

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2012
(UNAUDITED)

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>Note</u>	<u>30 JUNE 2012</u> <u>RM'000</u>	<u>31 DEC 2011</u> <u>RM'000</u> <u>(Audited)</u>
ASSETS			
Property, plant and equipment		9,846	8,041
Investment properties		409	414
Intangible assets		443,084	453,515
Jointly controlled entities		86,544	79,310
Associate		5,839	5,589
Goodwill on consolidation		2,504	2,504
Deferred tax assets		8,538	10,135
Long term receivables	A1(c)(i)	171,154	160,282
Deposits, bank and cash balances		16,883	16,344
Total non-current assets		744,801	736,134
Inventories		1,564	1,118
Trade and other receivables	A1(c)(i)	135,083	103,748
Tax recoverable		320	214
Available-for-sale financial assets		14,726	13,983
Deposits, bank and cash balances	B11	18,405	25,554
Total current assets		170,098	144,617
TOTAL ASSETS		914,899	880,751
EQUITY AND LIABILITIES			
Share capital		218,246	218,246
Reserves		309,670	287,109
Total equity attributable to owners of the Company		527,916	505,355
Non-controlling interest		6,912	7,338
Total equity		534,828	512,693
LIABILITIES			
Borrowings	B7	219,161	54,644
Total non-current liabilities		219,161	54,644
Borrowings	B7	93,888	135,527
Trade and other payables		64,024	175,222
Taxation		2,998	2,665
Total current liabilities		160,910	313,414
TOTAL LIABILITIES		380,071	368,058
TOTAL EQUITY AND LIABILITIES		914,899	880,751
Net assets per share attributable to owners of the Company (RM)		1.2094	1.1578

**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

	Note	<u>3 MONTHS ENDED</u> <u>30 JUNE</u>		<u>6 MONTHS ENDED</u> <u>30 JUNE</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
		RM'000	RM'000	RM'000	RM'000
Revenue	B1	76,450	52,944	124,088	93,554
Cost of operations		(41,340)	(27,193)	(76,669)	(49,075)
Gross profit		35,110	25,751	47,419	44,479
Other operating income		1,142	1,530	2,540	2,133
Administrative and other expenses		(7,280)	(8,742)	(17,281)	(17,437)
Operating profit		28,972	18,539	32,678	29,175
Finance cost		(5,438)	-	(9,357)	(541)
Share of results of jointly controlled entities	A1(c)(ii)	2,537	2,998	7,220	4,532
Share of results of associate		106	330	250	602
Profit before tax	B5	26,177	21,867	30,791	33,768
Tax expense	B4	(5,299)	(4,292)	(9,416)	(7,831)
Profit for the financial period		20,878	17,575	21,375	25,937
Attributable to:					
Owners of the Company		21,080	17,215	21,727	25,711
Non-controlling interest		(202)	360	(352)	226
		20,878	17,575	21,375	25,937
Earnings per share attributable to owners of the Company (sen)	B9				
- basic and diluted		<u>4.83</u>	<u>3.94</u>	<u>4.98</u>	<u>5.89</u>
		<u>4.83</u>	<u>3.94</u>	<u>4.98</u>	<u>5.89</u>

The Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying significant events and transactions attached to these interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

	<u>3 MONTHS ENDED</u>		<u>6 MONTHS ENDED</u>	
	<u>30 JUNE</u>		<u>30 JUNE</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Profit for the financial period	20,878	17,575	21,375	25,937
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Fair value changes in available-for-sale financial assets	10	(456)	70	(11)
Foreign currency translation differences for foreign operations	5,324	186	676	(190)
Share of other comprehensive income of jointly controlled entities and associate	(8)	19	14	19
Other comprehensive income / (expense) for the financial period, net of tax	5,326	(251)	760	(182)
Total comprehensive income for the financial period	26,204	17,324	22,135	25,755
Attributable to:				
Owners of the Company	26,062	16,856	22,561	25,555
Non-controlling interest	142	468	(426)	200
Total comprehensive income for the financial period	26,204	17,324	22,135	25,755

The Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to owners of the Company

	<u>Share capital</u>	<u>Share premium</u>	<u>Share Option reserve</u>	<u>Currency Translation reserve</u>	<u>Available-for-sale reserve</u>	<u>Merger deficit</u>	<u>Retained earnings</u>	<u>Total</u>	<u>Non-Controlling interest</u>	<u>Total Equity</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	218,246	74,176	2,248	4,634	14	(71,500)	277,537	505,355	7,338	512,693
Comprehensive income:										
Profit for the financial period	-	-	-	-	-	-	21,727	21,727	(352)	21,375
Other comprehensive income/ (expense):										
Available-for-sale financial assets	-	-	-	-	70	-	-	70	-	70
Share of other comprehensive income of jointly controlled entity	-	-	-	-	-	-	14	14	-	14
Currency translation differences	-	-	-	750	-	-	-	750	(74)	676
Total comprehensive income/ (expense) for the financial period	-	-	-	750	70	-	21,741	22,561	(426)	22,135
Transactions with owners:										
Transfer to/ (from) reserve upon ESOS options lapsed	-	-	(15)	-	-	-	15	-	-	-
Total transactions with owners	-	-	(15)	-	-	-	15	-	-	-
At 31 June 2012	218,246	74,176	2,233	5,384	84	(71,500)	299,293	527,916	6,912	534,828

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to owners of the Company

	<u>Share capital</u> RM'000	<u>Share premium</u> RM'000	<u>Share Option reserve</u> RM'000	<u>Currency Translation reserve</u> RM'000	<u>Available-for-sale reserve</u> RM'000	<u>Merger deficit</u> RM'000	<u>Retained earnings</u> RM'000	<u>Total</u> RM'000	<u>Non-Controlling interest</u> RM'000	<u>Total Equity</u> RM'000
At 1 January 2011,	218,246	74,176	2,284	1,014	160	(71,500)	254,138	478,518	5,890	484,408
-As previously stated										
Effects of adopting IC Interpretation 12	-	-	-	-	-	-	(4,286)	(4,286)	-	(4,286)
At 1 January 2011, as restated	218,246	74,176	2,284	1,014	160	(71,500)	249,852	474,232	5,890	480,122
Comprehensive income:										
Profit for the financial period	-	-	-	-	-	-	25,730	25,730	200	25,930
Other comprehensive income/ (expense):										
Available-for-sale financial assets	-	-	-	-	(11)	-	-	(11)	-	(11)
Currency translation differences	-	-	-	(164)	-	-	-	(164)	-	(164)
Total comprehensive income/ (expense) for the financial period	-	-	-	(164)	(11)	-	25,730	25,555	200	25,755
Transactions with owners:										
Transfers to/(from) reserves upon ESOS options lapsed	-	-	(36)	-	-	-	36	-	-	-
Total transactions with owners	-	-	(36)	-	-	-	36	-	-	-
At 30 June 2011	218,246	74,176	2,248	850	149	(71,500)	275,618	499,787	6,090	505,877

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2011 and the accompanying significant events and transactions attached to these interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>6 MONTHS</u> <u>ENDED</u> <u>30 JUNE</u> <u>2012</u> <u>RM'000</u>	<u>6 MONTHS</u> <u>ENDED</u> <u>30 JUNE</u> <u>2011</u> <u>RM'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	30,791	33,768
Adjustments for:		
Non-cash items	(88)	(1,249)
Interest income	(205)	(323)
Finance cost	9,357	536
Operating profit before working capital changes	39,855	32,732
Changes in working capital:		
Net change in current assets	(40,532)	(44,569)
Net change in current liabilities	9,154	(2,827)
Net cash inflow/ (outflow) from operations	8,477	(14,664)
Interest paid	(680)	(541)
Interest received	221	339
Tax paid	(7,599)	(7,912)
Net cash inflow/ (outflow) from operating activities	419	(22,778)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant & equipment:		
- Proceeds from disposal	36	79
- Purchase	(2,603)	(3,111)
Intangible assets:		
- Purchase	(125,824)	-
Available-for-sale financial assets:		
- Purchase	(12,500)	(103,000)
- Proceeds from redemption	11,988	106,866
- Cash frozen pursuant to an on-going litigation	-	(1,634)
(Increase)/ decrease in deposits pledged as security for banking facilities	(550)	267
Net cash outflow from investing activities	(129,453)	(533)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	(130,143)	(9)
Drawdown of borrowings	252,081	-
Net cash inflow/ (outflow) from financing activities	121,938	(9)
Effect of foreign exchange rate changes	(53)	(233)
Net change in cash and cash equivalents during the financial period	(7,149)	(23,553)
Cash and cash equivalents at beginning of financial period	25,554	137,284
Cash and cash equivalents at end of financial period	18,405	113,731

