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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2013 (UNAUDITED)

CONTENTS

This Report is authorised for public release on 29 May 2013

TALIWORKS CORPORATION
LGB Group

CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	31 Mar 2013 RM'000	31 Dec 2012 RM'000 (Audited)
ASSETS			
Property, plant and equipment		10,512	9,716
Investment properties		402	404
Intangible assets		437,281	432,636
Jointly controlled entities		113,755	112,075
Investment in associate		6,521	6,340
Goodwill on consolidation		2,504	2,504
Deferred tax assets		9,001	8,512
Long term trade receivables	A1(c)	142,658	136,237
Long term other receivables		440	418
Deposits, cash and bank balances		13,066	16,903
Total Non-Current Assets		**736,140**	**725,745**
Inventories		1,185	1,223
Amount due from contract customers		-	67
Trade receivables	A1(c)	182,218	204,315
Other receivables, deposits and prepayments		4,589	5,547
Tax recoverable		1,119	1,050
Available-for-sale financial assets		17,118	20,946
Deposits, cash and bank balances	B11	40,544	21,966
Total Current Assets		**246,773**	**255,114**
TOTAL ASSETS		**982,913**	**980,859**
EQUITY AND LIABILITIES			
Share capital		218,246	218,246
Reserves		356,876	348,193
Total Equity Attributable to Owners of the Company		**575,122**	**566,439**
Non-controlling interests		7,713	6,769
Total Equity		**582,835**	**573,208**
LIABILITIES			
Long-term borrowings	B7	282,818	215,417
Total Non-Current Liabilities		**282,818**	**215,417**
Amount due to contract customers		7,608	10,029
Trade payables		43,802	51,137
Other payables and accruals		17,566	26,922
Tax liabilities		4,224	5,270
Short-term borrowings	B7	44,060	98,876
Total Current Liabilities		**117,260**	**192,234**
TOTAL LIABILITIES		**400,078**	**407,651**
TOTAL EQUITY AND LIABILITIES		**982,913**	**980,859**
Net assets per share attributable to owners of the Company (RM)		**1.3176**	**1.2977**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Note	3 Months Ended 31 Mar 2013 RM'000	3 Months Ended 31 Mar 2012 RM'000 (restated)
Revenue	B1,B13	**64,637**	**43,096**
Cost of operations		(50,553)	(35,329)
Gross profit		**14,084**	**7,767**
Other operating income	B4, B13	8,004	5,954
Administrative and other expenses	B4	(8,487)	(10,015)
Operating profit		**13,601**	**3,706**
Finance costs		(5,705)	(3,919)
Share of results of jointly controlled entities		1,654	4,683
Share of results of associate		181	144
Profit before tax	B4	**9,731**	**4,614**
Income tax expense	B5	(3,468)	(4,117)
Profit for the financial period		**6,263**	**497**
Other comprehensive income/(loss):			
Net fair value gain on available-for-sale financial assets		88	60
Foreign currency translation differences for foreign operations		3,250	(4,648)
Share of other comprehensive income of jointly controlled entity		26	22
Total other comprehensive income/(loss) for the financial period		**3,364**	**(4,566)**
Total comprehensive income/(loss) for the financial period		**9,627**	**(4,069)**

The Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Note	3 Months Ended 31 Mar 2013 RM'000	3 Months Ended 31 Mar 2012 RM'000 (restated)
Profit for the financial period attributable to:			
Owners of the Company		5,637	647
Non-controlling interests		626	(150)
		6,263	**497**
Total comprehensive income/(loss) for the financial period attributable to:			
Owners of the Company		8,683	(3,501)
Non-controlling interests		944	(568)
		9,627	**(4,069)**
Basic and diluted earnings per share attributable to owners of the Company (sen):	B9	1.29	0.15

The Condensed Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying significant events and transactions attached to these interim financial statements.

TALIWORKS CORPORATION
LGB Group

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital RM'000	Share premium RM'000	Share Option reserve RM'000	Currency Translation reserve RM'000	Available-for-sale reserve RM'000	Merger deficit RM'000	Retained earnings RM'000	Total RM'000	Non-Controlling interest RM'000	Total Equity RM'000
At 1 January 2013	**218,246**	**74,176**	**2,205**	**1,458**	**(23)**	**(71,500)**	**341,877**	**566,439**	**6,769**	**573,208**
Available-for-sale financial assets	-	-	-	-	88	-	-	88	-	88
Share of other comprehensive income of jointly controlled entity	-	-	-	-	-	-	26	26	-	26
Foreign currency translation differences	-	-	-	2,932	-	-	-	2,932	318	3,250
Total other comprehensive income for the financial period	-	-	-	2,932	88	-	26	3,046	318	3,364
Profit for the financial period	-	-	-	-	-	-	5,637	5,637	626	6,263
Total comprehensive income for the financial period	-	-	-	2,932	88	-	5,663	8,683	944	9,627
At 31 March 2013	**218,246**	**74,176**	**2,205**	**4,390**	**65**	**(71,500)**	**347,540**	**575,122**	**7,713**	**582,835**

