

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 2013
(UNAUDITED)

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CONDENSED STATEMENTS OF FINANCIAL POSITION

		30 Sept 2013	31 Dec 2012
	<u>Note</u>	<u>RM'000</u>	<u>RM'000</u> <u>(Audited)</u>
ASSETS			
Property, plant and equipment		10,670	9,716
Investment properties		397	404
Intangible assets		459,662	432,636
Jointly controlled entities		117,992	112,075
Investment in associate		6,774	6,340
Goodwill on consolidation		2,504	2,504
Deferred tax assets		10,657	8,512
Long term trade receivables	A1(c)	160,665	136,237
Long term other receivables		524	418
Deposits, cash and bank balances		17,959	16,903
Total Non-Current Assets		787,804	725,745
Inventories		1,199	1,223
Amount due from contract customers		68	67
Trade receivables	A1(c)	189,484	204,315
Other receivables, deposits and prepayments		6,088	5,547
Amount due from jointly controlled entity		150	-
Tax recoverable		806	1,050
Available-for-sale financial assets		13,853	20,946
Deposits, cash and bank balances	B11	24,204	21,966
Total Current Assets		235,852	255,114
TOTAL ASSETS		1,023,656	980,859
EQUITY AND LIABILITIES			
Share capital		218,246	218,246
Reserves		377,439	348,193
Total Equity Attributable to Owners of the Company		595,685	566,439
Non-controlling interests		8,433	6,769
Total Equity		604,118	573,208
LIABILITIES			
Long-term borrowings	B7	300,886	215,417
Total Non-Current Liabilities		300,886	215,417
Amount due to contract customers		10,648	10,029
Trade payables		54,256	51,137
Other payables and accruals		18,275	26,922
Tax liabilities		5,557	5,270
Short-term borrowings	B7	29,916	98,876
Total Current Liabilities		118,652	192,234
TOTAL LIABILITIES		419,538	407,651
TOTAL EQUITY AND LIABILITIES		1,023,656	980,859
Net assets per share attributable to owners of the Company (RM)		1.3647	1.2977

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

		3 Months Ended		9 Months Ended	
		30 Sept		30 Sept	
		2013	2012	2013	2012
		RM'000	RM'000	RM'000	RM'000
			(restated)		(restated)
Revenue	B1,B13	58,913	87,140	202,250	191,939
Cost of operations		(44,485)	(65,525)	(156,413)	(142,194)
Gross profit		14,428	21,615	45,837	49,745
Other operating income	B13	5,195	5,321	19,839	27,150
Administrative and other expenses		(6,690)	(7,289)	(22,154)	(24,570)
Operating profit		12,933	19,647	43,522	52,325
Finance costs		(5,837)	(5,568)	(17,042)	(14,925)
Share of results of jointly controlled entities		2,234	1,590	6,104	8,810
Share of results of associate		185	125	433	375
Profit before tax	B4	9,515	15,794	33,017	46,585
Income tax expense	B5	(4,745)	(4,601)	(12,262)	(14,017)
Profit for the financial period		4,770	11,193	20,755	32,568
Other comprehensive income/(loss):					
Net fair value gain on available-for-sale financial assets		(47)	33	87	103
Foreign currency translation differences for foreign operations		5,954	(5,553)	14,919	(4,877)
Share of other comprehensive income of jointly controlled entity		30	10	60	24
Total other comprehensive income/(loss) for the financial period		5,937	(5,510)	15,066	(4,750)
Total comprehensive income for the financial period		10,707	5,683	35,821	27,818

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

		<u>3 Months Ended</u>		<u>9 Months Ended</u>	
		<u>30 Sept</u>		<u>30 Sept</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
			<u>(restated)</u>		<u>(restated)</u>
Profit for the financial period attributable to:					
Owners of the Company		4,997	10,836	20,235	32,563
Non-controlling interests		(227)	357	520	5
		4,770	11,193	20,755	32,568
Total comprehensive income for the financial period attributable to:					
Owners of the Company		10,474	5,671	34,157	28,232
Non-controlling interests		233	12	1,664	(414)
		10,707	5,683	35,821	27,818
Basic and diluted earnings per share attributable to owners of the Company (sen):					
	B9	<u>1.14</u>	<u>2.48</u>	<u>4.64</u>	<u>7.46</u>

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.