	<u>6 MONTHS</u> <u>ENDED</u> <u>30 JUNE</u> <u>2012</u> <u>RM'000</u>	<u>6 MONTHS</u> <u>ENDED</u> <u>30 JUNE</u> <u>2011</u> <u>RM'000</u>
Cash and cash equivalents comprised the following amounts in the statements of financial position:		
Deposits with financial institutions	22,132	19,049
Bank and cash balances	13,156	111,958
Total deposits, bank and cash balances	35,288	131,007
Less: Deposits pledged as security for banking facilities	(15,132)	(15,642)
Less: Cash restricted	(1,751)	(1,634)
	18,405	113,731

The Condensed Consolidated Statements of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2011 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 and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

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 2011. 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 convergence of the existing FRS framework with the IFRS-compliant framework, Malaysian Financial Reporting Standards (MFRSs) issued by Malaysian Accounting Standards Board (MASB) with effect from 1 January 2012.

The interim financial statements are the first set of financial statements prepared in accordance with MFRSs. All the former FRSs are identical to the MFRSs, except for MFRS 141 “Agriculture” and IC Interpretation 15 “Agreements for the Construction of Real Estate” which both the MFRSs are not applicable to the Group.

Other than as disclosed in these interim financial statements, the application of the above MFRSs and 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:

<u>Foreign currency</u>	<u>30 June</u> <u>2012</u> <u>RM</u>	<u>31 Mar</u> <u>2012</u> <u>RM</u>	<u>31 Dec</u> <u>2011</u> <u>RM</u>	<u>30 June</u> <u>2011</u> <u>RM</u>
1 US Dollar (USD)	3.18	3.03	3.17	3.02
1 Singapore Dollar (SGD)	2.50	2.45	2.44	2.46
100 Hong Kong Dollars (HKD)	40.97	39.00	40.79	38.78
100 Chinese Renminbi (RMB)	50.02	47.96	50.34	46.70

- (c) Critical Accounting Estimates and Judgments

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 reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

A1 – Basis of Preparation (continued)

(c) Critical Accounting Estimates and Judgments (continued)

In these interim financial statements:-

- (i) critical estimates and judgments were made to the carrying amount and provision for impairment of trade receivables of the following subsidiaries:-

- (a) Sungai Harmoni Sdn Bhd (“SHSB”) - Arising from the Debt Settlement Agreement (“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 7th to 10th installments will be paid as scheduled in accordance with the terms of the DSA and as such, no further discounting for impairment will be required beyond what has been previously been impaired and the accumulated discounting for impairment will continue to unwind during the remaining tenure of the DSA.

As at the end of the reporting period, the amount due and owing from SPLASH amounted to RM198.42 million. During and subsequent to the reporting period, the Group has noted the improved repayment and therefore based on the latest repayment pattern, has assessed that approximately RM66.0 million is expected to be recovered within the next twelve months whereas the balance is expected to be received progressively between 2013 and 2016 and accordingly, have been classified as non-current. Arising from the re-assessment, a reversal of fair value adjustment on deferred consideration due to delays in receiving payments from customers of RM13.44 million was made.

