

Further, pursuant to the provision of PAAB's Facilities Licence, any disposal of any of PAAB's assets which value exceeds 10% of PAAB's net asset value whether in one transaction or in a series of transactions over a period of 18 months, as determined based on its latest audited accounts, requires the Minister's prior written approval. PAAB shall ensure that this condition is observed at all times.

The regulatory regime that is currently applicable to PAAB may also be changed. No assurance can be given that future legislation and regulations, administrative and regulatory rulings, court decisions or changes to the regulatory regime will not directly or indirectly affect the Sukuk.

(f) Environmental Risk

Environmental issue is increasingly an important concern for most businesses. The activities of PAAB are also subject to compliance with various environmental laws relating to water, air, noise pollution and the disposal of waste materials.

Although PAAB is supportive of and implements environmental protection procedures and mitigating measures, there can be no assurance that such environmental concerns will not have an adverse impact on the future operations of PAAB or the Issuer, or that compliance with new legislation on environmental matters will not have an adverse material effect on PAAB or the Issuer.

(g) Change of Law

The issue of the Sukuk is based on Malaysian law, tax and administrative practices in effect at the date hereof and having due regard to the expected tax treatment of all relevant statutes under such law and practice. No assurance can be given that Malaysian law, tax or administrative practices will not change after the closing date or that such change will not adversely impact the structure of the transaction and the treatment of the Sukuk.

(h) Unforeseen events

Although PAAB engages in prudent practices and sound management policies, there is a risk that PAAB and the Issuer may not be able to perform their respective obligations due to the occurrence of unforeseen events outside its control.

3.7 Forward Looking Statements

Certain statements in this Information Memorandum are based on historical data, which may not be reflective of the future results, and others are forward-looking in nature, which are subject to uncertainties and contingencies. All forward-looking statements are based on estimates and assumptions made by the Issuer and PAAB, and although the Board of the Issuer and PAAB believe that these forward-looking statements are reasonable, the statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of forward-looking statements in this Information Memorandum should not be regarded as a representation or

warranty by the Issuer and PAAB or its advisers or managers that the plans and objectives of the Issuer and PAAB will be achieved.

[The rest of this page has been left blank intentionally]

4. INFORMATION ON THE ISSUER

4.1 Corporate History and Principal Activities

The Issuer was incorporated on 3 August 2009 under the CA as a public limited company. The Issuer is a wholly owned subsidiary of PAAB. The principal activity of the Issuer is to act as a special-purpose vehicle to undertake the proposed issuance of IMTNs and ICPs in connection with PAAB under the national water services industry restructuring initiatives.

4.2 Share Capital

The present authorised, issued and paid up capital of the Issuer as at 31 August 2009 are as follows:-

	Number of Shares	Par Value (RM)	Total (RM)
Authorised share capital	100,000	1.00 each	100,000.00
Issued and paid up capital	2	1.00 each	2.00

4.3 Shareholding Structure

As at 31 August 2009, the Issuer is a wholly owned subsidiary of PAAB.

4.4 Profile of Directors

The Directors of the Issuer and their respective profiles as at 31 August 2009 are as follows:

4.4.1 Dato' Seri DiRaja Tajol Rosli bin Mohd Ghazali

YAB Dato' Seri DiRaja Mohamad Tajol Rosli bin Ghazali, aged 65, was appointed the Chairman of PAAB on 1 April 2009. He was formerly the Chief Minister of the State of Perak and had also held various portfolios in the Government of Malaysia namely as Parliamentary Secretary of Rural Development in 1983, as Deputy Minister of National and Rural Development in 1986, as Deputy Minister of Energy, Telecommunications and Post in 1990, as Deputy Minister of Housing and Local Government in 1995, as Deputy Minister of Home Affairs in 1997 and as Minister in the Prime Minister's Department in January 1999. Dato' Seri has been an assemblyman since he was first elected in 1977 and was a member of Parliament from 1978 to 1999.

Apart from his extensive contribution to the public administration, Dato' Seri has also played a very active role in the development and activities of youth, within Malaysia and the Asian region. He was the President of the Malaysian Youth Council and the Secretary General of the Working Committee for ASEAN Youth Council from 1982 to 1986. From 1988 to 1991 he was the President of the Asian Youth Council.

Besides his career in the public sector, Dato' Seri had also served in the private sector in various capacities for 15 years. Amongst the positions he had held are Director of Applied Management Consultant Sdn Bhd, an information technology consultancy company and Managing Director of Rosli, Gan & Co, which specialized in outsourcing of accounting and company secretarial services. Dato' Seri holds a bachelor of Commerce Degree from the University of Melbourne.

4.4.2 Encik Ahmad Faizal Abdul Rahman

Ahmad Faizal Abdul Rahman, aged 40, is the Chief Executive Officer of PAAB since 1 July 2009.

Prior to this appointment, Ahmad Faizal was the Deputy CEO of PAAB. He had joined PAAB since March 2009 to facilitate a proper handover of responsibilities.

Besides PAAB, Ahmad Faizal had previously served as Deputy General Manager in Prokhas Sdn Bhd and Maybank Investment Bank Berhad. At Maybank Investment Bank Berhad, Ahmad Faizal had held the position of Head of Corporate Banking and subsequently, became a Director in PT Maybank Indocorp, Indonesia. He had also served as the Manager of Operations in Pengurusan Danaharta Nasional Berhad.

Ahmad Faizal received his education in professional accounting and financial management from Emile Woolf College and University of Essex in the United Kingdom respectively and has over 16 years of experience in the areas of banking and corporate finance.

4.5 Existing Indebtedness of the Issuer

As at 31 August 2009, the Issuer has not incurred any indebtedness.

[The rest of this page has been left blank intentionally]

5. INFORMATION ON PAAB

5.1 Corporate History and Principal Activities

PAAB was incorporated on 5 May 2006 under the CA as a public limited company. PAAB is a wholly owned subsidiary of Minister of Finance (Incorporated). The principal activity of PAAB is to develop the nation's water infrastructure in Peninsular Malaysia and the Federal Territory of Labuan. It is also tasked with the following objectives:-

- (a) to construct, refurbish, improve, upgrade, maintain and repair water infrastructure and all other assets in relation to the systems;
- (b) to source and obtain competitive financing for the development of the nation's Water Assets and lease such assets to state water operators licensed by SPAN for operations and maintenance; and
- (c) to assist the Government of Malaysia in restructuring the nation's water industry towards achieving the Government of Malaysia's vision for efficient and quality water services.

In line with the National Water Policy Objectives, PAAB is also actively involved in the:-

- (i) migration of existing state water operators into an asset light business model under the WSIA licensing framework;
- (ii) integration of the water supply and sewerage services industry both in respect of service providers as well as asset providers;
- (iii) ensuring the long-term financial sustainability of the water industry and the state water operators;
- (iv) ensuring the long-term full cost recovery of PAAB and the state water operators;
- (v) increasing the efficiency and quality of water services for the benefit of all consumers; and
- (vi) resolving the outstanding loans for water supply and sewerage services owed by the respective States to the Federal Government.

5.2 Share Capital

The present authorised, issued and paid up capital of PAAB as at 31 August 2009 are as follows:-

	Number of Shares	Par Value (RM)	Total (RM)
Authorised share capital	1,000,000,000	1.00 each	1,000,000,000.00
Issued and paid up capital	410,000,000	1.00 each	410,000,000.00

5.3 Shareholding Structure

PAAB is wholly-owned by the Government of Malaysia through Minister of Finance (Incorporated).

5.4 Business Overview

The enforcement of the WSIA on 1 January 2008 has brought about a separation of responsibilities between water service providers and owners of Water Assets in the States in Peninsular Malaysia and the Federal Territory of Labuan.

PAAB's modus operandi is as follows:

- (a) Acquires Water Assets from all the States in Peninsular Malaysia and the Federal Territory of Labuan as these assets are currently owned by the State Governments or the state water operators.
- (b) Leases the Water Assets back to state water operators licensed by SPAN for operations and maintenance.
- (c) Thereafter, takes over the responsibility of developing new water infrastructure in the States. PAAB is also responsible for sourcing and obtaining competitive financing for the development of water infrastructure.

To-date, PAAB has successfully completed the restructuring with 3 States namely Melaka, Negeri Sembilan and Johor. As for the remaining States, negotiations are ongoing and at various levels of development.

The Licensing Framework

Under the WSIA, all water service providers need to be issued Service Licenses by the Minister as recommended by SPAN to operate and maintain water infrastructure, while a Facilities License is required for the ownership of water systems.

PAAB has been granted a Facilities License by the Minister effective 11 August 2009.

5.5 Profile of Directors and Management Team

Profile of Directors

The Directors of PAAB and their respective profiles as at 31 August 2009 are as follows:

5.5.1 Dato' Seri DiRaja Mohamad Tajol Rosli bin Mohd Ghazali

Please refer to Section 4.4.1 above for the profile of YAB Dato' Seri DiRaja Mohamad Tajol Rosli bin Ghazali.

5.5.2 Dato' Puteh Rukiah Abd. Majid, Director

Dato' Puteh Rukiah Abd Majid, aged 56, is the Deputy Secretary General (Systems and Controls), Treasury, Ministry of Finance, Malaysia.

