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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2014 (UNAUDITED)

CONTENTS

This Report is authorised for public release on 16 May 2014

CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	31 Mar 2014 RM'000	31 Dec 2013 RM'000 (Audited)
ASSETS			
Property, plant and equipment		23,730	22,319
Investment properties		392	394
Intangible assets		438,821	456,160
Investment in joint venture		124,430	122,245
Investment in associate		5,405	5,171
Goodwill on consolidation		2,504	2,504
Deferred tax assets		9,761	8,730
Long term trade receivables	A1(c)(i)	170,702	157,502
Long term other receivables		524	548
Deposits, cash and bank balances		15,599	20,572
Total Non-Current Assets		**791,868**	**796,145**
Inventories		1,475	1,109
Amount due from contract customers		2,929	1,164
Trade receivables	A1(c)(i)	190,924	192,841
Other receivables, deposits and prepayments		8,024	5,796
Amount due from joint venture		150	-
Tax recoverable		1,520	4,909
Available-for-sale financial assets		14,542	25,460
Deposits, cash and bank balances	B11	52,162	23,477
Total Current Assets		**271,726**	**254,756**
TOTAL ASSETS		**1,063,594**	**1,050,901**
EQUITY AND LIABILITIES			
Share capital		218,246	218,246
Reserves		386,377	387,311
Total Equity Attributable to Owners of the Company		**604,623**	**605,557**
Non-controlling interests		8,372	4,990
Total Equity		**612,995**	**610,547**
LIABILITIES			
Long-term borrowings	B7	310,293	305,172
Deferred tax liabilities		12	2,246
Long term trade payables		4,057	3,547
Total Non-Current Liabilities		**314,362**	**310,965**
Amount due to contract customers		270	336
Trade payables		61,960	60,315
Other payables and accruals		35,363	34,346
Tax liabilities		4,612	3,240
Short-term borrowings	B7	34,032	31,152
Total Current Liabilities		**136,237**	**129,389**
TOTAL LIABILITIES		**450,599**	**440,354**
TOTAL EQUITY AND LIABILITIES		**1,063,594**	**1,050,901**
Net assets per share attributable to owners of the Company (RM)		**1.3852**	**1.3873**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Note	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 31 Mar 2013 RM'000 (restated)
Revenue	B1	**75,603**	**64,637**
Cost of operations	B13	(58,928)	(51,296)
Gross profit		**16,675**	**13,341**
Other operating income		8,857	8,004
Administrative and other expenses	B13	(9,861)	(7,744)
Operating profit		**15,671**	**13,601**
Finance costs		(5,683)	(5,705)
Share of profit of joint venture		2,176	1,654
Share of results of associate		234	181
Profit before tax	B4	**12,398**	**9,731**
Income tax expense	B5	(4,967)	(3,468)
Profit for the financial period		**7,431**	**6,263**
Other comprehensive (loss)/income:			
Net fair value gain on available-for-sale financial assets		38	88
Foreign currency translation differences for foreign operations		(5,029)	3,250
Share of other comprehensive income of joint venture		8	26
Total other comprehensive (loss)/income for the financial period		**(4,983)**	**3,364**
Total comprehensive income for the financial period		**2,448**	**9,627**

The Condensed Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Note	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 31 Mar 2013 RM'000 (restated)
Profit for the financial period attributable to:			
Owners of the Company		3,753	5,637
Non-controlling interests		3,678	626
		7,431	**6,263**
Total comprehensive income for the financial period attributable to:			
Owners of the Company		(934)	8,683
Non-controlling interests		3,382	944
		2,448	**9,627**
Basic and diluted earnings per share attributable to owners of the Company (sen):	B9	0.86	1.29

The Condensed Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying significant events and transactions attached to these interim financial statements.