- (b) Taliworks (Langkawi) Sdn Bhd (“TLNB”) – The amount due as at the end of the reporting period is approximately RM66.41 million. Out of this amount, approximately RM30.03 million is deemed current based on the assessment of past collection trends. The balance is assumed to be non-current and payable progressively from 2013 to 2019.

The above critical estimates and judgments will be required to be re-assessed as and when actual payments are received for a credible historical repayment pattern to be established and this may have a significant impact to future reported revenue and profits.

- (ii) as disclosed in Note 45 to the audited financial statements of the Company for the financial year ended 31 December 2011, Grand Saga Sdn Bhd (“Grand Saga”), a wholly owned subsidiary of Cerah Sama Sdn Bhd (“Cerah Sama”), a jointly controlled entity, had amongst others, agreed to a compensation package from the Government of Malaysia pursuant to a toll restructuring exercise. In the previous Interim Report for Q1FY2012, the board of Cerah Sama had indicated that it intends to seek professional advice on the accounting impact of the said compensation in respect of the financial year. The board of Cerah Sama has subsequently informed that it will adopt the accounting policy of recognising the said compensation on the basis of a straight line method commencing from 2 March 2012 to 18 September 2030.

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 has been included by the auditors to draw attention on the uncertainty relating to the future outcome of the regulatory impasse on a specific trade receivable of the Group to make timely payments.

A3 – Comments about the Seasonal or Cyclicity 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, save and except for, the following ESOS options have lapsed:-

	Number of ESOS options exercised		Number of ESOS options lapsed		Balance remaining unexercised as at the reporting period
	Current quarter	YTD	Current quarter	YTD	
ESOS options at RM1.31 per share	-	-	-	8,000	43,000
ESOS options at RM1.90 per share	-	-	6,000	29,000	4,208,000

The above ESOS options will expire on 29 September 2015.

A7 – Dividends Paid

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

Subsequent to the financial quarter, shareholders of the Company had, in the Annual General Meeting held on 28 June 2012, approved a payment of a final gross dividend of 0.5 sen per share on 436,491,580 ordinary shares of RM0.50 each, less income tax at 25% in respect of the financial year ended 31 December 2011. The dividends were paid on 31 July 2012.

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

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

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

- (a) Bank facilities to facilitate issuance of performance guarantees and tender bonds for the Group's bidding for overseas projects, 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 subsidiaries (3,020)

Increase in bank guarantees issued to third parties for services rendered and as performance bonds 722

Increase in bank guarantees issued to third parties for services rendered and as performance bonds on behalf of a joint venture company 7,096

- (b) Litigations

There were no material changes to the status of litigations requiring re-assessment of present obligations in relation to these litigations except in the case of Hua Sheng Construction Group Co Ltd against Ningxia Eco Wastewater Treatment Co Ltd, a subsidiary of the Company, where the Company had on 13 July 2012 announced the arbitral award wherein the late payment penalty, legal fees and arbitration costs incurred in relation to the litigation have been accrued 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.

	<u>Water treatment and distribution</u>		<u>Waste Management</u>		<u>Construction</u>		<u>Toll highway</u>		<u>Others</u>		<u>Total</u>	
	<u>RM'000</u>		<u>RM'000</u>		<u>RM'000</u>		<u>RM'000</u>		<u>RM'000</u>		<u>RM'000</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>3 months ended 30 June</u>												
Total revenue	39,964	37,842	12,714	3,431	10,941	16,718	-	-	6,330	546	69,949	58,537
Inter-segment revenue	-	-	(136)	(127)	(520)	(3,653)	-	-	(6,285)	(510)	(6,941)	(4,290)
External revenue	39,964	37,842	12,578	3,304	10,421	13,065	-	-	45	36	63,008	54,247
Add: Fair value adjustment on deferred consideration	13,442	(1,304)	-	1	-	-	-	-	-	-	13,442	(1,303)
Revenue as per Statements of Income	53,406	36,538	12,578	3,305	10,421	13,065	-	-	45	36	76,450	52,944
EBITDA	30,006	13,406	4,753	1,150	245	6,857	2,537	2,998	7,272	(2,583)	44,813	21,828
Depreciation & amortisation	(156)	(167)	(4,138)	(737)	(89)	(76)	-	-	(55)	(39)	(4,438)	(1,019)
Segment results	29,850	13,239	615	413	156	6,781	2,537	2,998	7,217	(2,622)	40,375	20,809
Finance cost	-	(1)	(5,001)	(47)	3	-	-	-	(668)	-	(5,666)	(48)
Inter-segment results	510	-	463	41	-	-	-	-	(9,611)	735	(8,638)	776
	30,360	13,238	(3,923)	407	159	6,781	2,537	2,998	(3,062)	(1,887)	26,071	21,537
Share of results of associate											106	330
Profit before tax											26,177	21,867
Tax expense											(5,299)	(4,292)
Profit for the period as per Statements of Income											20,878	17,575