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital RM'000	Share premium RM'000	Share Option reserve RM'000	Currency Translation reserve RM'000	Available-for-sale reserve RM'000	Merger deficit RM'000	Retained earnings RM'000	Total RM'000	Non-Controlling interest RM'000	Total Equity RM'000
		Attributable to owners of the Company									
At 1 January 2012											
-As previously stated		**218,246**	**74,176**	**2,248**	**4,634**	**14**	**(71,500)**	**277,537**	**505,355**	**7,338**	**512,693**
Effects of change in accounting policy	B14	-	-	-	-	(31)	-	22,938	22,907	-	22,907
At 1 January 2012, as restated		**218,246**	**74,176**	**2,248**	**4,634**	**(17)**	**(71,500)**	**300,475**	**528,262**	**7,338**	**535,600**
Available-for-sale financial assets		-	-	-	-	60	-	-	60	-	60
Share of other comprehensive income of jointly controlled entity		-	-	-	-	-	-	22	22	-	22
Foreign currency translation differences		-	-	-	(4,230)	-	-	-	(4,230)	(418)	(4,648)
Total other comprehensive (loss)/income for the financial period		-	-	-	(4,230)	60	-	22	(4,148)	(418)	(4,566)
Profit for the financial period		-	-	-	-	-	-	647	647	(150)	497
Total comprehensive (loss)/income for the financial period		-	-	-	(4,230)	60	-	669	(3,501)	(568)	(4,069)
Transaction with owners of the Company:											
Transfer to/(from) reserve upon ESOS options lapsed		-	-	(15)	-	-	-	15	-	-	-
Total transaction with owners of the Company		-	-	(15)	-	-	-	15	-	-	-
At 31 March 2012		**218,246**	**74,176**	**2,233**	**404**	**43**	**(71,500)**	**301,159**	**524,761**	**6,770**	**531,531**

The Condensed Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying significant events and transactions attached to these interim financial statements.

TALIWORKS CORPORATION
LGB Group

CONDENSED STATEMENTS OF CASH FLOWS

	3 Months Ended 31 Mar 2013 RM'000	3 Months Ended 31 Mar 2012 RM'000
CASH FLOWS FROM/(USED) IN OPERATING ACTIVITIES		
Profit before tax	9,731	4,614
Adjustments for:		
Non-cash items	1,731	364
Interest income	(166)	(116)
Finance costs	5,705	3,919
Operating Profit Before Working Capital Changes	17,001	8,781
Changes in working capital:		
Net change in current assets	16,172	(13,962)
Net change in current liabilities	(13,038)	6,925
Cash Generated From Operations	20,135	1,744
Income tax paid	(5,121)	(4,353)
Income tax refunded	51	-
Net Cash From/(Used In) Operating Activities	15,065	(2,609)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Interest received	225	132
Purchase of property, plant and equipment	(1,246)	(1,183)
Purchase of intangible assets	(2,010)	(120,248)
Available-for-sale financial assets:		
- purchase	(3,000)	(6,000)
- proceeds from redemption	6,975	8,050
Withdrawal of deposits pledged as security	3,837	3,466
Net Cash From/(Used In) Investing Activities	4,781	(115,783)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		
Interest paid	(10,007)	-
Repayment of borrowings	(86,707)	-
Drawdown of borrowings	99,198	117,794
Repayment of finance lease payables	(62)	(5)
Net Cash From Financing Activities	2,422	117,789
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	22,268	(603)
Effects of foreign exchange rate changes	147	(300)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL YEAR	17,015	25,554
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	**39,430**	**24,651**

CONDENSED STATEMENTS OF CASH FLOWS

	3 Months Ended 31 Mar 2013 RM'000	3 Months Ended 31 Mar 2012 RM'000
Cash and cash equivalents comprised the following amounts in the statements of financial position:		
Deposits with financial institutions	29,263	21,637
Bank and cash balances	24,347	15,833
Total deposits, bank and cash balances	53,610	37,470
Less: Deposits pledged as security for banking facilities	(13,063)	(11,116)
Less: Bank and cash balances restricted	(3)	(1,703)
Less: Bank Overdraft	(1,114)	-
	39,430	**24,651**

The Condensed Statements of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2012 and the accompanying significant events and transactions attached to these interim financial statements.

PART A – SIGNIFICANT EVENTS AND TRANSACTIONS PURSUANT TO MFRS 134: INTERIM FINANCIAL REPORTING

A1 – Basis of Preparation

(a) The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board.

The interim financial statements should be read in conjunction with the latest audited financial statements of the Company and its subsidiaries ("Group") for the financial year ended 31 December 2012. The significant events and transactions attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the previous financial year.