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

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

5.5.3 Dato' Dr. Halim Man, Director

Dato' Dr. Halim Man, aged 54, is the Secretary General of the Ministry of Energy, Green Technology and Water, Malaysia.

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

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

5.5.4 Datuk Wira Ahmad Rusli Joharie, Director

Datuk Wira Ahmad Rusli Joharie, aged 58, is a board member of the Inland Revenue Board, Malaysia and an advisor to A'Famosa Resort Melaka. He was appointed to the Board of Directors of PAAB in January 2007.

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

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

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

5.5.5 Tn. Haji Mohd Radzi Hussein, Director

Tn. Haji Mohd Radzi Hussein, aged 55, is the Director of the Information Technology Management Division, Accountant-General Department, Malaysia.

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

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

5.5.6 Encik Ahmad Faizal Abdul Rahman

Please refer to Section 4.4.2 above for the profile of Encik Ahmad Faizal Abdul Rahman.

Profile of Management Team

5.5.6 Encik Ahmad Faizal Abdul Rahman

Chief Executive Officer

Please refer to Section 4.4.2 above for the profile of Encik Ahmad Faizal Abdul Rahman.

5.5.7 Ir. Abdul Kadir Mohd Din

Chief Operating Officer

Ir. Abdul Kadir Mohd Din, aged 50, is the Chief Operating Officer of PAAB since 1 February 2007.

Prior to this, Ir. Abdul Kadir was the Executive Director of WWE Holdings Berhad (“WWE”). He joined the company in Jan 2000 and had served 7 years in various capacities in the operation and business functions. Besides WWE and PAAB, Ir. Abdul Kadir had also served in Indah Water Konsortium Sdn Bhd, SMHB Sdn Bhd from 1984 to 1995.

Ir. Abdul Kadir Mohd Din holds a Diploma in Civil Engineering from UiTM, Shah Alam and thereafter, further his studies at University of Strathclyde, Glasgow, Scotland and graduated with BSc (Hons) in Civil Engineering in 1984.

Ir. Abdul Kadir Mohd Din is a Professional Engineer registered with the Board of Engineers, Malaysia (BEM) and Chartered Engineer with the Institution of Civil Engineers, U.K. (MICE). He is also a member of various professional institutions which includes institution of Engineers, Malaysia (IEM), ASEAN Engineers, Environmental Management of Research Associate of Malaysia (ENSEARCH),

Council Member of the Malaysian Water Association (MWA) and Confederation of British Industry (CBI). He was the Sub-Committee Chairman on the reviews of the Malaysian Standard MS 1228:1991 “Code of Practice for Design and Installation of Sewerage System”. He is also an Adjunct Lecturer and Industry Advisory Panel to the Faculty of Civil and Engineering, Universiti Teknologi Petronas, Malaysia.

5.5.8 Encik Adam Saffian Ghazali Head of Finance

Adam Saffian, aged 32, is the Head of Finance Department of PAAB. He is responsible for the management and supervision of corporate advisory, accounting, treasury and lease management functions.

Adam has over 10 years of experience in the provision of accounting, taxation and internal audit services with the last 2 years concentrated heavily in the corporate finance function. Prior to joining PAAB, Adam had served with PricewaterhouseCoopers, Bumiputra-Commerce Bank Berhad (now known as CIMB Bank), Macquarie Outsource Sdn Bhd, Indah Water Konsortium Sdn Bhd and Prokhas Sdn Bhd.

Adam graduated from the University of Technology Sydney with Bachelor of Business (with Credit) majoring in Accounting & Finance and is a member of the Institute of Chartered Accountants in Australia, Institute of Chartered Accountants in England and Wales and Malaysian Institute of Accountants.

5.5.9 Tham Yee Kiong Head of Technical Services

Tham, aged 54, is the Head of Technical Services Department of PAAB. His responsibilities include managing the design works, assessment of assets conditions and providing recommendations as well as providing technical advice on construction works and maintenance of assets.

Apart from PAAB, Tham had previously served with Jabatan Parit Dan Taliair, Negeri Sembilan, Esa Jurutera Perunding Sdn. Bhd, Rank Plus Corporation Sdn Bhd, Cypark Sdn Bhd and Rohas Euco Industries

Tham holds a Bachelor of Engineering (Civil Engineering) with 1st Class Honours from University of Malaya. He is a Professional Engineer registered with the Board of Engineers, Malaysia (BEM). He is a member of the Institution of Civil Engineers, United Kingdom and the Institution of Engineers, Malaysia (IEM).

5.5.10 Haji Isa Abu Bakar Head of Project Management Department

Haji Isa, aged 53, is the Head of the Project Management Department of PAAB. He is responsible for overseeing the management and coordination of all capital works of the company.

Prior to PAAB, Haji Isa had served with Minconsults Sdn Bhd, United Consultant Associate, No-X Asia Sdn Bhd, Indah Water Konsortium Sdn Bhd, Ministry of Development, Negara Brunei Darussalam, PUSPATI and Jabatan Perairan dan Saliran

Haji Isa graduated from the University of Missouri, Columbia, USA with Bachelor of Science in Civil Engineering. He subsequently furthered his studies in the University

of Strathclyde, Glasgow, United Kingdom and obtained his Masters of Science in Public Health and Environmental Control Engineering. He is a Professional Engineer registered with the Board of Engineers, Malaysia (BEM) and is a member of the Malaysia Water Association.

5.5.11 Nor Ifuan Mohd Nor

Head of Procurement and Corporate Services

Nor Ifuan Mohd Nor, aged 40, is the Head of Procurement and Corporate Services of PAAB. He is responsible for overseeing the management and coordination of all matters relating to the tendering and awarding of contracts, procurement activities, as well as administration and IT matters.

Prior to PAAB, Nor Ifuan had served with Baharuddin Ali & Low Sdn Bhd and CIC-QS Services Sdn Bhd as consultant QS, RHB Property Management Sdn Bhd as Head of Special Projects and Ranhill Berhad as Project Control Advisor in COO's office.

Nor Ifuan graduated with a BSc(Hons) in Quantity Surveying from University Of Salford, United Kingdom and has over 16 years experience in the areas of contracts management, costs control and project management.

5.5.12 Nik Fadzrina Hussain

Senior Manager, Treasury

Nik Fadzrina, aged 35, is the Senior Manager of Treasury Section. She is responsible for the company's treasury activities including formulating the financial strategy, managing financial risk and organising the appropriate funding for the company's activities, ensuring that at all times the company has the liquidity and cash to meet its obligations and achieving the optimum balance between cost and risk. Prior to joining PAAB, Nik Fadzrina had worked with Messrs KPMG on numerous projects in the area of Strategic Management including the restructuring of the water industry. She started her career in 1997 in the banking industry, with Lloyds TSB Bank Plc in London, United Kingdom before moving on to Barclays Bank Plc, also in London. In year 2000, she returned to Malaysia to serve with PETRONAS Treasury as a US Dollar fixed income portfolio manager. Subsequently, she served PETRONAS Trading Corporation in Singapore, involved in petroleum products blending and trading before joining PETRONAS Strategy and Business Development Unit involved in corporate planning and strategy work, as well as transacting and negotiating mergers and acquisitions.

Nik Fadzrina holds a degree in Electrical and Electronics Engineering from Imperial College of Science, Technology & Medicine, University of London, United Kingdom and a Masters of Science in Finance from Imperial Management School, University of London, United Kingdom.

5.5.13 Anita Ibrahim

Manager, Legal and Company Secretarial

Anita, aged 35, is the Manager of Legal and Company Secretarial Department. Her responsibilities include providing legal services and advice for PAAB's transactions.

Prior to joining PAAB, Anita practised with Messrs Lee Choon Wan & Co. where she advised on land matters, corporate banking, corporate restructuring, capital market and general corporate matters. Anita started her legal career with Messrs Abdul

Rahman & Associate, Johor Bahru and subsequently joined Messrs Zaid Ibrahim & Co.

Anita graduated with an honours degree in law (LL.B (Honours)) from the Keele University, Staffordshire, United Kingdom in 1997 and obtained the Certificate in Legal Practice the following year. She was admitted as an Advocate and Solicitor of the High Court of Malaya in 1999.

5.6 Existing Indebtedness of PAAB

As at 31 August 2009, apart from the RC Facility and the liabilities novated to PAAB from the relevant state water operators under the migration exercises, PAAB has no existing indebtedness.

[The rest of this page has been left blank intentionally]

6. INDUSTRY OVERVIEW

6.1 Overview of the Malaysian Economy

The Malaysian economy registered a growth of 4.6% in 2008, amidst the international financial turmoil and rapid deterioration in global economic environment. Robust domestic demand, in particular sustained private consumption and strong public spending, supported growth during the year. While external demand was strong in the first half, the sharp deterioration in the global economic conditions and correction in commodity prices led to significant decline in external demand in the second half of 2008. As a result, growth expanded by 2.4% in the second half-year, compared with 7.1% in the first half of 2008.

During the year, aggregate domestic demand expanded by 6.9%, underpinned by strong private consumption and public expenditure. High commodity prices, stable employment and supportive financing environment sustained the strong growth in private consumption in the first half-year. Support also came from the bonus payment for the civil servants and cash rebates for fuel subsidy in the second half-year. The rapidly worsening global economic conditions, however, resulted in a decline in private investment activity in the second half of the year.