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
As of 1 January 2014	**218,246**	**74,176**	**2,111**	**17,347**	**40**	**(71,500)**	**365,137**	**605,557**	**4,990**	**610,547**
Available-for-sale financial assets	-	-	-	-	38	-	-	38	-	38
Share of other comprehensive income of joint venture	-	-	-	-	-	-	8	8	-	8
Foreign currency translation differences	-	-	-	(4,733)	-	-	-	(4,733)	(296)	(5,029)
Total other comprehensive (loss)/income for the financial period	**-**	**-**	**-**	(4,733)	38	-	8	(4,687)	(296)	(4,983)
Profit for the financial period	-	-	-	-	-	-	3,753	3,753	3,678	7,431
Total comprehensive (loss)/income for the financial period	**-**	**-**	**-**	(4,733)	38	-	3,761	(934)	3,382	2,448
As of 31 March 2014	**218,246**	**74,176**	**2,111**	**12,614**	**78**	**(71,500)**	**368,898**	**604,623**	**8,372**	**612,995**

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									
As of 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 joint venture		-	-	-	-	-	-	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
As of 31 March 2013		**218,246**	**74,176**	**2,205**	**4,390**	**65**	**(71,500)**	**347,540**	**575,122**	**7,713**	**582,835**

The Condensed Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2013 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 31 Mar 2013 RM'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	12,398	9,731
Adjustments for:		
Non-cash items	7,581	1,731
Interest income	(148)	(166)
Finance costs	5,683	5,705
Operating Profit Before Working Capital Changes	25,514	17,001
Net (increase)/decrease in inventories, amount due from contract customers, trade and other receivables and amount due from joint venture	(20,177)	16,172
Net increase/(decrease) in amount due to contract customers and trade and other payables	2,824	(13,038)
Cash Generated From Operations	8,161	20,135
Income tax paid	(4,291)	(5,121)
Income tax refunded	812	51
Net Cash From Operating Activities	**4,682**	**15,065**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	201	225
Property, plant and equipment:		
- proceeds from disposal	7	-
- purchase	(2,911)	(1,246)
Purchase of intangible assets	(699)	(2,010)
Available-for-sale financial assets:		
- purchase	-	(3,000)
- proceeds from redemption	11,081	6,975
Withdrawal of deposits pledged as security	4,973	3,837
Decrease in proceeds deposited in the designated bank accounts	3,071	3,927
Net Cash From Investing Activities	**15,723**	**8,708**
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(5,750)	(10,007)
Repayment of borrowings	(37,353)	(86,707)
Drawdown of borrowings	54,989	99,198
Repayment of finance lease payables	(76)	(62)
Net Cash From Financing Activities	**11,810**	**2,422**
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,215	26,195
Effects of foreign exchange rate changes	454	147
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL PERIOD	15,044	11,888
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	**47,713**	**38,230**

CONDENSED STATEMENTS OF CASH FLOWS

	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 31 Mar 2013 RM'000 (Restated)
Cash and cash equivalents comprised the following amounts in the statements of financial position:		
Deposits with licensed banks	19,699	29,263
Cash and bank balances	48,062	24,347
Total deposits, cash and bank balances	67,761	53,610
Less: Deposits pledged as security	(15,599)	(13,063)
Less: Proceeds deposited in the designated bank accounts	(448)	(1,200)
Less: Cash and bank balances restricted	-	(3)
Less: Overdraft	(4,001)	(1,114)
	47,713	**38,230**

The Condensed Statements of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2013 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 2013. 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 and IC Interpretations ("IC Int") mandatory for annual financial periods beginning on or after 1 January 2014 relevant to the Group as follows:-

MFRSs, Amendments to MFRSs and IC Interpretations

Amendments to MFRS 10, MFRS 12, and MFRS 127	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements - Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation-offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Impairment of Assets-Recoverable Amount Disclosures for Non - Financial Assets
MFRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to Novation of Derivatives and Continuation of Hedge Accounting)
IC Int 21	Levies

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

As at the date of authorisation of these interim financial statements, the following new MFRSs, Amendments to MFRSs and IC Interpretations were in issue but not yet effective and have not early adopted by the Group:-

MFRSs and Amendments to MFRSs

MFRS 7	Mandatory Effective Date of MFRS 9 (IFRS 9 issued by IASB in November 2009 and October 2010 respectively and Transition Disclosures)
MFRS 9	Financial Instruments (IFRS 9 as issued by IASB in November 2009)
MFRS 9	Financial Instruments (IFRS 9 as issued by IASB in October 2010)
MFRS 119	Employee Benefits (Amendments relating to Defined Benefit Plans: Employee Contributions)

Annual improvements to MFRSs 2010 - 2012 cycle (issued in February 2014)
Annual improvements to MFRSs 2011 - 2013 cycle (issued in February 2014)

The Group plans to apply the abovementioned MFRSs in the annual financial statements when they become effective and that the adoption of these Standards will have no material impact on the financial statements of the Group in the period of initial application.