	<u>Revenue by geographical area</u>		<u>Non-current assets by geographical area</u>	
	<u>30 June 2012</u> <u>RM'000</u>	<u>30 June 2011</u> <u>RM'000</u>	<u>30 June 2012</u> <u>RM'000</u>	<u>30 June 2011</u> <u>RM'000</u>
Malaysian operations	^61,408	#45,708	292,648	261,243
Non-Malaysian operations (primarily in China)	15,042	7,236	452,153	38,378
	76,450	52,944	744,801	299,621

^ inclusive of effects of fair value adjustment on the deferred consideration of RM13.442 million (Q2FY11: RM1.303 million)

**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*

	<u>3 Months</u> <u>Ended</u> <u>30 June 2012</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>31 Mar 2012</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>30 June 2011</u> <u>RM'000</u>
Water treatment and distribution			
- <i>Invoiced amount</i>	39,964	39,535	37,842
- <i>Add/ (less): Fair value adjustment on deferred consideration due to delays in receiving payments from customers</i>	13,442	(7,665)	(1,303)
- <i>Revenue as recognised in the financial statements</i>	53,406	31,870	36,539
Construction (<i>note 1</i>)	10,421	4,207	13,065
Waste management	12,578	11,561	3,304
Others	45	-	36
	76,450	47,638	52,944

Note 1

Total construction revenue recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of an infrastructure by a subsidiary is RM2,464,000 (Q1FY12: RM63,000; Q2FY11: RM3,895,000).

(b) *Profit Before Tax*

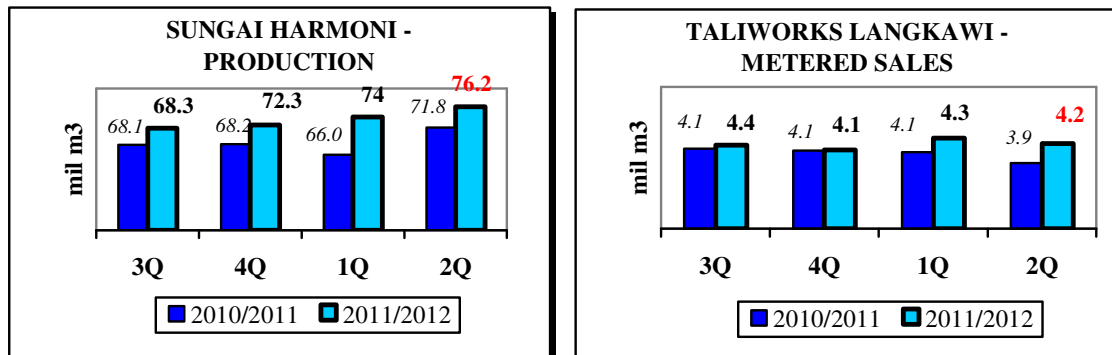
	<u>3 Months</u> <u>Ended</u> <u>30 June 2012</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>31 Mar 2012</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>30 June 2011</u> <u>RM'000</u>
Water treatment and distribution	30,360	7,481	13,238
Construction (<i>note 1</i>)	156	(447)	6,781
Waste management	1,024	(1,136)	407
Investment holding and others	(2,568)	(2,192)	(1,887)
Operating profit	28,972	3,706	18,539
Finance cost	(5,438)	(3,919)	-
Share of results of a jointly controlled entities	2,537	4,683	2,998
Share of results of associate	106	144	330
Profit before tax	26,177	4,614	21,867