The significant accounting policies and methods of computation adopted in these interim financial statements are consistent with those adopted in the latest audited financial statements, except for the adoption of new Malaysian Financial Reporting Standards (MFRSs) and Amendments to MFRSs with effect from 1 January 2013 relevant to the Group as follows:-

MFRSs, Amendments to MFRSs

MFRS 7	Financial Instruments: Disclosures (Amendment relating to Disclosures - Offsetting Financial Assets and Liabilities)
MFRS 10	Consolidated Financial Statements
MFRS 10	Consolidated Financial Statements (Amendments relating to Transition Guidance)
MFRS 11	Joint Arrangements
MFRS 11	Joint Arrangements (Amendments relating to Transition Guidance)
MFRS 12	Disclosure of Interests in Other Entities
MFRS 12	Disclosure of Interests in Other Entities (Amendments relating to Transition Guidance)
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (IAS 19 as amended by IASB in June 2011)
MFRS 127	Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
MFRS 128	Investment in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)

Amendments to MFRSs contained in the document entitled Annual Improvements 2009-2011 cycle

The application of the above MFRSs, Amendments to MFRSs did not result in any significant changes in the accounting policies and presentation of the financial statements of the Group.

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

Foreign currency	31 Mar 2013 RM	31 Dec 2012 RM	31 Mar 2012 RM
1 US Dollar (USD)	3.09	3.06	3.03
1 Singapore Dollar (SGD)	2.50	2.50	2.45
100 Hong Kong Dollars (HKD)	39.85	39.45	39.00
100 Chinese Renminbi (RMB)	49.81	49.08	47.96

A1 – Basis of Preparation (continued)

(c) Critical Accounting Judgement and Key Sources of Estimation Uncertainty

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

In these interim financial statements, critical estimates were made to the carrying amount of trade receivables of Sungai Harmoni Sdn Bhd ("SHSB"), a wholly owned subsidiary of the Company.

(i) Due under a Debt Settlement Agreement ("DSA")

Arising from the DSA with Syarikat Pengeluar Air Sungai Selangor Sdn Bhd ("SPLASH") in 2005, a total of RM64.827 million was agreed to be settled via ten installments, commencing from 31 December 2006 and ending on 31 December 2015. It is assumed that the remaining 8th to 10th installments will be paid as scheduled in accordance with the terms of the DSA and as such, no further provision of discounting will be required beyond what has been previously been discounted and the accumulated provision for discounting made previously will continue to unwind during the remaining tenure of the DSA.

(ii) Invoiced Amounts

As at the end of the reporting period, the invoiced amounts due and owing from SPLASH amounted to RM226.0 million. The Group estimates that RM80.4 million will be received in the next twelve months, and as such has been classified as current. The balance outstanding of RM145.6 million is expected to be received progressively between 2014 and 2016 and accordingly, have been classified as non-current.

Arising from the estimation, an additional provision for discounting on a deferred payment consideration of RM6.868 million net of reversal of discounting of receivables of RM3.847 million, amounting to RM3.021 million was made in the current quarter.

The above critical estimates will be re-assessed as and when actual payments are received and this may have a significant impact to future amounts recognised in the financial statements.

A2 – Auditors' Reports

The auditors' report on the financial statements of the Group and the Company for the most recent audited financial statements were not subject to any qualification.

However, an emphasis of matter had been included by the auditors to draw attention on the uncertainty over the collectability of amounts owing by a trade receivable due to an impasse; as well as the key bases and assumptions used by the Directors in estimating the recoverable amounts of the intangible assets. An emphasis of matter had also been highlighted by the auditor of a subsidiary company as disclosed in the audited financial statements.

A3 – Comments about the Seasonal or Cyclicality of Interim Operations

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

A4 – Unusual Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

Save as disclosed in these interim financial statements, there are no items affecting the assets, liabilities, equity, net income or cash flows of the Group that were unusual because of their nature, size or incidence during the current quarter and financial period.

A5 – Accounting Estimates

There were no changes in estimates of amounts reported in prior financial years of the Group that have had a material effect in the current quarter and financial period.

A6 – Issuance, Cancellation, Repurchases, Resale and Repayments of Debt and Equity Securities

During the current quarter and financial period, there was no issuance, cancellation, repurchase, resale or repayment of equity or debt securities by the Company.

As at the end of the financial period, the Company has 43,000 ESOS options at RM1.31 per share and 4,161,000 ESOS options at RM1.90 per share. The ESOS options, if not exercised, will expire on 29 September 2015.

A7 – Dividends Paid

There were no dividends paid during the financial quarter or financial period.

A8 – Material Subsequent Events

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

A9 – Changes in Composition of the Group

There were no changes to the composition of the Group during the current quarter and financial period including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinued operations, except for the liquidation of Taliworks-IBI Technologies International Limited, a 70% owned subsidiary, on 9 January 2013 wherein a provisional liquidator was appointed.

A10 – Changes in Contingent Liabilities or Contingent Assets

The changes to the contingent liabilities of the Group since the last audited date of the statement of financial position are as follows:-

(a) Bank facilities to facilitate issuance of performance guarantees and tender bonds for the Group's bidding for overseas projects, and performance bonds on contracts for the management, operation and maintenance of water treatment plants and construction contracts.