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

Foreign currency	31 Mar 2014 RM	31 Dec 2013 RM	31 Mar 2013 RM
1 US Dollar (USD)	3.27	3.28	3.09
1 Singapore Dollar (SGD)	2.59	2.59	2.50
100 Hong Kong Dollars (HKD)	42.10	42.24	39.85
100 Chinese Renminbi (RMB)	52.52	54.11	49.81

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

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

In these interim financial statements, critical estimates and judgments were made on the following:-

(i) to the classification and carrying amount of trade receivables of Sungai Harmoni Sdn Bhd ("SHSB") and Taliworks (Langkawi) Sdn Bhd ("TLSB").

(a) SHSB - 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 9th 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. The 9th installment due on 31 December 2014 has been included as short term trade receivables whilst the 10th installment due on 31 December 2015 has been included as long term trade receivables.

(b) SHSB - Invoiced Amounts

As at the end of the financial period, the invoiced amounts due and owing by SPLASH amounted to RM277.6 million. During the financial period, the Federal Government and the Selangor State Government executed the Memorandum of Understanding which could lead to the resolution in the restructuring of the water sector in Selangor. Arising from this turn of event, the timing of repayment of these receivables might be impacted. However, in the absence of further developments, the Group has estimated that approximately RM88.8 million of the receivables from SPLASH will be paid in the next twelve months, and as such has been classified as current. The remaining outstanding balance is assumed to be paid progressively between 2015 and 2017 and accordingly, have been classified as long term trade receivables.

Arising from the above estimation, a net impact of RM5.197 million was made in the current quarter, comprising:-

(i) an additional provision for discounting on a deferred payment consideration of RM11.982 million which was set-off against revenue; and

(ii) a reversal of discounting of receivables amounting to RM6.785 million recognised as Other Income.

(c) *TLSB – Amount due from the Kedah State Government*

The invoiced amounts due and owing from the Kedah State Government amounted to RM10.995 million and the State Government has offered to settle RM9.647 million over 4 installments, commencing from May 2014 to November 2014. Thus, this amount has been classified as being current whilst the remaining outstanding balance has been reclassified as long term receivables.

The above critical accounting judgments and estimates will be re-assessed as and when there are further developments in the restructuring of the water sector in Selangor, as the case maybe, or where actual payments are received and these 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 customer and the key bases and assumptions used by the Directors in estimating the recoverable amounts of the intangible assets.

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 for the significant transactions listed in Note B4, 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 33,000 ESOS options at RM1.31 per share and 3,984,000 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.

A10 – Changes in Contingent Liabilities or Contingent Assets

There were no material changes to the status of litigations requiring re-assessment of present obligations in relation to these litigations since the last audited date of the statement of financial position.

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.

	Water treatment, supply and distribution		Waste management		Construction		Others		Total	
3 months ended 31 Mar	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue										
Total revenue	54,840	39,744	13,323	11,554	19,425*	23,370	16,869^	10,167	104,457	84,835
Inter-segment revenue	-	-	(153)	(139)	-	(3,024)	(16,719)	(10,167)	(16,872)	(13,330)
External revenue	54,840	39,744	13,170	11,415	19,425	20,346	150	-	87,585	71,505
Reconciliation:										
Difference in accounting policy (see note below)	(11,982)	(6,868)	-	-	-	-	-	-	(11,982)	(6,868)
Revenue as per statement of comprehensive income	42,858	32,876	13,170	11,415	19,425	20,346	150	-	**75,603**	**64,637**