During the year 2008, aggregate domestic demand expanded by 6.9%, underpinned by strong private consumption and public expenditure. High commodity prices, stable employment and supportive financing environment sustained the strong growth in private consumption in the first half-year. Support also came from the bonus payment for the civil servants and cash rebates for fuel subsidy in the second half-year. The rapidly worsening global economic conditions, however, resulted in a decline in private investment activity in the second half of the year.

In January 2009, the Government of Malaysia announced a fiscal stimulus package of RM7 billion (USD1.96 billion or 1% of the gross domestic product (“GDP”)) which will go toward the promotion of strategic industries, small-scale projects such as village roads and school repairs, and education and skill training programmes.

In March 2009, the Government of Malaysia unveiled a second and much larger stimulus package of RM60 billion (USD16.2 billion or 8.6% of the GDP) to be implemented over 2009 and 2010.

The Malaysian economy contracted at a slower rate of 3.9% in the second quarter of 2009 (1Q 09: -6.2%), due mainly to higher public spending and positive growth in private consumption. Nonetheless, growth continued to be affected by weak external demand and private investment activity. Reflecting continued sluggish global economy, real net exports of goods and services declined by 0.7%. On the supply side, all economic sectors registered improved performance.

During the quarter, domestic demand registered a slower decline of 2.3% (1Q 09: -2.9%) following expansion in public sector spending and private consumption. Private consumption recorded a positive growth of 0.5% (1Q 09: -0.7%), as stabilisation in labour market conditions and lower price levels provided further support to consumer spending. Consumer sentiments improved in the second quarter as reflected by Malaysian Institute of Economic Research Consumer Sentiments Index, which increased to 105.8 points from 78.9 points in the previous quarter. Meanwhile, public consumption expanded by 1% due to higher expenditure on supplies and services and emoluments. Gross fixed capital formation contracted by 9.8% (1Q 09: -10.8%) following continued decline in private investment activity, particularly in the manufacturing sector due to prevailing excess capacity amidst weak external demand. Nevertheless, higher public sector spending on development projects in the education, trade

and industry as well as agriculture and rural development sectors provided some support to the overall investment activity. All key sectors of the economy recorded better performance during the quarter.

Water, as a basic necessity, also remains high on the Government of Malaysia's list of priorities.

Under the Ninth Malaysia Plan (2006-2010), a total of RM16.54 billion has been allocated for the development of water supply, sewerage treatment and flood mitigation.

The water supply sector received RM8.20 billion as compared to the RM3.88 billion allocated in the Eighth Malaysian Plan (2001-2005).

Sources:

Bank Negara Malaysia, United Nations Development Programme–Malaysia and BERNAMA news dated 20 January 2009

6.2 Overview of the Water Services Industry

Background

The water services industry was under the purview of each State Government before the reform of the water services industry was initiated. In most cases, the State Governments own the water infrastructures and operate the water services. There are also some States, such as Selangor and Johor, where the water services operations are privatized and private concessionaires are responsible for the treatment and supply of water to consumers.

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

The New Model:

Separation of responsibilities: towards better efficiency

Given that the current business model adopted by most state water operators does not promote sustainability of the water services industry, the Federal Government had to adopt a new approach which is aimed at helping the state water operators, and alleviating the Federal Government/taxpayers' financial burden. In the long run, the Federal Government hopes that the state water operators would achieve full cost recovery and attain financial independence. These efforts are expected to ultimately lead to improvement in the quality of water supply and the efficiency of the water services industry.

Under the new business model, there will be a separation of responsibilities between Water Asset owners and operators. PAAB would acquire the existing Water Assets from the state water operators. State water operators will no longer be responsible for developing water infrastructure and their funding to enable them to concentrate solely on providing water services to consumer and improving their operational efficiency. The responsibilities of developing water infrastructure and sourcing for funding have been transferred to PAAB.

After the transfer of assets, the State Governments will continue to be responsible for providing water supply services in the States. The state water operators (as Service Licensees)

will lease these assets from PAAB and the state water operators will be responsible for the operation and maintenance of these assets.

6.3 Objectives of the National Water Policy and the Roles of SPAN and PAAB

Objectives of the National Water Policy

The objectives of the National Water Policy are:

- (i) to establish a transparent and integrated structure for water supply and sewerage services that delivers effective and efficient services to consumers;
- (ii) to ensure long term availability and sustainability of water supply including the conservation of water;
- (iii) to contribute to the sustainability of watercourses and water catchments;
- (iv) to facilitate the development of competition to promote economy and efficiency in water services industry;
- (v) to establish a regulatory environment which facilitates financial self-sustainability amongst the operators in water services industry in the long term;
- (vi) to regulate for the long-term benefit of the consumers;
- (vii) to regulate tariff and ensure the provision of affordable water services on an equitable basis;
- (viii) to improve the quality of life and environment through the effective and efficient management of water services;
- (ix) to establish an effective system accountability and governance between operators in water services industry; and
- (x) to regulate the safety and security of water services systems.

Role of SPAN

The role of SPAN in the national water services industry restructuring initiatives are:

- (i) to advise the Minister, to promote and implement all matters in relation to the national policy objective of the water supply and sewerage services;
- (ii) to implement and enforce the water supply and sewerage services laws and to recommend reforms to the water supply and sewerage services laws;
- (iii) to ensure the productivity of the water supply and sewerage services industry and the monitoring of operators' compliance with stipulated services standards, contractual obligations and relevant laws and guidelines;
- (iv) to increase concerted efforts towards improving the operational efficiency of the industry and in particular the reduction of NRW through short, medium and long-term programmes;

- (v) to advise the Minister on a fair and efficient mechanism for the determination of tariffs that is fair to both consumers and licensees;
- (vi) to ensure national development goals pertaining to coverage, supply and access to water supply services and sewerage services are achieved;
- (vii) to ensure long-term sustainability of quality of water and sewerage services through continued capital works development;
- (viii) to formulate the policy and general proposals in respect of the development of any new sewerage system and measures for improvement of any existing sewerage system;
- (ix) to carry out any function conferred upon it under any other written law; and
- (x) to advise the Minister generally on matters relating to water supply services and sewerage services.

6.4 Regulations

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

In January 2005, Parliament approved the amendments to the Ninth and Tenth Schedules of the Federal Constitution of Malaysia. The amendment to the Ninth Schedule involves the transfer of water supplies and services from the State List to the Concurrent List. It is a pertinent move which gives the Federal Government authority over the water services in the States.

Consequently, with effect from 21 March 2005: -

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

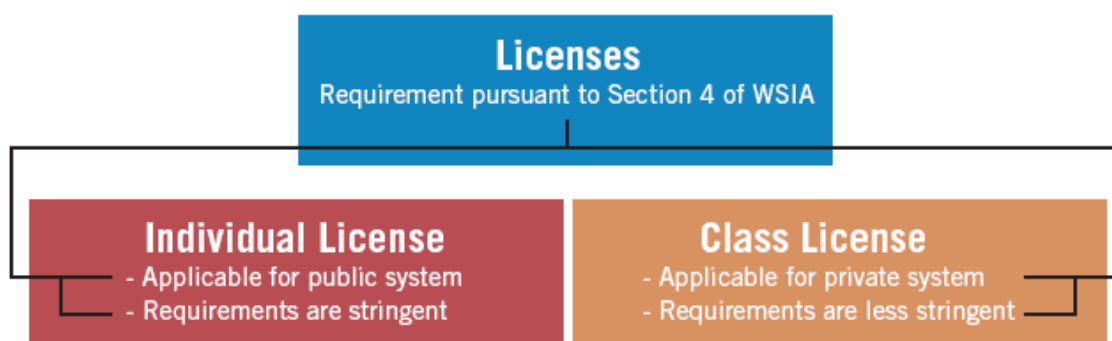
In July 2006, further to the amendments to the Federal Constitution, Parliament passed two new legislations namely the SPAN Act and the WSIA. The former provides for the establishment of SPAN or the National Water Services Commission as the technical and economic regulator and set out the function and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

The WSIA, on the other hand, provides the legal framework required for the regulation of the water and sewerage service industry. The SPAN Act and the WSIA were enforced on 1 February 2007 and 1 January 2008 respectively. The WSIA applies only in Peninsular Malaysia and the Federal Territory of Labuan. It does not encroach nor does it affect the general application of existing laws on environmental quality and land matters and existing State powers over the water source.

Amongst the objective of the WSIA is to establish the framework to regulatory intervention and to promote the National Policy Objective for the water supply end sewerage services industry.

The most significant part of the WSIA is the introduction of the new licensing framework for the industry with SPAN acting as the regulator. This is a new mechanism introduced under the WSIA which allows SPAN to effectively regulate operators and owners of water and sewerage assets. Under the licensing framework of the WSIA, there are two basic categories of license, namely individual license and class license. As the law stands, all owners of public water supply system and public sewerage system or any part of the systems or those who operates such systems for public purposes must obtain an individual license which will be granted by the Ministry of Energy, Green Technology and Water upon the recommendation by SPAN. On the other hand, any person who owns a private water supply system or private sewerage system or those who operates such systems for private use only is required to obtain a class license.