CONDENSED 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 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	-	-	-	-	87	-	-	87	-	87
Share of other comprehensive income of jointly controlled entity	-	-	-	-	-	-	60	60	-	60
Foreign currency translation differences	-	-	-	13,775	-	-	-	13,775	1,144	14,919
Total other comprehensive income for the financial period	-	-	-	13,775	87	-	60	13,922	1,144	15,066
Profit for the financial period	-	-	-	-	-	-	20,235	20,235	520	20,755
Total comprehensive income for the financial period	-	-	-	13,775	87	-	20,295	34,157	1,664	35,821
Transactions with Owners of the Company:										
Dividends paid	-	-	-	-	-	-	(4,911)	(4,911)	-	(4,911)
At 30 September 2013	218,246	74,176	2,205	15,233	64	(71,500)	357,261	595,685	8,433	604,118



CONDENSED STATEMENTS OF CHANGES IN EQUITY

Attributable to owners of the Company

	<u>Note</u>	<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 2012		218,246	74,176	2,248	4,634	14	(71,500)	277,537	505,355	7,338	512,693
-As previously stated		-	-	-	-	(31)	-	22,938	22,907	-	22,907
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		-	-	-	-	103	-	-	103	-	103
Share of other comprehensive income of jointly controlled entity		-	-	-	-	-	-	24	24	-	24
Foreign currency translation differences		-	-	-	(4,458)	-	-	-	(4,458)	(419)	(4,877)
Total other comprehensive (loss)/income for the financial period		-	-	-	(4,458)	103	-	24	(4,331)	(419)	(4,750)
Profit for the financial period		-	-	-	-	-	-	32,563	32,563	5	32,568
Total comprehensive (loss)/income for the financial period		-	-	-	(4,458)	103	-	32,587	28,232	(414)	27,818
Transaction with owners of the Company:											
Transfer to/(from) reserve upon ESOS options lapsed		-	-	(15)	-	-	-	15	-	-	-
Dividends paid		-	-	-	-	-	-	(1,637)	(1,637)	-	(1,637)
Total transaction with owners of the Company		-	-	(15)	-	-	-	(1,622)	(1,637)	-	(1,637)
At 30 September 2012		218,246	74,176	2,233	176	86	(71,500)	331,440	554,857	6,924	561,781

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.

CONDENSED STATEMENTS OF CASH FLOWS

	<u>9 Months</u> <u>Ended</u> <u>30 Sept</u> <u>2013</u> <u>RM'000</u>	<u>9 Months</u> <u>Ended</u> <u>30 Sept</u> <u>2012</u> <u>RM'000</u>
CASH FLOWS FROM/(USED) IN OPERATING ACTIVITIES		
Profit before tax	33,017	46,585
Adjustments for:		
Non-cash items	7,908	2,831
Interest income	(449)	(369)
Finance costs	17,042	14,925
Operating Profit Before Working Capital Changes	57,518	63,972
Net increase in long term receivables, trade and other receivables, amount due from contract customer and inventories	(14,110)	(74,424)
Net increase in trade and other payables and amount due to contract customers	2,803	23,596
Cash Generated From Operations	46,211	13,144
Income tax paid	(14,750)	(11,007)
Income tax refunded	887	-
Net Cash From Operating Activities	32,348	2,137
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Interest received	488	413
Property, plant and equipment:		
- proceeds from disposal	35	41
- purchase	(2,267)	(3,110)
Purchase of intangible assets	(2,035)	(125,930)
Available-for-sale financial assets:		
- purchase	(18,900)	(12,500)
- proceeds from redemption	26,488	13,989
Placement of deposits pledged as security	(1,056)	(1,041)
Net Cash From/(Used In) Investing Activities	2,753	(128,138)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		
Interest paid	(22,350)	(1,246)
Dividends paid	(4,911)	(1,637)
Repayment of borrowings	(93,603)	(126,700)
Drawdown of borrowings	89,460	252,871
Repayment of finance lease payables	(157)	-
Net Cash (Used In)/ From Financing Activities	(31,561)	123,288
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,540	(2,713)
Effects of foreign exchange rate changes	699	(301)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL PERIOD	17,015	25,554
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	21,254	22,540