	RM'000
Secured against deposits pledged to the financial institutions	
Decrease in bank guarantees issued to third parties for services rendered and as performance bonds on behalf of an unincorporated joint venture	(1,000)
Decrease in bank guarantees issued to third parties for services rendered and as performance bonds	(163)

A10 – Changes in Contingent Liabilities or Contingent Assets (continued)

(b) Litigations

There were no material changes to the status of litigations requiring re-assessment of present obligations in relation to these litigations except for the following case:-

Sichuan Provincial Economic and Technological Investment Guarantee Centre ("the Plaintiff") against 1st Defendant: Puresino (Guanghan) Water Co., Ltd. ("Puresino Guanghan"), a subsidiary of the Company; 2nd Defendant: Beijing Puresino-Boda Environmental Engineering Co., Ltd; 3rd Party: Sichuan Watson Environmental Engineering Co., Ltd; 3rd Party: China Electronic System Engineering 3rd Construction Co., Ltd.

Puresino Guanghan had on 27 March 2013 received a Civil Judgement dated 26 January 2013 from the Sichuan Province High Court, which overruled the Sichuan Deyang Intermediate People's Court Civil Judgement (2010) No.61. The decision of the Court was final and as a result thereof, a reversal of litigation claims previously accrued in the financial statements amounting to RM2.139 million was recognised in these interim financial statements.

A11-Operating Segments

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

3 months ended 31 Mar	Water treatment, supply and distribution		Waste management		Construction		Others		Total	
	2013 RM'000	2012 RM'000 (restated)	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000 (restated)
Revenue										
Total revenue	39,744	39,535	11,554	11,695	23,370*	4,207	10,167^	1,022	84,835	56,459
Inter-segment revenue	-	-	(139)	(134)	(3,024)	-	(10,167)	(1,022)	(13,330)	(1,156)
External revenue	39,744	39,535	11,415	11,561	20,346	4,207	-	-	71,505	55,303
Reconciliation:										
Difference in accounting policy (see note below)	(6,868)	(12,207)	-	-	-	-	-	-	(6,868)	(12,207)
Revenue as per statement of comprehensive income	32,876	27,328	11,415	11,561	20,346	4,207	-	-	**64,637**	**43,096**

* Including RM2,297,000 (2011: RM63,000) construction revenue recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of a public service infrastructure.

^ Including dividend income of RM9,300,000 (2011: Nil) received from a subsidiary.

Note: Segment policy is to show the effect of discounting of revenue by reducing revenue recognised instead of within operating expenses.

3 months ended 31 Mar	Water treatment, supply and distribution 2013 RM'000	2012 RM'000	Waste management 2013 RM'000	2012 RM'000	Construction 2013 RM'000	2012 RM'000	Toll highway 2013 RM'000	2012 RM'000	Others 2013 RM'000	2012 RM'000	Total 2013 RM'000	2012 RM'000
Earnings before finance costs, depreciation and amortisation and income tax expense	12,341	7,636	7,376	2,166	920	(406)	1,654	4,683	8,919	(1,196)	31,210	12,883
Depreciation and amortisation	(121)	(155)	(4,300)	(4,098)	(61)	(41)	-	-	(56)	(44)	(4,538)	(4,338)
	12,220	7,481	3,076	(1,932)	859	(447)	1,654	4,683	8,863	(1,240)	26,672	8,545
Finance costs	-	(1)	(5,262)	(3,727)	(5)	(7)	-	-	(438)	(184)	(5,705)	(3,919)
Inter-segment results	510	510	237	399	-	-	-	-	(12,164)	(1,065)	(11,417)	(156)
Segment results	12,730	7,990	(1,949)	(5,260)	854	(454)	1,654	4,683	(3,739)	(2,489)	9,550	4,470
Share of results of associates											181	144
Profit before tax											9,731	4,614
Income tax expense											(3,468)	(4,117)
Profit for the financial period as per statement of comprehensive income											**6,263**	**497**

The segment assets and segment liabilities of the Group are as follows:

As at 31 March	Water treatment, supply and distribution 2013 RM'000	2012 RM'000	Waste management 2013 RM'000	2012 RM'000	Construction 2013 RM'000	2012 RM'000	Toll highway 2013 RM'000	2012 RM'000 (restated)	Others 2013 RM'000	2012 RM'000	Total 2013 RM'000	2012 RM'000 (restated)
Segment assets	327,344	287,631	477,157	473,079	46,183	8,964	113,755	106,922	18,474	18,624	982,913	895,220
Segment liabilities	(40,897)	(40,106)	(287,012)	(272,782)	(38,227)	(8,375)	-	-	(33,942)	(42,426)	(400,078)	(363,689)
Net segment assets/(liabilities)	**286,447**	**247,525**	**190,145**	**200,297**	**7,956**	**589**	**113,755**	**106,922**	**(15,468)**	**(23,802)**	**582,835**	**531,531**