The licensing structure is illustrated by the following diagram:



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

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

The statutory duties of the licensee also encompass future duties with the ultimate aim of ensuring the sustainability of the relevant system with regard to overall efficiency and economical aspects. It is important to note that the licenses are subject to renewal every 3 years and the renewal hinges on the licensees' ability to meet the requirements as stipulated in the WSIA and its subsidiary legislation.

As a Facilities Licensee, PAAB is governed by the provisions of the WSIA.

[The rest of this page has been left blank intentionally]

7. THE ASSET MIGRATION EXERCISE

7.1 Restructuring Template for the Water Services Industry Reform

Developing the Restructuring Templates

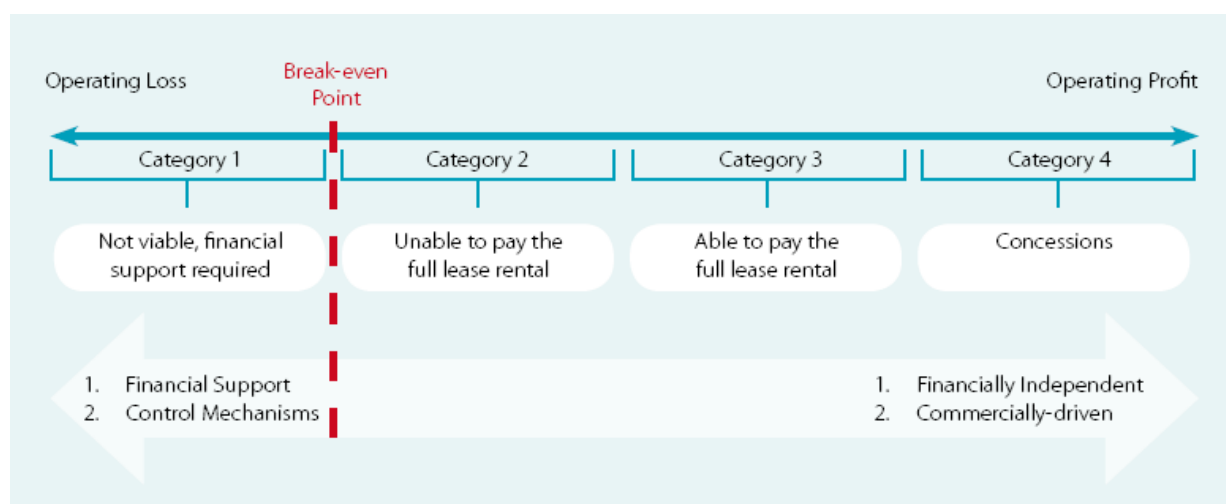
In addition to being the nation's Water Asset owner and be responsible for developing the country's Water Assets, PAAB is also actively involved in assisting the migration of existing state water operators into an asset light business model and the WSIA licensing framework.

In order to facilitate the progression of the existing state water operators into the new industry framework as envisioned by the Federal Government, the necessary templates for the restructuring of the industry had to be developed. These templates also serve as a reference and benchmark for PAAB in its negotiations on the leasing terms with the state water operators.

As each state water operator has distinctive characteristics and the circumstances surrounding it is unique, the templates are modified accordingly to take into consideration these differences.

However, some characteristics may be shared and are common to some state water operators. PAAB adopts a systematic approach in formulating the restructuring templates and the terms of the lease arrangement offered to the state water operators. This involves classifying them into the following general categories: -

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



Generally, the restructuring templates and the terms of the lease arrangement become more market-driven with less control mechanisms as the state water operator moves from an operating loss position towards operating profit. For example, the state water operators under

Categories 1 and 2 are likely to be less financially independent and may require forbearance from PAAB in making their lease payments. Hence, the lease terms are likely to include more stringent controls to ensure that PAAB's interests are protected at all times. However, in order to incentivize and encourage the state water operator to move towards a sustainable model, the stringent controls are revised and relaxed as the operator's performance improves and approaches financial independence.

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

All in all, it is PAAB's intention to derive win-win sale and leaseback arrangements with the state water operators, to help the Federal Government achieve its goal to improve the efficiency and quality of the nation's water services.

The restructuring templates based on the financial categorization approach set out above were approved for implementation by the Federal Government in August and September 2007.

7.2 Asset Acquisitions in Melaka, Negeri Sembilan and Johor

Melaka

PAAB's first successful acquisition of Water Assets was from the State of Melaka.

Under the agreements signed, Melaka had transferred all the State's Water Assets to PAAB and in exchange, PAAB had assumed Melaka's outstanding water asset loan owing to the Federal Government.

PAAB had also signed a Lease Agreement and a Facility Agreement with SAMB, the State's water operator on 17 December 2008.

Under the Lease Agreement, SAMB would lease the Water Assets from PAAB for the next 45 years.

Under the Facility Agreement, PAAB had agreed to construct, upgrade and refurbish new Water Assets for the State of Melaka. Essentially, PAAB will be responsible for any future Water Assets development in Melaka and source for financing for these projects. Any newly constructed, upgraded and refurbished Water Assets will be leased to SAMB at lease rates to be determined.

Negeri Sembilan

PAAB inked the agreement to acquire water infrastructure from the State of Negeri Sembilan on 31 December 2008, making Negeri Sembilan the second State to migrate to the new licensing regime after Melaka. Water assets were transferred to PAAB and in consideration, PAAB assumed the State's Federal Government Water Asset loan of equivalent value.

Subsequent to the acquisition, the state water operator of Negeri Sembilan, Syarikat Air Negeri Sembilan, leased the Water Assets from PAAB for operation and maintenance. The lease term is for 45 years.

Johor

In March 2009, PAAB signed its third Water Assets acquisition deal with the State of Johor. This is a landmark achievement for PAAB as it is its first acquisition from a private concessionaire (i.e. SAJH), which resulted in the first private water concession agreement being rescinded.

Under the agreements signed, PAAB had taken over Water Assets which belonged to the State of Johor, SAJH and Syarikat Air Johor. In exchange, PAAB had assumed loans related to such Water Assets of the three parties. The Water Assets in Johor were acquired at one (1) time book value. Prior to the acquisition, PAAB had appointed professional auditors to verify the value of the assets to ensure that it was reasonable and acceptable.

As part of the agreement, SAJH will continue to manage the water distribution in Johor and is granted a right to occupy the Water Assets owned by PAAB for operations and maintenance. To this end, a Facility Agreement was signed between PAAB and SAJH, with PAAB also agreeing to undertake all future Water Assets development in Johor and source for its financing.

7.3 Future Asset Acquisitions in Other States

PAAB is currently in various stages of discussions and negotiations with the remaining States which have yet to migrate to the new licensing regime. PAAB targets to complete all such Water Asset acquisitions by 2010.

[The rest of this page has been left blank intentionally]

8. OTHER INFORMATION

8.1 Material Litigation

As at 31 August 2009, neither the Issuer nor PAAB is engaged in any material litigation either as a plaintiff or defendant and neither the Directors of the Issuer nor the Directors of PAAB are aware of any matters or circumstances which are likely or will threaten to cause the Issuer or PAAB (as the case may be) to be engaged in any material litigation whether as plaintiff or defendant or otherwise in any legal action, proceeding or arbitration or any prosecution for any criminal offence.

8.2 Material Contracts Outside the Ordinary Course of Business

The Issuer and PAAB have not carried out nor have been involved in any transaction which does not form part of their respective ordinary and usual course of business.

8.3 Related Party Transactions

The Issuer and PAAB have not entered into any related party transactions.

8.4 Material Contingent Liabilities and Capital Commitments

The Directors of both the Issuer and PAAB are not aware of any material contingent liabilities or material capital commitment which upon being enforceable, may have substantial impact on the financial position and the business of the Issuer or PAAB (as the case may be).

[The rest of this page has been left blank intentionally]

[This page has been left blank intentionally]

Appendix I

Audited Accounts of PAAB for the Financial Years Ended 31 December 2007 and 31 December 2008

[This page has been left blank intentionally]

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2007

SAIFUDIN & Co

PENGURUSAN ASET AIR BERHAD (73254+D)
(Incorporated in Malaysia)

CONTENTS

	PAGE
DIRECTORS' REPORT	1 – 4
STATEMENT BY DIRECTORS	5
STATUTORY DECLARATION	5
AUDITORS' REPORT	6 – 7
FINANCIAL STATEMENTS	
Balance Sheet	8
Income Statement	9
Statement of Changes in Equity	10
Cash Flow Statement	11
Notes to the Financial Statements	12 – 20

DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of the Company for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company are to undertake the management of the nation's water and sewerage assets.

FINANCIAL RESULT

	2007 RM
Loss for the year	<u>452,458</u>

There were no material transfers to or from reserves or provisions during the financial year.

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

DIVIDEND

No dividend has been declared or paid by the Company during the financial year and the directors do not recommend the payment of any dividend for the financial year under review.

DIRECTORS

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

Dato' Puteh Rukiah binti Abd Majid
Dato' Halipah binti Esa
Suhaimi bin Kamaralzaman
Datuk Wira Ahmad Rusli bin Joharie
Dato' Sri Dr Wan Abdul Aziz bin Wan
Abdullah

Dato' Dr Hj. Halim bin Man
Mohd Radzi bin Hussein
Tan Sri Izzudin bin Dali

- Appointed on 6 September 2007
- Appointed on 6 September 2007
- Resigned on 1 March 2007

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

In accordance with Article 63 of the Company's Article of Association, Dato' Puteh Rukiah binti Abd Majid and Dato' Halipah binti Esa shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company was a party with the object of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

DIRECTORS' INTERESTS

None of the directors in office at the end of the financial year held shares in or had beneficial interest in the shares of the Company during and at the end of the financial year.