* *Including RM Nil (Q1FY13: RM2,297,000) construction revenue recognised pursuant to IC Int 12 - Service Concession Arrangements from the construction of a public service infrastructure by a subsidiary.*

^ *Including dividend income of RM 15,810,000 (Q1FY13: RM9,300,000) received from the subsidiaries.*

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

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

3 months ended 31 Mar	Water treatment, supply and distribution 2014 RM'000	Water treatment, supply and distribution 2013 RM'000	Waste management 2014 RM'000	Waste management 2013 RM'000	Construction 2014 RM'000	Construction 2013 RM'000	Toll highway 2014 RM'000	Toll highway 2013 RM'000	Others 2014 RM'000	Others 2013 RM'000	Total 2014 RM'000	Total 2013 RM'000
Earnings before finance costs, depreciation and amortisation and income tax expense	17,564	12,341	5,323	7,376	637	920	2,176	1,654	12,844	8,919	38,544	31,210
Depreciation and amortisation	(138)	(121)	(4,460)	(4,300)	(106)	(61)	-	-	(842)	(56)	(5,546)	(4,538)
	17,426	12,220	863	3,076	531	859	2,176	1,654	12,002	8,863	32,998	26,672
Finance costs	-	-	(5,288)	(5,262)	(6)	(5)	-	-	(389)	(438)	(5,683)	(5,705)
Inter-segment results	510	510	322	237	-	-	-	-	(15,983)	(12,164)	(15,151)	(11,417)
Segment results	17,936	12,730	(4,103)	(1,949)	525	854	2,176	1,654	(4,370)	(3,739)	12,164	9,550
Share of results of associate											234	181
Profit before tax											12,398	9,731
Income tax expense											(4,967)	(3,468)
Profit for the financial period as per statement of comprehensive income											**7,431**	**6,263**

As at 31 March	Water treatment, supply and distribution 2014 RM'000	Water treatment, supply and distribution 2013 RM'000	Waste management 2014 RM'000	Waste management 2013 RM'000	Construction 2014 RM'000	Construction 2013 RM'000	Toll highway 2014 RM'000	Toll highway 2013 RM'000	Others 2014 RM'000	Others 2013 RM'000	Total 2014 RM'000	Total 2013 RM'000
Segment assets	362,295	327,344	506,109	477,157	33,163	46,183	124,430	113,755	37,597	18,474	1,063,594	982,913
Segment liabilities	(52,917)	(40,897)	(303,976)	(287,012)	(23,461)	(38,227)	-	-	(70,245)	(33,942)	(450,599)	(400,078)
Net segment assets/(liabilities)	**309,378**	**286,447**	**202,133**	**190,145**	**9,702**	**7,956**	**124,430**	**113,755**	**(32,648)**	**(15,468)**	**612,995**	**582,835**

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

3 months ended 31 March	Revenue 2014 RM'000	Revenue 2013 RM'000	Total assets 2014 RM'000	Total assets 2013 RM'000
Malaysia	62,433^	50,925	556,860	505,004
China / Hong Kong SAR	13,170	13,712	506,503	477,687
Singapore	-	-	231	222
	75,603	**64,637**	**1,063,594**	**982,913**

^ *including provision for discounting on the deferred payment consideration of RM11,982,000 (Q1FY13: RM6,868,000)*

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 2014 RM'000	3 Months Ended 31 Dec 2013 RM'000 (restated)	3 Months Ended 31 Mar 2013 RM'000
Water treatment, supply and distribution	54,840	45,944	39,744
Construction *(note 1)*	19,425	25,498	20,346
Waste management	13,170	11,410	11,415
Others	150	439	-
	87,585	83,291	71,505
Less: Provision for discounting on a deferred payment consideration	(11,982)	(3,729)	(6,868)
	75,603	**79,562**	**64,637**

Note 1

Including RM Nil (Q4FY13:RM163,000 (reversal of revenue recognised); Q1FY13: RM2,297,000) construction revenue recognised pursuant to IC Int 12 - Service Concession Arrangements from the construction of a public service infrastructure by a subsidiary.