The following is an analysis of the Group's revenue and total assets by geographical areas:

3 months ended 31 Mar	Revenue 2013 RM'000	Revenue 2012 RM'000	Total assets 2013 RM'000	Total assets 2012 RM'000
Malaysia	^50,925	36,014	505,004	421,359
China / Hong Kong SAR	13,712	11,624	477,687	473,689
Singapore	-	-	222	172
	64,637	**47,638**	**982,913**	**895,220**

^ *inclusive of provision for discounting on the deferred payment consideration of RM6,868,000 (Q1FY12: RM12,207,000)*

PART B – SIGNIFICANT EVENTS AND TRANSACTIONS PURSUANT TO PARAGRAPH 9.22 OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 – Analysis of Performance

(a) *Revenue*

	3 Months Ended 31 Mar 2013 RM'000	3 Months Ended 31 Dec 2012 RM'000	3 Months Ended 31 Mar 2012 RM'000 (restated)
Water treatment, supply and distribution	39,744	40,271	39,535
Construction *(note 1)*	20,346	11,426	4,207
Waste management	11,415	10,540	11,561
Others	-	37	-
	71,505	62,274	55,303
Less: Provision for discounting on a deferred payment consideration	(6,868)	(875)	(12,207)
	64,637	**61,399**	**43,096**

Note 1

Including RM2,297,000 *(Q4FY12: RM1,191,000; Q1FY12: RM63,000)* construction revenue recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of a public service infrastructure.

(b) *Profit Before Tax*

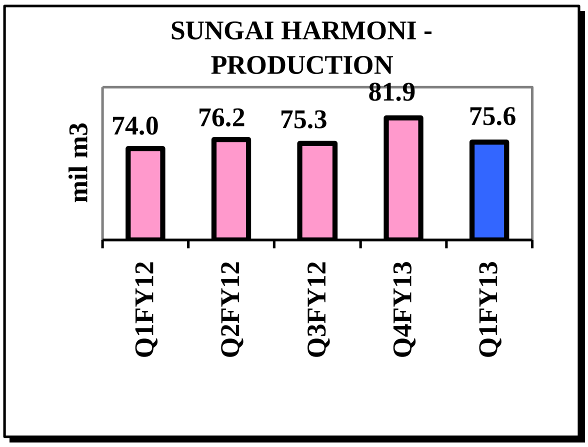
	3 Months Ended 31 Mar 2013 RM'000	3 Months Ended 31 Dec 2012 RM'000	3 Months Ended 31 Mar 2012 RM'000 (restated)
Water treatment, supply and distribution	12,730	19,741	7,991
Construction *(note 1)*	859	1,526	(447)
Waste management	3,313	(278)	(1,533)
Investment holding and others	(3,301)	(2,289)	(2,305)
Operating profit	**13,601**	**18,700**	**3,706**
Finance cost	(5,705)	(5,617)	(3,919)
Share of results of a jointly controlled entity	1,654	1,002	4,683
Share of results of associate	181	376	144
Profit before tax	**9,731**	**14,461**	**4,614**

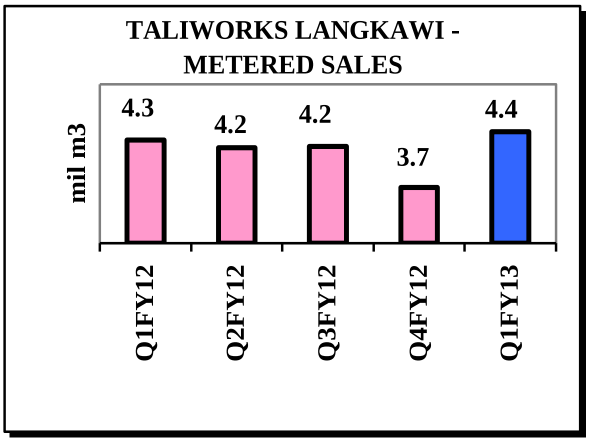
Note 1

Includes RM209,000 (Q4FY12: RM109,000; Q1FY12: RM6,000) construction profit recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of an infrastructure by a subsidiary.

B1 – Analysis of Performance (continued)

The following are the production statistics of Sungai Harmoni Sdn Bhd ("SHSB") and metered sales of Taliworks (Langkawi) Sdn Bhd ("TLSB")





Analysis of Y-o-Y Results

Revenue

The Group revenue increased from RM43.1 million to RM64.6 million primarily due to higher contribution from the construction activities as well as improvement in collection from SPLASH, where a provision for discounting on a deferred payment consideration of RM6.868 million was made as compared to RM12.2 million in the corresponding quarter.