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from RM10,000,002 to RM103,100,002 by way of the issuance of 93,100,000 new ordinary shares of RM1 each for cash for additional working capital purposes.

On 13 January 2008, the issued and paid-up share capital of the Company was increased to RM243,100,002 as at the date of this report via issuance of 140,000,000 new ordinary shares of RM1 each for cash for additional working capital purposes.

OTHER STATUTORY INFORMATION

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

PENGURUSAN ASET AIR BERHAD (732544-D)

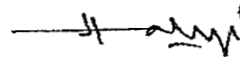
(Incorporated in Malaysia)

- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the result of the operation of the Company for the financial year in which this report is made.

AUDITORS

Saifudin & Co. have expressed their willingness to accept re-appointment.

Signed on behalf of the Board in accordance
with a resolution of the directors



DATO' HALIPAH BINTI ESA



SUHAIMI BIN KAMARALZAMAN

Kuala Lumpur

Date: 25 FEB 2008

PENGURUSAN ASET AIR BERHAD (732544-D)

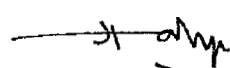
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

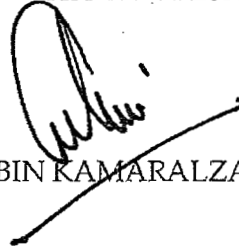
Pursuant to Section 169(15) of the Companies Act, 1965

We, DATO' HALIPAH BINTI ESA and SUHAIMI BIN KAMARALZAMAN, being two of the directors of PENGURUSAN ASET AIR BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 8 to 20 are drawn up in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2007 and of the result and cash flow of the Company for the year then ended.

Signed on behalf of the Board in accordance
with a resolution of the directors



DATO' HALIPAH BINTI ESA



SUHAIMI BIN KAMARALZAMAN

Kuala Lumpur

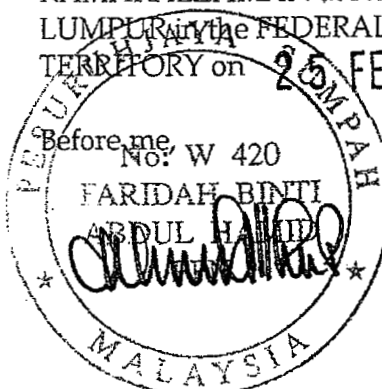
Date: **25 FEB 2008**

STATUTORY DECLARATION

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

I, SUHAIMI BIN KAMARALZAMAN, being the director primarily responsible for the financial management of PENGURUSAN ASET AIR BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 8 to 20 are in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the abovenamed SUHAIMI BIN)
KAMARALZAMAN at KUALA)
LUMPUR in the FEDERAL)
TERRITORY on **25 FEB 2008**)



SUHAIMI BIN KAMARALZAMAN

Saifudin & Co. (AF 1451)
Chartered Accountants

Unit 3A, 3rd Floor
74, Jalan Tun Sambanthan
50470 Kuala Lumpur

Phone 03 2260 3660
Fax 03 2260 3661

AUDITORS' REPORT

To the Shareholders of
PENGURUSAN ASET AIR BERHAD (732544-D)

We have audited the accompanying financial statements set out on pages 8 to 20. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

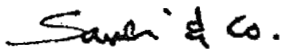
In our opinion,

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 31 December 2007 and of the result and cash flow of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

PENGURUSAN ASET AIR BERHAD (732544-D)

AUDITORS' REPORT

- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



SAIFUDIN & CO.
No. AF 1451
Chartered Accountants

Kuala Lumpur.

Date: 25 FEB 2008



AHMAD SAIFUDIN BIN ABDULLAH
No. 2340/07/08 (J/PH)
Partner of the Firm

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

BALANCE SHEET

As at 31 December 2007

	Note	2007 RM	2006 RM
NON-CURRENT ASSET			
Plant and equipment	3	800,904	
CURRENT ASSETS			
Other receivables	4	371,734	18,219
Cash and cash equivalents	5	100,925,742	10,116,889
		<u>101,297,476</u>	<u>10,135,108</u>
CURRENT LIABILITIES			
Other payables	6	175,050	859,320
		<u>175,050</u>	<u>859,320</u>
NET CURRENT ASSETS		101,122,426	9,275,788
		<u>101,923,330</u>	<u>9,275,788</u>
FINANCED BY:			
Share capital	7	103,100,002	10,000,002
Accumulated losses		(1,176,672)	(724,214)
		<u>101,923,330</u>	<u>9,275,788</u>

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 RM	2006 RM
Other income		3,390,680	134,151
Operating expenses		(3,843,138)	(858,365)
		<hr/>	<hr/>
Loss before taxation	8	(452,458)	(724,214)
Taxation	9	-	-
		<hr/>	<hr/>
Loss after taxation		(452,458)	(724,214)
Accumulated losses brought forward		(724,214)	-
		<hr/>	<hr/>
Accumulated losses carried forward		<u>(1,176,672)</u>	<u>(724,214)</u>

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital RM	Accumulated losses RM	Total RM
At date of incorporation on 5 May 2006	2	-	2
Loss for the period	-	(724,214)	(724,214)
Issue of shares	10,000,000	-	10,000,000
At 31 December 2006	10,000,002	(724,214)	9,275,788
At 1 January 2007	10,000,002	(724,214)	9,275,788
Loss for the year	-	(452,458)	(452,458)
Issue of shares	93,100,000	-	93,100,000
At 31 December 2007	103,100,002	(1,176,672)	101,923,330

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RM	2006 RM
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(452,458)	(724,214)
Adjustment for :		
Depreciation	105,559	-
Interest income	(3,367,060)	(134,151)
Operating loss before working capital changes	(3,713,959)	(858,365)
Increase in other receivables	(455,294)	-
(Decrease)/increase in other payables	(684,270)	859,320
Net cash (used in)/generated from operating activities	(4,853,523)	955
CASH FLOW FROM INVESTING ACTIVITIES		
Interest received	3,468,839	115,932
Purchase of plant and equipment	(906,463)	-
Net cash generated from investing activities	2,562,376	115,932
CASH FLOW FROM FINANCING ACTIVITIES		
Proceed from issue of share capital	93,100,000	10,000,002
Net cash generated from financing activities	93,100,000	10,000,002
Net increase in cash and cash equivalents	90,808,853	10,116,889
Cash and cash equivalents:		
at beginning of financial year/period	10,116,889	-
at end of financial year/period	100,925,742	10,116,889

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The principal activities of the Company are to undertake the management of the nation's water and sewerage assets.

The Company is wholly owned by the Minister of Finance, Incorporated.

The address of its registered office is Tingkat 12, Bangunan Setia 1, 15 Lorong Dungun, Bukit Damansara, 50490 Kuala Lumpur.

The address of its principal place of business is Tingkat 24, Menara Multi-Purpose, Capital Square, No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 February 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board ("MASB").

(b) Plant and equipment and depreciation

Plant and equipment are stated at cost less accumulated depreciation and any impairment loss.

Plant and equipment are depreciated on a straight line basis at rates calculated to write off the cost of the assets over their estimated useful life. The principal annual rates are as follows :

Office equipments	20%
Computer equipments	33%
Motor vehicles	20%
Furniture and fittings	20%
Renovations	20%

Gain or loss arising from disposal of an asset is determined between the estimated net disposal proceeds and carrying amount of an asset, and is recognised in the income statement

(c) Impairment of Assets

The carrying amounts of its assets, other than deferred tax assets and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount is the greater of the asset's net selling price and its value in use.

(d) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash and bank balance and deposits with a licensed bank.

(e) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

(f) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(g) Interest Income

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

(h) Employee benefits

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

The Company's contribution to the Employee's Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(i) Income Tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

(j) Financial Instruments

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

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

(i) Financial Assets

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

(ii) Financial Liabilities

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

(iii) Equity Instruments

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

3. PLANT AND EQUIPMENT

2007	Office equipment RM	Computer equipments RM	Motor vehicles RM	Furniture and fittings RM	Renovation RM	Total RM
Cost:						
At 1 January	-	-	-	-	-	-
Additions	81,997	155,100	570,278	23,484	75,604	906,463
At 31 December	81,997	155,100	570,278	23,484	75,604	906,463
Accumulated depreciation:						
At 1 January	-	-	-	-	-	-
Additions	10,392	32,071	53,817	699	8,580	105,559
At 31 December	10,392	32,071	53,817	699	8,580	105,559
Carrying amount:						
At 31 December	71,605	123,029	516,461	22,785	67,024	800,904

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

4. OTHER RECEIVABLES

	2007 RM	2006 RM
Deposits	269,955	-
Interest receivables	101,779	18,219
	<u>371,734</u>	<u>18,219</u>

5. CASH AND CASH EQUIVALENTS

	2007 RM	2006 RM
Cash and bank balances	90,455	116,889
Deposits with licensed banks	100,835,287	10,000,000
	<u>100,925,742</u>	<u>10,116,889</u>

The deposits with licensed banks have an average maturity of 25 days (2006: 12 days) and average effective interest rate of 3.48% (2006: 3.50%).