Note 1

Includes RM224,000 (Q1FY12: RM6,000; Q2FY11: RM354,000) 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 is reporting higher revenue of RM76.5 million compared to RM52.9 million primarily due to the fair value adjustment of RM13.4 million arising from improved collections in one of the subsidiaries and from the commencement of operations by a subsidiary, Taliworks (Yinchuan) Wastewater Co Ltd, following the formal take-over of four municipal waste water treatment plants with recycled water facilities under a take-over-operate-transfer basis (“Yinchuan TOT Project”) during the financial year.

In the water treatment and distribution business which accounts for the bulk of revenue, sales of treated water recorded an increase from RM37.8 million to RM40.0 million driven by a substantial jump of about 9.7% in the production from Sungai Selangor Water Treatment Works Phase I (“SSP1”) (i.e. from 71.76 million m3 (or 772 MLD) to 76.21 million m3 (or 847 MLD) and in the Langkawi operations which saw a commendable increase of 6.5% to 4.19 million m3, up from 3.93 million m3 due to higher demand of treated water.

However, despite the higher metered sales, revenue in the Langkawi operations actually recorded a decline as a result of the reduction in the Bulk Sales Rate (“BSR”) to RM1.92/m3 against the contractual rate of RM2.11/m3 for the financial years 2011 to 2013 pursuant to the tariff re-negotiations under the provisions of the Water Services Industry Act 2006 (Act 655) which was agreed to in Q4FY11.

Whilst the Group has commenced the construction of the latest projects that were secured in the second half of 2011, namely the RM339 million Mengkuang Dam Expansion Project in Pulau Pinang, contribution from construction activities saw a dip Y-o-Y as in the corresponding quarter, the Group recorded a one-off RM6.0 million under a claim settlement in relation to one of the projects (“Claim Settlement”) as well as contribution from two other projects that were completed in the previous year.

In the waste management segment, revenue for the quarter was mainly boosted by the commencement of operations in the Yinchuan TOT Project.

Profit

The Group recorded a profit before taxation (“PBT”) of RM26.2 million as compared to RM21.9 million in corresponding quarter. This was primarily attributable to the fair value adjustment on deferred payments from trade receivables in the current quarter. Stripping out the effects from the fair value adjustments, profit in the water treatment and distribution segment was higher on account of increased production levels, specifically from SSP1.

B1 – Analysis of Performance (continued)

In the construction segment, the Claim Settlement contributed to the higher profits seen in the corresponding period. On the other hand, the waste management sector recorded a jump in operating profit compared to the corresponding quarter, principally from the Yinchuan TOT Project. However, the waste management sector in its entirety is in the negative territory stemming from amortisation charges and financing costs from the Yinchuan TOT Project and relevant expenses incurred in the Linhe BOT Project (as defined in section B2 below) as this project has yet to commence operations.

Arising from the closure of one-bound traffic on the Kajang-Cheras highway on 2 March 2012 as previously announced to the stock exchange (“Closure of One-Bound Traffic”), the Average Daily Traffic (“ADT”) decreased substantially by 44% to 130,413 vehicles per day compared to 233,145 vehicles per day. Nevertheless, in spite of the impact from the said closure, share of results in the jointly controlled entity only showed a marginal drop due to higher receipt of government compensation, reduced tax charges and lower amortisation of the Expressway Development Expenditure arising from the extension of the concession period.