At the operating level, production from Sungai Selangor Water Treatment Works Phase I ("SSP1") recorded a marginal increase of 1.7% (i.e. from 74.30 million m3 (or 816 MLD) over a 91-day period to 75.60 million m3 (or 869 MLD), over an 87-day period. However, the production was higher by 6.5% on MLD basis. In spite of the higher production, revenue from SSP1 operation was actually lower as compared to the corresponding quarter due to lower electricity rebates. On the other hand, metered sales from the Langkawi operations saw a growth of 2.8% to 4.40 million m3 from 4.28 million m3 achieved a year ago.

In the current quarter, the higher contribution from the construction segment was mainly attributable to the Group's two existing projects, namely the Mengkuang Dam Expansion Project which commenced in August 2011 and the "Projek Menaik Taraf Skim Sungai Selangor Fasa 1 Sebagai Projek Mitigasi Kekurangan Bekalan Air di Selangor, Wilayah Persekutuan Kuala Lumpur dan Putrajaya – Package 2: Construction and Completion of Raw Water Pumping Main and Inter-connection at Matang Pagar Reservoir" ("SSP1 Pipeline Project"), which commenced in February 2012. The construction revenue was also boosted by the revenue recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of a public service infrastructure, the Linhe Integrated Industrial Park Wastewater and Recycled Water Treatment Plant ("Linhe BOT Project"), undertaken by a subsidiary, Ningxia ECO Wastewater Treatment Co Ltd in the People's Republic of China ("PRC").

As for the waste management segment, production from the four municipal wastewater treatment plants with recycled facilities in Yinchuan, PRC ("Yinchuan TOT Project") undertaken by a subsidiary, Taliworks (Yinchuan) Wastewater Co Ltd registered a robust growth of over 13% (i.e. from 25.70 million m3 (or 282 MLD) to 29.05 million m3 (or 323 MLD). However, contribution to revenue was almost unchanged in the current quarter due to recognition of waiver of value-added tax ("VAT") as other income in the current quarter as opposed to inclusion of VAT in revenue previously.

B1 – Analysis of Performance (continued)

Profit

The Group's profit before taxation ("PBT") increased to RM9.7 million in the current quarter as compared to RM4.6 million achieved a year ago due to increases in all business segments.

However on closer scrutiny, the increase of profit by RM4.7 million in the water treatment, supply and distribution business was largely due to effects of provisioning and reversal and unwinding of discounting for receivables. The provision for discounting on deferred payment consideration net of reversal and unwinding of discounting was RM2.78 million (Q1FY12: RM7.04 million). Stripping out these effects, the quantum of increase in revenue from this segment was quite marginal.

In the waste management business, although the revenue recorded a slight drop as compared to the corresponding quarter, the current quarter registered a PBT of RM3.3 million as compared to a loss before taxation of RM1.5 million in the corresponding quarter. The increase was primarily due to the robust growth recorded from the Yinchuan TOT Project, the reversal of litigation claims as mentioned in Note A10(b) and the capitalisation of an intangible asset in the corresponding quarter, which was subsequently written off in the audited financial statements.

In line with the increase in revenue for the construction segment, the PBT for the segment has also increased compared to the corresponding period.

Nevertheless, Group profits were dragged down by higher financing cost incurred from the Yinchuan TOT Project due to additional term loans drawndown and the lower share of results in the jointly controlled entity. The share of results in the jointly controlled entity has reduced substantially on account of the closure of one-bound traffic on the Kajang-Cheras highway on 2 March 2012, discount on issuance of RM420 million Islamic Medium Term Notes (Sukuk Musharakah) under a RM750 million Sukuk Programme (which was issued on 31 January 2013) and higher business development expenses incurred to expand its toll business. The closure has resulted in the drop in the Average Daily Traffic ("ADT") by 30% i.e. to 137,722 vehicles per day compared to 196,899 vehicles per day recorded in the previous year.

Analysis of Q-o-Q Results

Revenue

Compared to the previous quarter, the Group revenue registered an increase by RM3.2 million to RM64.6 million from RM61.4 million. After stripping out the effects from the provision for discounting on a deferred payment consideration, the quantum of increase was actually much higher at RM9.3 million largely due to the higher contribution from the construction activities.

At the operating level, revenue from the water treatment, supply and distribution business recorded a decrease from RM40.3 million to RM39.7 million on account of lower metered production in SSP1 i.e. from 81.90 million m3 (or 844 MLD) over an 97-day period to 75.60 million m3 (or 869 MLD) over an 87-day period. However, the production was higher by 3.0% on MLD basis due to continued increases in demand for treated water. On the other hand, metered sales from the Langkawi operations saw a hefty jump by 18.6% to 4.40 million m3 from 3.71 million m3 in the previous quarter, to be likely from the surge in tourism activities brought on by the festive holidays and the LIMA Exhibition.

The construction segment is reporting higher revenue of RM20.3 million as compared to RM11.4 million in the previous quarter. The Group had in the previous quarter, recognised final variation orders of about RM3.3 million from a project that had been completed. Stripping out the effect of the variation orders, the quantum of increase from construction revenue was much higher at RM12.2 million mainly on account of the higher percentage of completion recognised in the Mengkuang Dam Expansion Project and the SSP1 Pipeline Project.