6. OTHER PAYABLES

	2007 RM	2006 RM
Due to a related company	-	702,820
Other payables	175,050	156,500
	<u>175,050</u>	<u>859,320</u>

The amount due to a related company is non-trade, unsecured, interest-free and has no fixed terms of repayment.

7. SHARE CAPITAL

	2007 RM	2006 RM
Authorised:		
Ordinary shares of RM1 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid:		
Ordinary shares of RM1 each		
As at 1 January	10,000,002	-
Subscribers' shares	-	2
Issued during the year/period	<u>93,100,000</u>	<u>10,000,000</u>
As at 31 December	<u>103,100,002</u>	<u>10,000,002</u>

8. LOSS BEFORE TAXATION

Loss before taxation is arrived after charging and (crediting) :

	2007 RM	2006 RM
Auditors' remuneration	7,500	4,000
Depreciation	105,559	-
Directors' emoluments	544,420	2,742
Consulting fee	195,804	630,328
Office rental	463,903	-
Interest income	<u>(3,367,060)</u>	<u>(134,151)</u>

The consulting fee is charged by a related company as referred to in Note 6.

9. TAXATION

There is no tax charge for the year as the Company is in a tax loss position. As at 31 December 2007, the Company has tax losses of approximately RM633,000 (2006: RM504,000) and unutilised capital allowances of approximately RM185,000 (2006: NIL), which can be used to offset future taxable profits subject to agreement with the Inland Revenue Board.

As at 31 December 2007, the Company has a potential deferred tax benefit of approximately RM213,000 (2006: RM136,000), arising from tax losses carried forward, the effects of which are not included in the accounts as there is no assurance beyond any reasonable doubt that future taxable income will be sufficient to allow the benefit to be realised.

10. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policy

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

(b) Interest Rate Risk

The Company is exposed to interest rate risk on short term rate as a result of the investing activities.

(c) Fair Values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date approximated their fair values.

The methods and assumptions used by the Company to determine fair value of financial instruments are as follows:

(i) Cash and Cash Equivalents and Other Receivables

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

(ii) Other Payables

It is not practicable to determine the fair value of other payables principally due to lack of fixed repayment terms entered by the parties involved. However, the Company does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the fair values that would eventually be settled.

PENGURUSAN ASET AIR BERHAD (73254+D)
(Incorporated in Malaysia)

11. CAPITAL COMMITMENTS

	2007 RM	2006 RM
Approved and contracted for	906,463	-
Approved but not contracted for	<u>1,143,244,000</u>	<u>-</u>

12. COMPARATIVES

The comparative figures cover the financial period from 5 May 2006 to 31 December 2006.

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2008

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

CONTENTS

	PAGE
DIRECTORS' REPORT	1 - 4
STATEMENT BY DIRECTORS	5
STATUTORY DECLARATION	5
INDEPENDENT AUDITORS' REPORT	6 - 7
INCOME STATEMENT	8
BALANCE SHEET	9
STATEMENT OF CHANGES IN EQUITY	10
CASH FLOW STATEMENT	11
NOTES TO THE FINANCIAL STATEMENTS	12 - 25

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

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

RESULT

RM

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

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

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

DIVIDEND

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

DIRECTORS

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

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

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

DIRECTORS' BENEFITS

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

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

DIRECTORS' INTEREST

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

ISSUE OF SHARES

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

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

OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Company were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) any amount to be written off as bad debts or provided for as doubtful debts in the financial statements of the Company; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

(e) As at the date of this report, there does not exist:

- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated **12 MAR 2009**


DATO' DR HJ. HALIM BIN MAN

Kuala Lumpur

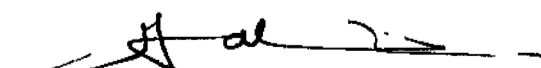

SUHAIMI BIN KAMARALZAMAN


STATEMENT BY DIRECTORS

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

We, DATO' DR HJ. HALIM BIN MAN and SUHAIMI BIN KAMARALZAMAN, being two of the directors of PENGURUSAN ASET AIR BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 8 to 25 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2008 and of the results and the cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated **12 MAR 2009**


DATO' DR HJ. HALIM BIN MAN


SUHAIMI BIN KAMARALZAMAN


Kuala Lumpur

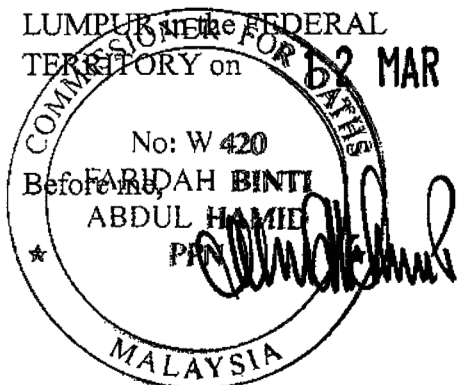
STATUTORY DECLARATION

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

I, SUHAIMI BIN KAMARALZAMAN, being the director primarily responsible for the financial management of PENGURUSAN ASET AIR BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 8 to 25 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed SUHAIMI BIN
KAMARALZAMAN at KUALA
LUMPUR, in the FEDERAL
TERRITORY on


SUHAIMI BIN KAMARALZAMAN



No.136-1C, 1st Floor
Jln Tun Sambanthan
Brickfields, 50470 Kuala Lumpur

**Independent auditors' report to the members of
PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)**

Report on the Financial Statements

We have audited the financial statements of PENGURUSAN ASET AIR BERHAD, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 25.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

**Independent auditors' report to the members of
PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)**

Auditors' Responsibility (cont'd)

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Other Matters

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



SAIFUDIN & CO.
No. AF 1451
Chartered Accountants



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

Kuala Lumpur

Date : **12 MAR 2009**

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

INCOME STATEMENT

For the year ended 31 December 2008

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

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

BALANCE SHEET

As At 31 December 2008

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

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

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

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

CASH FLOW STATEMENT

For the year ended 31 December 2008

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

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

(b) Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

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

(c) Impairment of Non-Financial Assets

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

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

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

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

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

(d) Financial Instruments

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

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

(i) Cash and Cash Equivalents

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

(ii) Receivables

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

(iii) Payables

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

(iv) Equity Instruments

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

(e) Provisions

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

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

(f) Income Tax

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

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

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

(g) Employee Benefits

(i) Short term employee benefits

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

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

(ii) Defined contribution plans

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

(h) Cash and Cash Equivalents

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

(i) Interest income

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

(j) Use of Estimates and Judgements

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

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

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

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

(k) Financial Risk Management Objectives and Policies

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

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

(i) Foreign Currency Risk

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

(ii) Fair Values

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

(iii) Interest Rate Risk

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

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

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

(iv) Credit Risk

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

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

(v) Liquidity Risk

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

3. OTHER INCOME

Included in other income are the following :

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

4. ADMINISTRATIVE EXPENSES

Included in administrative expenses are employee benefit expenses as follows :

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

5. PROFIT/(LOSS) BEFORE TAX

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

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

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

6. TAXATION

	2008	2007
	RM	RM
Income tax expense	<u>1,240,000</u>	<u>-</u>

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

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

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

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

7. PLANT AND EQUIPMENT

As at 31 December 2008

Cost :

At 1 January 2008	75,604	23,484	237,097	570,278	-	-	906,463
Additions	5,065	1,900	197,821	89,454	5,679,745	2,101,306,107	2,107,280,092
At 31 December 2008	80,669	25,384	434,918	659,732	5,679,745	2,101,306,107	2,108,186,555

Accumulated depreciation :

At 1 January 2008	8,580	699	42,463	53,817	-	-	105,559
Charge for the year	15,885	4,852	105,627	127,491	-	-	253,855
At 31 December 2008	24,465	5,551	148,090	181,308	-	-	359,414

Net Book Value	56,204	19,833	286,828	478,424	5,679,745	2,101,306,107	2,107,827,141
----------------	--------	--------	---------	---------	-----------	---------------	---------------

7. PLANT AND EQUIPMENT

As at 31 December 2007

Cost :

At 1 January 2007	75,604	23,484	237,097	570,278	906,463
Additions	-	-	-	-	-
At 31 December 2007	75,604	23,484	237,097	570,278	906,463

Accumulated depreciation :

At 1 January 2007	8,580	699	42,463	53,817	105,559
Charge for the year	-	-	-	-	-
At 31 December 2007	8,580	699	42,463	53,817	105,559

Net Book Value	67,024	22,785	194,634	516,461	800,904
----------------	--------	--------	---------	---------	---------

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

8. CASH AND CASH EQUIVALENTS

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

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

9. SHARE CAPITAL

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

10. RETAINED PROFITS/(ACCUMULATED LOSSES)

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

11. BORROWINGS

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

PENGURUSAN ASET AIR BERHAD (732544-D)
(Incorporated in Malaysia)

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

12. OTHER PAYABLES

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

Amount due to State Government of Melaka :

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

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

13. SIGNIFICANT EVENTS

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

[This page has been left blank intentionally]

Appendix II

Shariah Pronouncement in Respect of the Proposal

[This page has been left blank intentionally]

SHARIAH PRONOUNCEMENT

*In the name of Allah, the Most Gracious, the Most Merciful
All praise is due to Allah, the Cherisher of the world, and peace and blessing upon
The Prophet of Allah, on his family and all his companions*

PENGURUSAN AIR SPV BERHAD

Islamic Medium Term Notes Programme Of Up To RM20.0 Billion In Nominal Value (“IMTN Programme”) And Islamic Commercial Papers Programme Of Up To RM20.0 Billion In Nominal Value (“ICP Programme”) With Both Programmes Having A Combined Limit Of RM20.0 Billion In Nominal Value (the “Sukuk Programmes”)

The CIMB Islamic Shariah Committee (the “Shariah Committee”) as the Shariah Adviser of the Sukuk Programmes has reviewed the structure and mechanism for the Sukuk Programmes by Pengurusan Air SPV Berhad (the “Issuer”).