Analysis of Q-o-Q Results

Revenue

The Group recorded revenue of RM76.4 million, up from RM47.6 million in the previous quarter largely due to the effects of fair value adjustment. Excluding the effects of this adjustment, revenue from the water treatment and distribution business was only slightly up from RM39.5 million to RM40.0 million. Sales of treated water in SSP1 recorded an increase of 3.0% i.e. from 74.02 million m³ (or 813 MLD) to 76.21 million m³ (or 847 MLD) whilst the Langkawi operations registered a reduction of 2.1% in metered sales from 4.28 million m³ to 4.19 million m³.

The construction segment contributed close to RM10.4 million from the existing projects of the Group as construction activities continue to pick up during the quarter. Likewise for the waste management business, generally all of the waste management plants in the China operations recorded increases in production levels with the Yinchuan TOT Project registering a 8.4% increase in effluent tonnage from 25.70 million m³ (282.4 MLD) to 27.87 million m³ (306.2 MLD), 2% above its design capacity.

Profit

For the current quarter, the Group’s PBT was up significantly to RM26.2 million compared to the corresponding quarter’s RM4.6 million. This was mainly attributable to the effects of the fair value adjustment as noted in the water treatment and distribution segment. However, stripping out the effects from these adjustments, profit in the water treatment and distribution segment was higher at RM16.9 million compared to RM15.1 million in the previous quarter on account of higher revenue and lower cost of production.

In the construction and waste management sectors, higher profits were mostly contributed by the increase in revenue generated.

Whilst the operations from the various business segments showed better results, the Group profit was negatively impacted by higher financing costs due to increase in bank borrowings and lower share of results in jointly controlled entity as a result of the Closure of One-Bound Traffic where the Average Daily Traffic (“ADT”) dropped by about 17% to 163,656 vehicles per day from 196,899 vehicles per day in the previous quarter.

B2 – Current Year Prospects

The operating profit of the Group is largely driven by the performance of the water treatment and distribution business as this segment contributes the bulk of the revenue and profits. The Group is optimistic that the overall water demand, especially the production from Sungai Selangor Water Treatment Works Phase 1 (“SSP1”), which is the main contributor to the Group, will remain intact given the uptrend in water demand. However, the current deadlock in 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 delays in receiving payments if the matter is not resolved in a timely manner.

B2 – Current Year Prospects (continued)

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 be 18-20% completed by the end of 2012 barring any unforeseen circumstances. The Group intends and will endeavour to procure other construction projects to build up its existing order book.

In the waste management division, 2012 saw revenue being recognised from the formal take-over of the Yinchuan TOT Project. However, based on tariff rate for the Yinchuan TOT project coupled with the significant associated financing and amortisation cost, the project is expected to negatively impact the Group's performance for the year. The Linhe wastewater project which is currently under construction under a build-operate-transfer basis ("Linhe BOT Project") is expected to be operational in the second half of 2012.

B3 – Profit Forecasts or Profit Guarantees

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

B4 – Taxation

	<u>Current Quarter</u> <u>3 Months</u> <u>Ended</u> <u>30 June 2012</u> RM'000	<u>Year-to-date</u> <u>6 Months</u> <u>Ended</u> <u>30 June 2012</u> RM'000
Malaysian income tax:-		
- Current year tax	3,794	7,737
Foreign income tax	82	89
Deferred tax expense	1,423	1,590
	<u>5,299</u>	<u>9,416</u>

The tax expense is in respect of the estimated Malaysian and foreign 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.

B5 – Profit before tax

Included in the profit before tax are the following items:

	<u>Current Quarter</u> <u>3 Months</u> <u>Ended</u> <u>30 June 2012</u> RM'000	<u>Year-to-date</u> <u>6 Months</u> <u>Ended</u> <u>30 June 2012</u> RM'000
<i>Other operating income:</i>		
Interest income	89	205
Dividend from available-for-sale financial assets/ investments	106	181
Rental income	6	10
Unwinding of discount on receivables	622	1,244
Unrealised foreign exchange (loss)/gain	(73)	480
<i>Cost of operations, administrative and other expenses:</i>		
Foreign exchange gain/(losses)	269	(215)
Realised loss on available for sale financial assets/ investments	(6)	(20)
Depreciation and amortisation	<u>(4,438)</u>	<u>(8,776)</u>

B5 – Profit before tax (continued)

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

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.