B1 – Analysis of Performance (continued)

In the waste management business, production from the Yinchuan TOT Project was lower by 2.8 13% (i.e. from 29.88 million m3 (or 325 MLD) to 29.05 million m3 (or 323 MLD). However, the revenue contribution was higher in the current quarter due to VAT adjustments in the previous quarter as a result of an exemption granted by the tax authorities.

Profit

For the current quarter, the Group's PBT registered a substantial decline by RM4.7 million to RM9.7 million compared to RM14.5 million in the previous quarter on account of the higher the provision for discounting on a deferred payment consideration.

In the water treatment, supply and distribution business, profit has declined to RM12.7 million from RM19.7 million in the previous quarter largely due to the effects of provisioning and reversal and unwinding of discounting for receivables and impairment on receivables. The provision for discounting on deferred payment consideration net of reversal and unwinding of discounting was RM2.78 million compared to a reversal of discounting of RM2.88 million in the previous quarter. After stripping out these effects, the quantum of decrease was much lower by RM1.3 million, to RM15.5 million compared to RM16.9 million in the previous quarter due to lower metered production level and higher operating cost in SSP1 in the current quarter.

In the construction segment, although revenue is much higher in the current quarter, the profit before tax was much lower due to the recognition of variation orders in the previous quarter. Excluding the impact of the variation orders, the financial results for the previous quarter was at a loss position due mainly to staff incentive payments.

In the waste management business, the current quarter's PBT performance was positively impacted by the reversal of litigation claims as mentioned in Note A10(b) and intangible asset written off in the previous quarter.

As for the Group's jointly controlled entity, share of results was higher due to higher ADT by 1.5% to 137,722 vehicles per day, and maintenance costs are significantly lower in the current quarter as significant costs on the demolition of the toll plazas and re-alignment of monsoon drain were incurred in the previous quarter.

B2 – Current Year Prospects

The operating profit of the Group is largely driven by the performance of the water treatment, supply and distribution business as this segment contributes the bulk of the revenue and profits. The Group expects that the production from SSP1, which is the main contributor to the Group, will increase in 2013 given the uptrend in water demand and that the plant has recently completed an upgrading programme to expand its treatment capacity under the SSP1 Pipeline Project which was undertaken by the Group.

However, the current uncertainties in the outcome of the consolidation of the Selangor water concessionaires may weigh down on the Group's performance given the fair value adjustments required on deferred consideration from continued delays in receiving payments if the matter is not resolved in a timely manner.

In the construction segment, the on-going Mengkuang Dam Expansion Project in Pulau Pinang, awarded to the Group for a sum of approximately RM339 million, is expected to contribute positively to the Group. To build up its construction order book, the Group is tendering for other construction projects.

In the waste management division, the Group is expected to progressively undertake the expansion and upgrading of the four wastewater treatment plants under the Yinchuan TOT Project in 2014 to 2015. The project will continue to negatively impact the Group's performance in the current year due to significant financing and amortisation costs.

B3 – Profit Forecasts or Profit Guarantees

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

B4 – Profit before tax

Included in the profit before tax are the following items:

	Current Quarter and Year-to-date 3 Months Ended 31 Mar 2013
	RM'000
Revenue	
Provision for discounting on receivables	(6,868)
Other operating income:	
Interest income	166
Dividend from available-for-sale financial assets	97
Rental income	2
Unwinding of discount on receivables	244
Reversal of discounting of receivables	3,847
Unrealised foreign exchange gain	289
Reversal of over-accrual of litigation claims *(Note A10(b))*	2,139
Waiver of value-added tax	942
Cost of operations, administrative and other expenses:	
Realised loss on available-for-sale financial assets	(38)
Depreciation and amortisation	(4,538)

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

B5 – Taxation

	Current Quarter and Year-to-date 3 Months Ended 31 Mar 2013
	RM'000
Malaysian income tax:-	
- Current year tax	3,955
Deferred tax expense	(487)
	3,468

The tax expense is in respect of the estimated Malaysian income tax charges and deferred tax for the period. The effective tax rate of the Group varies from the statutory tax rate principally due to the non deductibility or taxability, as the case maybe, on expenses not allowed as tax deductions, tax effect of share of results of jointly controlled entities and associate and losses incurred by certain subsidiaries which were not available to be set-off against taxable profits in other companies within the Group.

B6 – Status of Corporate Proposals Announced But Not Completed

There were no corporate proposals announced but not completed as at end of the reporting year.

B7 – Group Borrowings and Debt Securities

Included in the borrowings of the Group are:-

	←---------Short Term--------------→			←------------Long Term--------------→		
	Secured RM'000	Unsecured RM'000	Total RM'000	Secured RM'000	Unsecured RM'000	Total RM'000
Finance lease liabilities	244	-	244	568	-	568
Government loan	-	2,989	2,989	-	-	-
Term loans (a)	9,713	-	9,713	262,250	-	262,250
Revolving credit (b)	10,000	-	10,000	20,000	-	20,000
Overdraft	20,000	1,114	21,114	-	-	-
	39,957	4,103	44,060	282,818	-	282,818

(a) Term loans were secured by a subsidiary, to finance the acquisition of the Yinchuan TOT Project.