CONDENSED STATEMENTS OF CASH FLOWS

	<u>9 Months</u> <u>Ended</u> <u>30 Sept</u> <u>2013</u> <u>RM'000</u>	<u>9 Months</u> <u>Ended</u> <u>30 Sept</u> <u>2012</u> <u>RM'000</u>
Cash and cash equivalents comprised the following amounts in the statements of financial position:		
Deposits with financial institutions	30,959	29,363
Bank and cash balances	11,204	10,503
Total deposits, bank and cash balances	42,163	39,866
Less: Deposits pledged as security for banking facilities	(17,959)	(15,623)
Less: Bank and cash balances restricted	-	(1,703)
Less: Bank Overdraft	(2,950)	-
	21,254	22,540

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:

<u>Foreign currency</u>	<u>30 Sep</u> <u>2013</u> <u>RM</u>	<u>30 Jun</u> <u>2013</u> <u>RM</u>	<u>31 Dec</u> <u>2012</u> <u>RM</u>	<u>30 Sep</u> <u>2012</u> <u>RM</u>
1 US Dollar (USD)	3.26	3.16	3.06	3.06
1 Singapore Dollar (SGD)	2.60	2.50	2.50	2.50
100 Hong Kong Dollars (HKD)	42.04	40.74	39.45	39.44
100 Chinese Renminbi (RMB)	53.25	51.49	49.08	48.67

A1 – Basis of Preparation (continued)

(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 were made to the carrying amount of trade receivables of Sungai Harmoni Sdn Bhd (“SHSB”) and Taliworks (Langkawi) Sdn Bhd (“TLSB”), wholly owned subsidiaries of the Company.

(i) 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 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) SHSB - Invoiced Amounts

As at the end of the reporting period, the invoiced amounts due and owing from SPLASH amounted to RM247.8 million. The Group estimates that approximately RM82.0 million will be received in the next twelve months, and as such has been classified as current. The balance outstanding of RM165.8 million is expected to be received progressively between 2014 and 2017 and accordingly, have been classified as long term trade receivables.

Arising from the above estimation, a net impact of RM2.591 million was made in the current quarter (YTD -RM8.741 million), comprising:-

- (a) an additional provision for discounting on a deferred payment consideration of RM5.446 million (YTD - RM19.135 million) which was set-off against revenue; and
- (b) a reversal of discounting of receivables amounting to RM2.855 million (YTD - RM10.394 million) recognised as Other Income.

(iii) TLSB – Amount due from the Kedah State Government

The Kedah State Government has offered to settle the outstanding amount via various scheduled payments, commencing from May 2013 and ending in November 2013. Out of the total amount of RM20.995 million outstanding as at the beginning of the financial period, three payments totaling RM8.217 million has been received as of 13 November 2013 (being a date not earlier than 7 days from the date of this Report).

Although there has been a delay in the scheduled payments, nevertheless, based on previous repayments, there is reasonable ground to assume that the remaining scheduled payments will continue to be paid over the next twelve months and accordingly, the amount owing by the Kedah State Government has been classified as being current.

The above critical accounting judgments and 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 SPLASH 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.

A3 – Comments about the Seasonal or Cyclical 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 Note A1(c)(ii) and 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 43,000 ESOS options exercisable at RM1.31 per share and 4,161,000 ESOS options exercisable at RM1.90 per share. The ESOS options, if not exercised, will expire on 29 September 2015.

A7 – Dividends Paid

During the current financial quarter and financial period, the following dividends were paid:-

<u>In respect of the financial year ended 31 December 2012</u>	RM’000
<ul style="list-style-type: none"> Final gross dividend of 1.5 sen per share on 436,491,580 ordinary shares of RM0.50 each, less income tax at 25%, paid on 31 July 2013 	4,911

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	<u>(1,000)</u>
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Decrease in bank guarantees issued to third parties for services rendered and as performance bonds on behalf of subsidiaries	<u>(363)</u>
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Increase in bank guarantees issued to third parties for services rendered and as performance bonds	<u>25</u>
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- (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 that financial period.