(b) Profit Before Tax

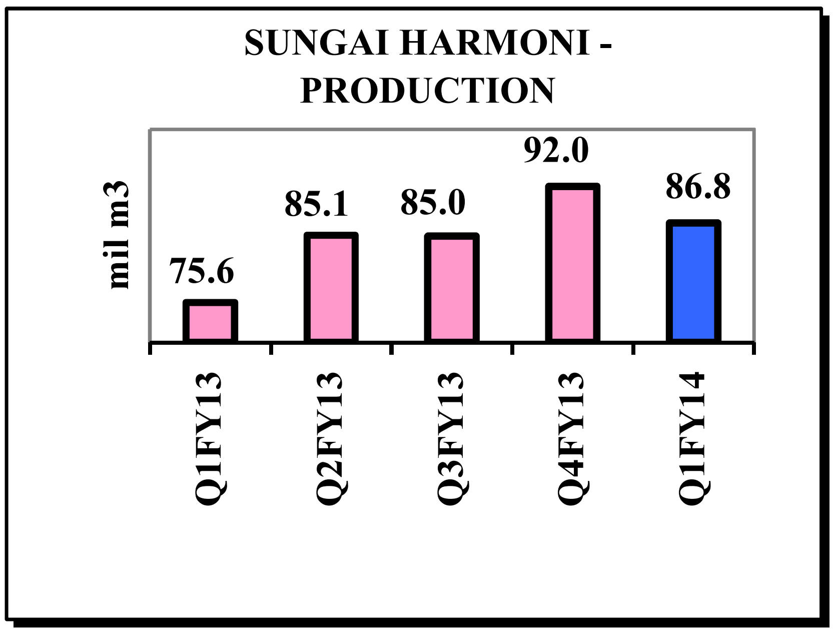
	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 31 Dec 2013 RM'000 (restated)	3 Months Ended 31 Mar 2013 RM'000
Water treatment, supply and distribution	17,936	16,998	12,730
Construction *(note 1)*	531	4,173	859
Waste management	1,185	(9,564)	3,313
Investment holding and others	(3,981)	(2,192)	(3,301)
Operating profit	**15,671**	**9,415**	**13,601**
Finance cost	(5,683)	(6,010)	(5,705)
Share of profit of joint venture	2,176	3,904	1,654
Share of results of associate	234	(1,202)	181
Profit before tax	**12,398**	**6,107**	**9,731**

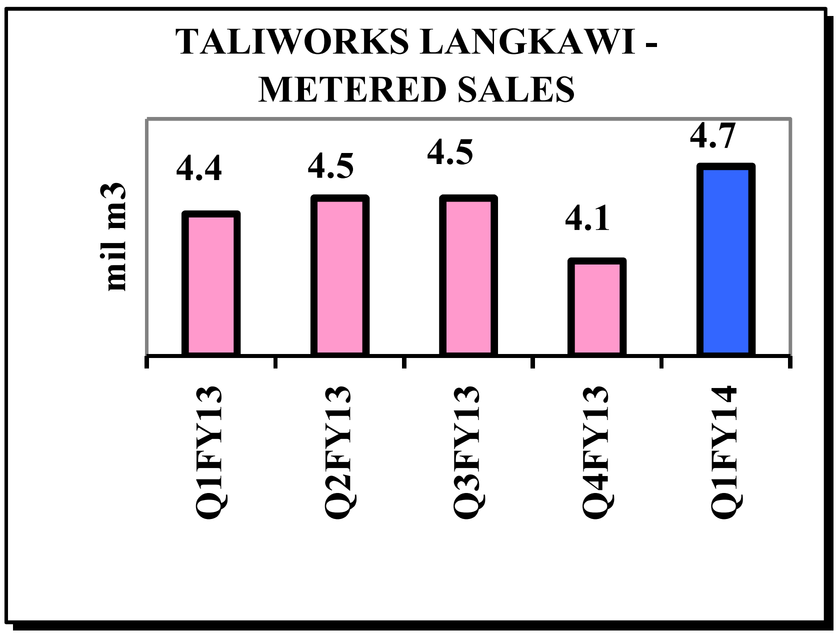
Note 1

Including RM Nil (Q4FY13: RM14,000 (reversal of recognised profit); Q1FY13: RM209,000) construction profit recognised pursuant to IC Int 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 recorded a significant jump in revenue from RM71.5 million to RM87.6 million in the current quarter primarily due to higher contribution from the water treatment, supply and distribution business. However, after taking into account the impact from the provision for discounting on a deferred payment from a customer, the Group revenue stood at RM75.6 million as compared to RM64.6 million achieved a year ago.