Except where defined herein, terms used in this Shariah Pronouncement have the meanings given to them in the Principal Terms and Conditions prepared in connection with the Sukuk Programmes.

We have reviewed the structure and the transactions to be entered into in respect of the Sukuk Programmes, the principal features of which are as follows:

1. STRUCTURE AND MECHANISM

The Sukuk Programmes are based on the Shariah principles of Ijarah and Musyarakah.

1.1 Ijarah Structure:

- 1.1.1 **Purchase of Ijarah Assets:** The holders of the Sukuk (“Sukukholders”), through the Issuer, shall purchase certain Ijarah Assets from PAAB, by way of transfer of the beneficial ownership of the Ijarah Assets pursuant to an asset purchase agreement.
- 1.1.2 **Ijarah Assets:** The assets shall comprise of certain land(s), plant(s) and Shariah-compliant leasable assets (“Ijarah Assets”) which will be identified at or around the time of issuance of the Sukuk Ijarah, to be endorsed by the Shariah Advisor.
- 1.1.3 **Lease of Ijarah Assets:** The Issuer (on behalf of the Sukukholders) (in such capacity, the “Lessor”) shall then lease the Ijarah Assets to PAAB (in such capacity, the “Lessee”) for a pre-determined rental amount (“Rentals”) and tenure (“Ijarah Lease Term”) pursuant to the Ijarah Agreement.
- 1.1.4 **Issuance of Sukuk:** The Issuer shall declare a trust (“Trust”) over the Ijarah Assets, the present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the “Ijarah Trust Assets”) in favour of the Sukukholders, and shall issue the Sukuk Ijarah to the Sukukholders to represent the Sukukholders’ undivided beneficial ownership in the Ijarah Trust Assets.



1.1.5 **Purchase Undertaking:** Pursuant to the Purchase Undertaking, PAAB shall purchase the Ijarah Assets from the Issuer, by way of transfer of the beneficial ownership:

- (a) upon the maturity date of the Sukuk ("Scheduled Distribution Date"); or
- (b) upon declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event) (as described below); or
- (c) upon the date of any early dissolution ("Early Dissolution") of the Sukuk ("Early Dissolution Date"),

at the Exercise Price. Upon the occurrence of any of the above, the Sukuk held by the Sukukholders shall be cancelled.

1.1.6 **Substitution of Ijarah Assets:** PAAB shall have the right via an exchange agreement, to substitute all or part of the Ijarah Assets throughout the tenure of the Sukuk Ijarah with qualified assets that are approved by the Shariah Advisor ("Substitute Ijarah Assets").

The Substitute Ijarah Assets shall form part of the Ijarah Assets and thereby form part of the Ijarah Trust Assets.

1.2 Musyarakah Structure:

1.2.1 **Musyarakah:** Investors shall from time to time form a Musyarakah amongst themselves and subscribe to the Sukuk issued by the Issuer which represent their proportionate and undivided interest in the pool of identified Shariah-compliant income generating asset-based investment to be managed by PAAB.

1.2.2 **Purchase of Musyarakah Assets:** The Issuer (on behalf of the Sukukholders) shall appoint PAAB as the manager ("Manager") whereby the Manager is appointed to manage the proceeds paid by the Sukukholders to the Manager ("Musyarakah Capital") for the purpose of (i) purchase of existing assets of PAAB ("Existing Assets") and/or (ii) funding and acquisition of under construction assets of PAAB ("Future Assets") and (iii) other Shariah-compliant income-generating asset-based investment to be identified prior to issuance and endorsed by the Shariah Adviser. (collectively known as "Musyarakah Assets") ("Musyarakah Venture") on behalf of the Issuer (for the Sukukholders). The Assets shall form part of the Musyarakah Venture.

1.2.3 **Lease of Musyarakah Assets:** The Issuer (on behalf of the Sukukholders) (in its capacity as the "Lessor") shall then lease the Existing Assets to PAAB (as "Lessee") for a pre-determined rental amount ("Rentals") and tenure ("Ijarah Lease Term") pursuant to the Ijarah Agreement.

1.2.4 **Declaration of Trust:** The Issuer shall declare a trust ("Trust") over the Musyarakah Assets, its present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the "Musyarakah Trust Assets") in favour of the Sukukholders, and the Sukuk Musyarakah shall represent the Sukukholders' undivided beneficial ownership in the Musyarakah Trust Assets.



- 1.2.5 **Distribution of Return:** The Sukukholders shall share any returns from the Musyarakah Venture (i.e. Rentals from the Ijarah Agreement between Issuer and PAAB with respect to the Existing Assets and income from the Future Assets and other Shariah-compliant income-generating asset-based investment) in proportion to their respective holdings of the Sukuk Musyarakah while losses shall be borne by and limited to each Sukukholder's respective capital contribution to the Musyarakah Venture. Returns generated from the Musyarakah Venture shall be distributed to the Sukukholders as Expected Return (as defined herein) of the Musyarakah Venture in the form of one-off or periodic distributions ("Distributions"). The Sukukholders shall agree that any returns in excess of the Expected Return shall be paid to the Manager as incentive fees.
- 1.2.8 **Purchase Undertaking:** Pursuant to the Purchase Undertaking, PAAB as the Lessee shall purchase the Musyarakah Assets from the Sukukholders as the Lessor under the Ijarah Agreement from the Issuer, by way of transfer of the beneficial ownership:
- (a) upon the Scheduled Distribution Date; or
 - (b) upon declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event); or
 - (c) upon the Early Dissolution Date,
- at the Exercise Price (as described below). Upon the occurrence of any of the above, the Sukuk held by the Sukukholders shall be cancelled.
- 1.2.9 **Exchange agreement:** PAAB shall have the right via an exchange agreement, to substitute all or part of the Musyarakah Assets throughout the tenure of the Sukuk Musyarakah with qualified assets that are approved by the Shariah Advisor ("Substitute Musyarakah Assets").

1.3 Common Features:

- 1.3.1 **Rentals:** The Rental in respect of lease of the Ijarah Asset or the Existing Assets in the Musyarakah Venture consists of:-
- (a) an amount equivalent to a one-off distribution amount ("One-off Distribution Amount") or the periodic distribution amount ("Periodic Distribution Amount") which are payable by the Lessee to the Lessor on the One-off Distribution Date or the relevant Periodic Distribution Date (both as defined below), as the case may be; and
 - (b) the Allocated Expenses (as defined below) which are only payable by the Lessee to the Lessor in one lump sum on the Lease Expiry Date; and
 - (c) the principal amount of the respective Sukuk Ijarah or the Sukuk Musyarakah, as the case may be, due under the Sukuk Ijarah or the Sukuk Musyarakah, as the case may be ("Final Rental") upon execution of the Ijarah Agreement which are only payable by the Lessee to the Lessor in one lump sum on the Lease Expiry Date.

Note: Allocated Expenses shall be an amount determined prior to the execution of the Ijarah Agreement and allocated in the Rental payable by the Lessee on the Lease Expiry Date, to be ultimately used by the Lessor to pay the



Service Agent for expenses incurred in relation to the maintenance of the Ijarah Assets and the Musyarakah Assets pursuant to the terms of the Service Agency Agreement ("Allocated Expenses"). In the event the Allocated Expenses are more than the actual maintenance expenses incurred, such excess shall be paid to the Service Agent as an incentive fee. Any shortfall shall be set off against any payment due from PAAB pursuant to the Purchase Undertaking.

For the avoidance of doubt, the Final Rental shall not be payable if aggregate principal amount of the Sukuk Ijarah or the Sukuk Musyarakah outstanding, as the case may be, is paid via the Exercise Price.

The One-off Distribution Amount/Periodic Distribution Amount is payable by the Lessee, under the terms of the Ijarah Agreement, on the One-off Distribution Date or the Periodic Distribution Dates, as the case may be, ("One-off Distribution Date" and "Periodic Distribution Dates" collectively known as the "Distribution Date") to the Facility Agent's account with BNM or such other accounts as the Facility Agent may notify to the Lessee. Upon receipt by the Lessor from the Lessee of each Rental on the relevant Distribution Dates, the Issuer will use such amounts to make payments of the distributions due under the Sukuk (i.e. One-off Distribution Amount/Periodic Distribution Amount). For the avoidance of doubt, the Distribution Date for One-off Distribution Amount shall be the maturity date of such Sukuk ("One-off Distribution Date").

Rental are payable up to the Lease Expiry Date (as defined below) of the Ijarah Agreement.