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 30 September	<u>Water treatment, supply and distribution</u>		<u>Waste management</u>		<u>Construction</u>		<u>Others</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>RM'000</u>	<u>RM'000</u> (restated)	<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>RM'000</u>	<u>RM'000</u> (restated)
Revenue										
Total revenue	43,559	39,604	12,065	13,174	8,623*	38,611	12,077^	8,005	76,324	99,394
Inter-segment revenue	-	-	(146)	(138)	-	(719)	(11,819)	(7,955)	(11,965)	(8,812)
External revenue	43,559	39,604	11,919	13,036	8,623	37,892	258	50	64,359	90,582
Reconciliation: Difference in accounting policy (see note below)	(5,446)	(3,442)	-	-	-	-	-	-	(5,446)	(3,442)
Revenue as per statement of comprehensive income	38,113	36,162	11,919	13,036	8,623	37,892	258	50	58,913	87,140

* Including RM163,000 (Q3FY12: RM3,890,000) construction revenue recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of a public service infrastructure.

^ Including dividend income of RM10,680,000 (Q3FY12: RM7,050,000) 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.

	<u>Water treatment, supply and distribution</u>		<u>Waste management</u>		<u>Construction</u>		<u>Toll highway</u>		<u>Others</u>		<u>Total</u>	
<u>3 months ended 30 September</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</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>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Earnings before finance costs, depreciation and amortisation and income tax expense	14,458	16,667	5,959	5,524	(1,841)	3,235	2,235	1,590	15,867	2,904	36,678	29,920
Depreciation and amortisation	(107)	(144)	(4,000)	(4,192)	(61)	(84)	-	-	(54)	(55)	(4,222)	(4,475)
Finance costs	14,351	16,523	1,959	1,332	(1,902)	3,151	2,235	1,590	15,813	2,849	32,456	25,445
Inter-segment results	-	-	(5,443)	(5,116)	(27)	(8)	-	-	(597)	(663)	(6,067)	(5,787)
	510	510	317	336	-	-	-	-	(17,886)	(4,835)	(17,059)	(3,989)
Segment results	14,861	17,033	(3,167)	(3,448)	(1,929)	3,143	2,235	1,590	(2,670)	(2,649)	9,330	15,669
Share of results of associates											185	125
Profit before tax											9,515	15,794
Income tax expense											(4,745)	(4,601)
Profit for the financial period as per statement of comprehensive income											4,770	11,193

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

	<u>Water treatment, supply and distribution</u>		<u>Waste management</u>		<u>Construction</u>		<u>Toll highway</u>		<u>Others</u>		<u>Total</u>	
<u>As at 30 September</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</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>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Segment assets	342,851	319,756	504,647	472,422	32,520	36,066	117,992	111,051	25,646	25,014	1,023,656	964,309
Segment liabilities	(45,518)	(46,306)	(308,768)	(279,617)	(27,033)	(28,474)	-	-	(38,219)	(48,131)	(419,538)	(402,528)
Net segment assets/(liabilities)	297,333	273,450	195,879	192,805	5,487	7,592	117,992	111,051	(12,573)	(23,117)	604,118	561,781

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

<u>3 months ended 30 September</u>	<u>Revenue</u>		<u>Total assets</u>	
	<u>2013</u> <u>RM'000</u>	<u>2012</u> <u>RM'000</u> (restated)	<u>2013</u> <u>RM'000</u>	<u>2012</u> <u>RM'000</u>
Malaysia	46,830 [^]	70,214	517,806	491,456
China / Hong Kong SAR	12,083	16,926	505,665	472,678
Singapore	-	-	185	175
	58,913	87,140	1,023,656	964,309

[^] inclusive of provision for discounting on the deferred payment consideration of RM5,446,000 (Q3FY12: RM3,442,000)

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

	<u>3 Months</u> <u>Ended</u> <u>30 Sept 2013</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>30 June 2013</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>30 Sept 2012</u> <u>RM'000</u> <u>(restated)</u>
Water treatment, supply and distribution	43,559	43,510	39,604
Construction (<i>note 1</i>)	8,623	29,522	37,892
Waste management	11,919	12,398	13,036
Others	258	91	50
	<u>64,359</u>	<u>85,521</u>	<u>90,582</u>
Less: Provision for discounting on a deferred payment consideration	(5,446)	(6,821)	(3,442)
	<u>58,913</u>	<u>78,700</u>	<u>87,140</u>

Note 1

Including RM163,000 (Q2FY13: RM121,000; Q3FY12: RM3,890,000) construction revenue recognised pursuant to IC Interpretation 12 - Service Concession Arrangements from the construction of a public service infrastructure.