At the operating level, the water treatment, supply and distribution business saw a hefty increase in revenue from RM39.7 million to RM54.8 million attributable to the following:-

(a) the increase in the Bulk Sales Rate ("BSR") from RM0.35/m^3 to RM0.42/m^3 for SHSB and from RM1.92/m^3 to RM2.21/m^3 for TLSB effective from 1 January 2014 ("BSR Increase") ; and

(b) the increase in production from the Sungai Selangor Water Treatment Works Phase I ("SSP1") where SSPI registered a huge jump in production by 14.8% (i.e. from 75.6 million m^3 (or 869 MLD) to 86.8 million m^3 (or 965 MLD)) boosted by the completion of 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") and from the Langkawi operations which saw a commendable increase in metered sales of 7.5% i.e. from 4.40 million m^3 to 4.73 million m^3.

Despite the higher contribution from the on-going Mengkuang Dam Expansion Project, revenue in the construction segment registered a slight decline of RM0.9 million to RM19.4 million from RM20.3 million. This was attributable to the cessation of recognition of revenue from the construction of the Linhe Integrated Industrial Park Zone A Wastewater and Recycled Water Treatment Plant in Yinchuan under a build-operate-transfer basis ("LINHE Project") as well as the absence of revenue from the SSP1 Pipeline Project which was completed last year.

As for the waste management segment, the revenue was comparatively higher by RM1.8 million at RM13.17 million on account of tariff revisions ("Tariff Revision") in both the operations in Yinchuan and Tianjin although all the waste management operations in China recorded a drop in production levels with the four municipal wastewater treatment plants with recycled facilities in Yinchuan ("Yinchuan TOT Project") registering a 5% drop in the quantity of wastewater effluent treated to 27.70 million m^3 (or 308 MLD).

B1 – Analysis of Performance (continued)

Profit

The Group's profit before taxation ("PBT") recorded an increase to RM12.4 million in the current quarter compared to RM9.7 million achieved a year ago, primarily attributable to the higher contribution from water treatment, supply and distribution business as a result of increased production levels/metered sales and the BSR Increase.

In the water treatment, supply and distribution business, profit recorded an increase of RM5.2 million as compared to the corresponding quarter. However, after stripping out the effects of the discounting, profit contribution from this segment was at RM23.0 million as compared to RM15.5 million in the corresponding quarter. Nevertheless, the segment also recorded higher operating costs especially electrical costs due to revision in electricity tariff ("Electricity Tariff Increase") with effective from 1 January 2014, as well as higher maintenance and rehabilitation expenses incurred in both SSPI and Langkawi operations.

In line with the lower revenue recorded from the construction business, the profit from this segment has declined marginally in the current quarter.

In the waste management business, although the revenue was higher as compared to previous year, current quarter's PBT was lower by RM2.1 million mainly due to the recognition of a reversal of litigation claims in the corresponding quarter which resulted in higher PBT in that quarter.

As for the joint venture, the Group's share of profits was marginally higher although the Average Daily Traffic ("ADT") recorded a decline of 2.6% with ADT standing at 134,122 vehicles per day. This was attributable to higher foreign exchange gain and lower tax provision recorded in the current quarter in the joint venture.

Analysis of Q-o-Q Results

Revenue

Compared to the previous quarter, the Group registered an increase in revenue of RM4.3 million to RM87.6 million from RM83.3 million (before taking into account the impact from provision for discounting), mainly attributable to higher contribution from water treatment, supply and distribution business. However, after taking into account the impact from the provision for discounting on a deferred payment from a customer, the Group revenue stood at RM75.6 million, a decline from RM79.6 million achieved in the previous quarter.