- 1.3.2 **Service Agency Agreement:** Under the terms of the Service Agency Agreement, PAAB (in such capacity as the service agent, "Service Agent"), on behalf of the Lessor, will be responsible for the performance of all maintenance in respect of the Ijarah Assets and the Musyarakah Assets, to insure/cover the Ijarah Assets and the Musyarakah Assets, to pay general ownership expenses, to ensure that the Ijarah Assets and the Musyarakah Assets are kept in good repair and to effect replacement of the Ijarah Assets and the Musyarakah Assets as and when necessary, to maintain an up-to-date accounts, information, records relating to the Ijarah Assets and the Musyarakah Assets, and preparing annual operating budget in relation to the Ijarah Assets and the Musyarakah Assets and to ensure compliance with provisions of all regulations and laws, licences, permissions and consents provided under such regulations and laws in accordance with the terms set out in the Service Agency Agreement.

- 1.1.1. **Total Loss:** A total loss event is defined as the total loss or destruction of, or damage to the whole of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, or any event or occurrence that renders the whole of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, permanently unfit for any use.

The occurrence of a Total Loss Event shall be confirmed in writing by the Lessee, provided at all times that the confirmation by the Lessee to the Facility Agent shall not be more than two (2) weeks from the occurrence of such event.

On the occurrence of a Total Loss Event, PAAB shall notify the Facility Agent in writing by 5.00pm on the same day of its inability or its intention not to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and then at once the Facility Agent shall:

- (a) by written notice to the Lessee, declare that the lease shall be terminated and that the Lessee shall pay the Sukukholders the Final Rental plus any accrued and unpaid Rentals; and



- (b) in accordance with the provisions of the agency agreement, by written notice to the Lessor, declare that a Dissolution Event/Event of Default has occurred.

1.1.2. **Right to Substitute the Ijarah/Musyarakah Assets Following a Total Loss Event:** Following the occurrence of a Total Loss Event, PAAB, as the Service Agent, shall have the right to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, with qualified assets that are approved by the Shariah Advisor ("Total Loss Substitute Assets")

Under this right, PAAB must by 5.00pm on the same day as the occurrence of a Total Loss Event:

- (a) identify the Total Loss Substitute Assets;
- (b) obtain the Shariah Advisor's approval of the Total Loss Substitute Assets;
- (c) execute the necessary documentation ("Exchange Agreement") to, amongst others, allow the Total Loss Substitute Assets to be substituted as the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and form part of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and Ijarah Trust Assets and/or the Musyarakah Trust Assets, as the case may be;

AND

- (a) The consideration for the Total Loss Substitute Assets shall be paid on a deferred basis and shall be due and payable once the insurance/takaful proceeds are received. If the insurance/takaful proceeds are insufficient to cover the purchase consideration, the Service Agent shall be obliged to make good the difference, for not taking full insurance/takaful coverage on the Assets and the Musyarakah Assets pursuant to the terms of the Service Agency Agreement. Any excess from the insurance/takaful proceeds over the purchase consideration shall be paid to the Service Agent as an incentive fee; and
- (b) The Lessee and Lessor shall continue the lease with the Total Loss Substitute Assets under the terms of the existing Ijarah Agreement. All Rentals due and payable up to the date of occurrence of a Total Loss Event shall be payable by the Lessee to the Lessor in the following Periodic Distribution Date.

1.2. **Utilisation of Proceeds:**

1.2.1. **Issuer:** Under an issuance of Sukuk Ijarah, the proceeds of the Sukuk Ijarah shall be utilised by the Issuer to pay the Asset Purchase Price to PAAB under the relevant Asset Purchase Agreement.

Under an issuance of Sukuk Musyarakah, the proceeds of the Sukuk Musyarakah shall be utilised to invest in the Musyarakah Venture to be managed by PAAB.



1.2.2. **PAAB:** PAAB shall utilise the proceeds for the following Shariah-compliant purposes:

- (a) to refinance the principal amount of any of the existing banking facilities of PAAB obtained for the purposes of item (b) and/or item (c) below and to be endorsed by the Shariah Adviser;
- (b) to finance PAAB's acquisition of existing water assets, rights, liabilities and land from privatised water concessionaires or other operators or state governments in Malaysia ("Acquisitions");
- (c) to finance PAAB's capital expenditure in relation to the water assets;
- (d) to fund the fees, costs, expenses and all other amounts payable under or in relation to the Sukuk Programmes; and
- (e) for any other Shariah-compliant general funding and Shariah-compliant working capital requirements of PAAB.

2. IMPORTANT HIGHLIGHTS

The Shariah Committee would like to highlight the following:

2.1 **Purchase Undertaking:** PAAB as the Obligor shall enter into a Purchase Undertaking pursuant to which PAAB irrevocably and unconditionally undertakes to purchase from the Issuer on behalf of the Sukukholders the Ijarah Assets and the Musyarakah Assets at the Exercise Price on the Dissolution Dates, the earliest of:

- (a) declaration of Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event); or
- (b) the Scheduled Distribution Date; or
- (c) the Early Dissolution Date.

The Purchase Undertaking is a promise from PAAB to purchase the Ijarah Assets and Musyarakah Assets pursuant to the arrangement to transfer the ownership from the Sukukholders on the occurrence of above agreed event. The undertaking is made unilaterally by one party i.e. PAAB and it binds on the person who made the promise in the perspective of religion. The promisor is obliged to fulfil the promise, especially when the promise relates to the performance of certain act, or when it requires certain commitment from the promisee (*Wa`ad Muwarrat*);

Notwithstanding the above:-

- (i) The Sukukholders as the co-owner of the Musyarakah Assets under the Musyarakah have the right to sell their interest in the Musyarakah Assets to a third party i.e. PAAB at any point of time during the tenure of Musyarakah and to seek an undertaking to purchase from the interested party i.e. PAAB so long the arrangement is based on mutual agreement (*al-taraadhi*);
- (iii) The Sukukholders are not devoid of all risks as the performance of the Musyarakah Assets and the Purchase Undertaking are still subject to the operation of the Musyarakah Assets and the credit standing of PAAB respectively; and



The Shariah Committee also takes into consideration, the principle of 'Urf or common practice in the industry and the expectation of investing in fixed income instruments as long as it is free from riba, gharar and other prohibition which will render the contract invalid.

- 2.2 **Partial redemption of Sukuk Musyarakah:** Upon partial redemption of the Sukuk Musyarakah, PAAB shall be the co-owner of the Musyarakah Assets. PAAB and the Sukukholders shall share the return from the Musyarakah Assets i.e. rental and income based on the respective proportionate ownership of the Musyarakah Assets.
- 2.3 **Ta'widh (Compensation):** In the event of overdue payments of any amount due under the Rentals, the Final Rental or the Purchase Undertaking, PAAB shall pay the compensation on such overdue amount at 1% per annum on the profit amount and the Islamic Interbank Money Market (IIMM) rate on the principal amount or such other rate and manner prescribed by the SC's Shariah Advisory Council or such other relevant regulatory authorities from time to time in accordance with Shariah.

3. APPROVAL

- 3.1 The Shariah Committee is of the view that, given the prevailing circumstances, the structure and mechanism set out above are acceptable within the principles of Shariah, subject to final information memorandum and satisfactory documentation.
- 3.2 In arriving at the decision, the Shariah Committee also took into consideration the following issues:
- (i) The legal constraints under which this product is being developed;
 - (ii) The need to develop the Islamic finance industry, particularly in respect of the issuance of Sukuk;
 - (iii) The need to facilitate the increasing need of corporates and financiers to mobilise funds according to Shariah principles; and
 - (iv) The prevailing conditions and affairs of the Ummah and the need to remove them from the shackles of riba.

And He Knows best.

On behalf of the **CIMB ISLAMIC SHARIAH COMMITTEE**

ABDUL GHANI ENDUT
Head, Shariah Advisory
Islamic Banking Division

Dated: 06 October 2009

THE ISSUER

PENGURUSAN AIR SPV BERHAD

(Company No. 866847-H)
Level 12, Bangunan Setia 1,
15 Lorong Dungun, Bukit Damansara,
50490 Kuala Lumpur

THE OBLIGOR

PENGURUSAN ASET AIR BERHAD

(Company No. 732544-D)
Tingkat 24, Menara Multi-Purpose,
Capital Square, No. 8 Jalan Munshi Abdullah
50100 Kuala Lumpur

**SOLE PRINCIPAL ADVISER/
SOLE LEAD ARRANGER/ SOLE LEAD MANAGER**

CIMB INVESTMENT BANK BERHAD

(Company No. 18417-M)
5th Floor, Bangunan CIMB,
Jalan Semantan, Damansara Heights
50490 Kuala Lumpur

FACILITY AGENT

CIMB INVESTMENT BANK BERHAD

(Company No. 18417-M)
9th Floor, Bangunan Amanah Raya
Jalan Semantan, Damansara Heights
50490 Kuala Lumpur

REPORTING ACCOUNTANT

MESSRS. HANAFIAH RASLAN & MOHAMAD

(Firm No: 002)
Level 23A, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
50490, Kuala Lumpur, Malaysia

**LEGAL COUNSEL TO THE SOLE PRINCIPAL ADVISER/
SOLE LEAD ARRANGER/ SOLE LEAD MANAGER**

MESSRS ALBAR & PARTNERS

6th Floor, Faber Imperial Court,
Jalan Sultan Ismail
50250 Kuala Lumpur