(b) Profit Before Tax

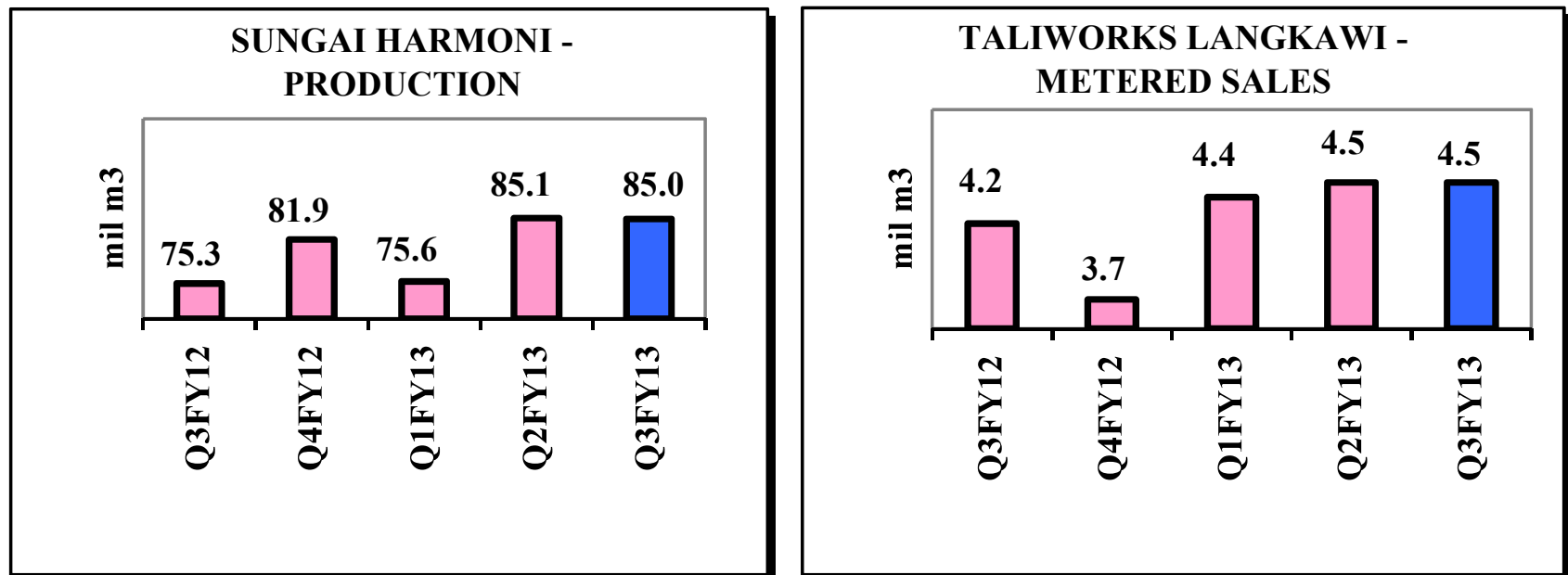
	<u>3 Months</u> <u>Ended</u> <u>30 Sept 2013</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>30 June 2013</u> <u>RM'000</u>	<u>3 Months</u> <u>Ended</u> <u>30 Sept 2012</u> <u>RM'000</u> <u>(restated)</u>
Water treatment, supply and distribution	14,861	15,286	17,033
Construction (<i>note 1</i>)	(1,902)	1,061	3,151
Waste management	2,221	3,131	1,614
Investment holding and others	(2,247)	(2,491)	(2,151)
	<u>12,933</u>	<u>16,987</u>	<u>19,647</u>
Operating profit	12,933	16,987	19,647
Finance cost	(5,837)	(5,500)	(5,568)
Share of results of a jointly controlled entity	2,234	2,216	1,590
Share of results of associate	185	67	125
Profit before tax	<u>9,515</u>	<u>13,770</u>	<u>15,794</u>

Note 1

Includes RM15,000 (Q2FY13: RM11,000; Q3FY12: RM353,000) 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 recorded a significant decline from RM90.6 million to RM64.4 million in the current quarter mainly due to lower contribution from the construction business. However, after taking into account the impact from the provision for discounting, the Group revenue was even lower at RM58.9 million as compared to RM87.1 million a year ago.