Whilst SSPI recorded a decrease in production from 92.5 million m^3 (or 1,005 MLD) to 86.8 million m^3 (or 965 MLD) due to water rationing instituted in Selangor, the water treatment, supply and distribution business managed to register an increase in revenue by RM8.9 million, to RM54.8 million from RM45.9 million on account of higher metered sales of 16% recorded in the Langkawi operations and arising from the BSR Increase.

The construction segment reported lower revenue of RM19.4 million as compared to RM25.5 million in the previous quarter on account of absence of revenue from the SSP1 Pipeline Project and lower percentage of completion recognised from the Mengkuang Dam Expansion Project in the current quarter.

In the waste management business, revenue was higher by RM1.8 million. Although the quantity of water effluent treated from the Yinchuan TOT Project was lower by 8%, the higher revenue from this business segment was mainly as a result of the resumption of operations of the Guanghan San Xin Dui wastewater treatment plant in the current quarter, which temporarily ceased operation in early July 2013 following damages to the incoming wastewater pipeline caused by torrential flood, coupled with the Tariff Revision.

B1 – Analysis of Performance (continued)

Profit

For the current quarter, the Group's PBT jumped to RM12.4 million from RM6.1 million. This was primarily due to the impairment of about RM10.1 million recognised in the LINHE Project which has contributed to a significant loss in the previous quarter as well as the effects from the provision for discounting on a deferred payment consideration.

Stripping the effects from the discounting, the profit contribution from water treatment, supply and distribution business increased by RM6.3 million, at RM23.0 million compared to RM16.7 million in the previous quarter. This was due to lower operating costs especially unit electrical and chemical costs in Langkawi operations, as well as the effect of the hike in the BSR. As for SSP1 operations, unit operating cost was significantly higher compared to previous quarter due to the Electricity Tariff Increase. However the negative impact to PBT was mitigated by the higher BSR in the current quarter.

The drop in PBT for construction segment was mainly due to the upward revision of construction margin in the SSP1 Pipeline Project which translated into higher profit recognised in previous quarter.

In the waste management sector, the segment recorded an operating profit of RM1.2 million as compared to an operating loss of RM9.6 million in the previous quarter as the Group recognised the impairment in the LINHE Project in the previous quarter.

In the toll highway division, the share of results in a joint venture dipped due to the lower ADT at 134,122 vehicles per day by a marginal drop by 1.4%, as well as lower deferred tax provision and capital gains realised from the disposal of an investment in the previous quarter.

The Group's share of results of associate was higher due to loss on disposal of the latter's investment in its associate company, 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 SSP1, which is the main contributor to the Group, will be able to run its production above its design capacity of 950 MLD, subject to availability of treatable raw water, given that the plant has been upgraded in the previous year to optimise its treatment capacity.

However, the current uncertainties in the outcome of the restructuring of the Selangor water sector may weigh down on the Group's performance given the fair value adjustments are required on deferred consideration from continued delays in receiving payments if the matter is not resolved. Nevertheless, there have been encouraging announcements by both the Federal Government and State Government of Selangor in finally resolving the issue, the impact of which could be positive to the Group's results if the long outstanding amount owing to the Group can be addressed and payments expedited.

In the construction segment, the on-going Mengkuang Dam Expansion Project in Pulau Pinang is expected to continue to contribute positively to the Group given that the project has advanced into its third year of construction. Although there has been a slight delay in the schedule, the Group is optimistic that it will be able to catch up with the scheduled progress by the second quarter of the year.

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 the next two years. Our first undertaking is to upgrade and expand one of the water treatment plants for an estimated amount of RMB162 million (RM85.082 million) before proceeding to the following phases. The upgrade and expansion is expected to commence in the second quarter of the year and is anticipated to take a year to complete. In the meantime, pending the increase in tariff rates arising from the upgrade and expansion programme, the project will continue to negatively impact the Group's performance 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 2014
	RM'000
Revenue	
Provision for discounting on receivables *(Note A1(c)(i)(b)(i))*	(11,982)
Other operating income:	
Interest income on fixed deposits with licensed banks	148
Dividend from available-for-sale financial assets	123
Rental income	3
Unwinding of discount on receivables	132
Reversal of discounting of receivables *(Note A1(c)(i)(b)(ii))*	6,785
Unrealised foreign exchange gain	288
Realised gain on available-for-sale financial assets	2
Waiver of value-added tax	1,270
Cost of operations, administrative and other expenses:	
Depreciation and amortisation	(5,546)
Reversal of interest income imputed on retention sum	(158)
Unrealised foreign exchange losses	(737)