In respect of the proposed issuance of RM395 million of serial bonds by Destinasi Teguh Sdn Bhd, a special purpose vehicle that was incorporated by the Company to act as a funding conduit to raise funds for the Group, the approval from the Securities Commission to implement the proposal had lapsed on 24 May 2012.

B7 – Group Borrowings and Debt Securities

Included in the borrowings of the Group are:-

	←-----Short Term-----→			←-----Long Term-----→		
	<u>Secured</u> RM'000	<u>Unsecured</u> RM'000	<u>Total</u> RM'000	<u>Secured</u> RM'000	<u>Unsecured</u> RM'000	<u>Total</u> RM'000
Hire purchase	269	-	269	836	-	836
Government support loan	-	3,001	3,001	-	-	-
Loan from Non-controlling interest	-	#1,608	1,608	-	-	-
Bank borrowings *	89,010	-	89,010	218,325	-	218,325
	<u>89,279</u>	<u>4,609</u>	<u>93,888</u>	<u>219,161</u>	<u>-</u>	<u>219,161</u>

* *in respect of loans secured by the Company and a subsidiary to finance the acquisition of the Yinchuan TOT Project.*

Out of the total bank borrowings, RMB260 million previously secured as short-term borrowings, have been refinanced in the current quarter as long-term borrowings. The balance RMB150 million secured as short term borrowings is expected to be refinanced as long term borrowings within the next twelve months.

The bank borrowings secured by the Company is repayable over four instalments of RM10 million a year over a duration of four years 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.

whilst the loan is unsecured, an amount of RM1,751,000 in bank balances had been frozen pursuant to an on-going litigation to secure the repayment of the loan.

B8 – Changes in Material Litigations

As at 21 August 2012 (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, other than as previously announced.

B9 – Earnings Per Share (“EPS”)

(a) Basic earnings per share

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

	<u>Current Quarter</u>		<u>Year-to-date</u>	
	<u>3 Months</u>	<u>3 Months</u>	<u>6 Months</u>	<u>6 Months</u>
	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>
	<u>30 June 2012</u>	<u>30 June 2011</u>	<u>30 June 2012</u>	<u>30 June 2011</u>
Net profit attributable to owners of the Company (RM'000)	21,080	17,215	21,727	25,711
Weighted average number of shares in issue ('000)	436,492	436,492	436,492	436,492
Basic EPS (sen)	<u>4.83</u>	<u>3.94</u>	<u>4.98</u>	<u>5.89</u>

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the net profit attributable to owners of the Company by the adjusted weighted average number of ordinary shares in issue during the financial period. The weighted average number of ordinary shares in issue is 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 in Note B9(a) 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

As at the reporting date, approximately RM7.2 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 Bursa Malaysia Securities Berhad Listing Requirements

The following analysis of realised and unrealised retained profits/ (accumulated losses) at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants whilst the disclosure at the Group level is based on the prescribed format by the Bursa Malaysia Securities Berhad.

B12 –Supplementary Information Disclosed Pursuant To Bursa Malaysia Securities Berhad Listing Requirements (continued)

	<u>Current Quarter Ended 30 June 2012</u>	<u>Preceding Quarter Ended 31 Mar 2012</u>
	<u>RM'000</u>	<u>RM'000</u>
Total retained earnings Taliworks and its subsidiaries:		
- Realised profits	256,166	236,496
- Unrealised profits	8,803	10,036
	<u>264,969</u>	<u>246,532</u>
Total share of retained earnings from associate:		
- Realised profits	3,318	3,212
Total share of retained earnings from jointly controlled entities:		
- Realised profits	35,058	32,219
- Unrealised losses	(4,052)	(3,742)
Total Group's retained earnings as per consolidated accounts	<u>299,293</u>	<u>278,221</u>

B13 – Authorisation for Release

This Interim Financial Report for the current quarter and financial period ended 30 June 2012 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
 28 August 2012

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>