(b) The revolving credit facility secured by the Company is repayable over four equal instalments of RM10 million a year over a duration of four years, commencing from February 2013 to 2016, and is secured by a deed of assignment over all dividends payable by a jointly controlled entity and a fixed deposit placement of RM0.25 million.

B8 – Changes in Material Litigations

As at 23 May 2013 (being a date not earlier than 7 days from the date of this Report), the Group is not aware of any significant changes in material litigations of the Company or its subsidiary companies, since the date of the last annual statement of financial position date except as highlighted on Note A10(b), which was disclosed as a Subsequent Event in the audited financial statements.

B9 – Earnings Per Share ("EPS")

(a) Basic earnings per share

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

	Current Quarter and Year-to-date 3 Months Ended 31 Mar 2013	Preceding Quarter and Year-to-date 3 Months Ended 31 Mar 2012
Net profit attributable to owners of the Company (RM'000)	5,637	647
Weighted average number of shares in issue ('000)	436,492	436,492
Basic EPS (sen)	1.29	0.15

(b) Diluted earnings per share

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

The diluted earnings per share is the same as basic earnings per share calculated above as the ESOS options are anti-dilutive.

B10 – Dividends

The Board is not recommending any dividend payment for the current quarter.

B11 – Deposits, Bank and Cash Balances

At the end of the reporting period, foreign currencies equivalent to approximately RM5.2 million held in subsidiaries in the People's Republic of China is subject to the exchange control restrictions of that country. The restrictions will only apply if the monies are to be remitted outside the country.

B12 –Supplementary Information Disclosed Pursuant to the Listing Requirements of Bursa Securities

On 25 March 2010, Bursa Securities issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of the Bursa Securities Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the retained earnings or accumulated losses as of the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Securities further issued guidance on the disclosure and the prescribed format of disclosure.

The breakdown of the retained earnings of the Group into realised and unrealised profits or losses, pursuant to the directive, is as follows:

	Current Quarter Ended 31 Mar 2013 RM'000		Preceding Quarter Ended 31 Dec 2012 RM'000
Total retained earnings of Taliworks and its subsidiaries:			(restated)
- Realised profits	276,033		282,194
- Unrealised profits	9,290		9,185
	285,323		291,379
Total share of retained earnings from associate:			
- Realised profits	4,000		3,819
Total share of retained earnings from jointly controlled entities:			
- Realised profits	72,296		60,262
- Unrealised losses	(14,079)		(13,583)
Total Group's retained earnings	347,540		341,877

B13 – Adjustments and Reclassification of Comparatives

(a) Certain comparatives have been reclassified to conform to the current year's presentation as follows:

	As previously stated RM'000	Reclassification RM'000	Restated RM'000
3 months ended 31 March 2012			
Revenue	47,638	(4,542)	43,096
Other operating income	1,412	4,542	5,954

B13 – Adjustments and Reclassification of Comparatives (continued)

The above is in relation to the reversal of discounting of receivables reclassified from revenue to other operating income.

(b) Certain comparatives may differ from the unaudited consolidated results announced for the first and fourth quarter of 2012 as they have been adjusted to take into account the audited results of the Group for the year ended 31 December 2012.

B14 - Changes in Accounting Policy in a Jointly Controlled Entity

During the previous financial year, the jointly controlled entity changed the accounting policy in calculating the amortisation base for intangible assets comprising the highway concession. The jointly controlled entity adopted this change to provide a better reflection of the manner in which the benefits from the highway concession is utilised over the concession period. The change in amortisation method also aligns the basis with that of the industry.

In accordance with MFRS 108: "Accounting Policies, Changes in Accounting Estimates and Errors", the change in the amortisation base for intangible assets has been applied retrospectively and comparative figures have been restated as follows:

	As previously stated	Effects of change in accounting policy	Others	As restated
	RM'000	RM'000	RM'000	RM'000
At 1 January 2012				
Statement of changes in equity				
Equity				
Retained earnings	277,537	22,907	31	300,475

B15 – Authorisation for Release

This Interim Financial Report for the current quarter and financial period ended 31 March 2013 has been seen and approved by the Board for public release.

By Order of the Board
Chua Siew Chuan (MAICSA 0777689)
Tan Wee Sin (MAICSA 7044797)
Company Secretaries
29 May 2013

For more information on **TALIWORKS CORPORATION BERHAD**, shareholders and the general public can access the Company's website at http://www.taliworks.com.my. The Company had participated in the CMDF-Bursa Research Scheme to facilitate greater investors' understanding of the Group. Previous copies of independent research reports on the Company can be downloaded from http://www.bursamalaysia.com