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 2014
	RM'000
Malaysian income tax:-	
- Current year tax	8,240
Deferred tax expense	(3,273)
	4,967

The tax expense is in respect of the estimated Malaysian income tax charges and deferred tax for the financial 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 profits of joint venture and associate and losses incurred by certain subsidiaries which were not available to be set-off against taxable profits in other companies within the Group.

B6 – Status of Corporate Proposals Announced But Not Completed

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

B7 – Group Borrowings and Debt Securities

Included in the borrowings of the Group are:-

	←---------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	234	-	234	705	-	705
Government loan	-	3,151	3,151	-	-	-
Term loans (a)	26,646	-	26,646	309,588	-	309,588
Revolving credit (b)	-	-	-	-	-	-
Overdraft	-	4,001	4,001	-	-	-
	26,880	7,152	34,032	310,293	-	310,293

(a) Term loans consist of:-

(i) RMB526.5 million secured by a subsidiary to finance the acquisition of the Yinchuan TOT Project.

(ii) RM50 million secured by the Company, out of which RM20 million was to re-finance the Company's revolving credit facility and the remaining RM30 million to finance the working capital requirements of the Group. This term loan is repayable over 12 equal quarterly instalments of RM4.167 million over a period of three years commencing June 2014 to 2017 and is secured by a deed of assignment over dividends payable by a joint venture and two wholly-owned subsidiaries.

(b) Secured by the Company and repayable over four equal instalments of RM10 million a year over a duration of four years, commencing from February 2013 to 2016. The facility was secured by a deed of assignment over dividends payable by a joint venture and a fixed deposit placement of RM0.25 million. During the financial period, the Company wholly re-financed the revolving credit facility.

B8 – Changes in Material Litigations

As at 10 May 2014 (being a date not earlier than 7 days from the date of this Report), the Group is not aware of any significant changes in the material litigations since the date of the last annual statement of financial position date.

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 2014	Preceding Quarter and Year-to-date 3 Months Ended 31 Mar 2013
Net profit attributable to owners of the Company (RM'000)	3,753	5,637
Weighted average number of shares in issue ('000)	436,492	436,492
Basic EPS (sen)	0.86	1.29

B9 – Earnings Per Share ("EPS") (continued)

(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, Cash and Bank Balances

At the end of the reporting period, foreign currencies equivalent to approximately RM35.5 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 2014 RM'000	Preceding Quarter Ended 31 Dec 2013 RM'000
Total retained earnings of the Company and its subsidiaries:		(Restated)
- Realised profits	287,410	285,748
- Unrealised profits	9,312	9,632
	296,722	295,380
Total share of retained earnings from associate:		
- Realised profits	3,285	3,050
Total share of retained earnings from joint venture:		
- Realised profits	81,119	79,043
- Unrealised losses	(12,228)	(12,336)
Total Group's retained earnings	368,898	365,137

B13 – Reclassification of Comparatives

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

	As previously stated/ Audited RM'000	Reclassification RM'000	Restated RM'000
3 months ended 31 March 2013			
Cost of operations	50,553	743	51,296
Administrative and other expenses	8,487	(743)	7,744

The above is in relation to certain expenses being reclassified from Administrative and other expenses to Cost of operations.

(b) Certain comparatives may differ from the unaudited consolidated results announced for the previous quarter as they have been adjusted to take into account the audited results for the year.

B14 – Authorisation for Release

This Interim Financial Report has been seen and approved by the Board for public release.

By Order of the Board
Chua Siew Chuan (MAICSA 0777689)
Yeow Sze Min (MAICSA 7065735)
Company Secretaries
16 May 2014

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