In the water treatment, supply and distribution business, the segment registered an increase in revenue from RM39.6 million to RM43.5 million due to the higher production from the Sungai Selangor Water Treatment Works Phase I (“SSP1”) and from the increase in metered sales at the Langkawi operations. SSP1 saw a huge jump in production by 12.8% (i.e. from 75.34 million m3 (or 819 MLD) to 85.02 million m3 (or 924 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”, which was completed in the previous quarter. Langkawi operations also show an increase in metered sales of 5.7% i.e. from 4.22 million m3 to 4.46 million m3 due to sustained demand for treated water.

The construction segment which contributed substantially to the sharp decline in the Group revenue, saw its contribution dropped drastically from RM37.9 million to just over RM8.6 million following a reduction in the scope of work in the on-going Mengkuang Dam Expansion Project after an assessment was made whereby a component of the project was not be required to be undertaken. As a result thereof, revenue (and estimated construction profits) was revised downwards and adjusted in the current reporting period to reflect the lower contribution from this project. A reduction in the amount of variation order previously recognised in one of the projects was also another factor that contributed to the decline in revenue from the construction division (“Project Revisions”).

B1 – Analysis of Performance (continued)

As for the waste management segment, revenue was lower by RM1.1 million mainly due to the temporary cessation of operation in the Guanghan San Xin Dui wastewater treatment plant in early July 2013 following damages to the incoming wastewater pipeline caused by torrential flood. Operations are only expected to resume in the first quarter of 2014.

Production from the four municipal wastewater treatment plants with recycled facilities in Yinchuan (“Yinchuan TOT Project”) undertaken by a subsidiary, Taliworks (Yinchuan) Wastewater Co Ltd was comparatively higher by 2.4% at approximately 30.76 million m³ (or 334 MLD). Despite the higher volume of wastewater processed, contribution to revenue was lower 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. Nevertheless, the appreciation of RMB/MYR over the course of one year somewhat blunted the impact from the slide in revenue.

Profit

The Group’s profit before taxation (“PBT”) recorded a decrease of RM6.3 million to RM9.5 million in the current quarter from RM15.8 million achieved a year ago, primarily attributable to the effect from the Project Revisions as previously described above as well as the impact of discounting effect of trade receivables whereby an additional provision for discounting of about RM2.591 million (*refer to Note A1(c)(ii)*) was made in the current quarter as compared to a reversal of discounting of RM0.424 million made in the corresponding quarter.

Stripping out the effects of the discounting, profit contribution from the water treatment, supply and distribution actually showed an operating profit of RM17.5 million compared to RM16.6 million in the corresponding quarter, which is in line with the higher production and metered sales recorded in SSPI and Langkawi operation respectively. However, higher maintenance and rehabilitation expenses incurred in Langkawi operations during the quarter played a role in reducing the gains from the increase in revenue.

Needless to say, the loss of RM1.9 million recorded in the construction segment in the current quarter was a direct consequence of the Project Revisions. However, it should be noted that the construction projects undertaken remain profitable and no foreseeable losses are anticipated at this juncture.

In the waste management business, although the revenue was lower as compared to previous year, PBT was higher primarily due to the strengthening of RMB/MYR, higher waiver of VAT and reduced operating expenses in the Linhe wastewater treatment plant in the current quarter.

As for the jointly controlled entity, the Group’s share of results was higher attributable to the growth in the Average Daily Traffic (“ADT”) by 4.9% i.e. from 132,638 vehicles per day to 139,168 vehicles per day as well as primarily from the expenses to dismantle the toll booths arising from the closure of one-bound traffic at the Kajang-Cheras highway and certain re-alignment works along the highway incurred in the corresponding quarter.

Analysis of Q-o-Q Results

Revenue

Compared to the previous quarter, the Group revenue declined by RM21.2 million i.e. from RM85.5 million to RM64.3 million (before taking into account the impact from provision for discounting), mainly attributable to lower contribution from construction as a result of the Project Revisions.

Revenue growth in the water treatment, supply and distribution business was flat at approximately RM43.5 million with SSPI and Langkawi operations showing marginal variances in production and metered sales respectively.

B1 – Analysis of Performance (continued)

In the waste management business, revenue was lower by RM0.5 million. Whilst the production from the Yinchuan TOT Project recorded marginal gains, revenue contribution from this segment declined on account of lower production recorded from both the Guanghan and Tianjin operations.

Profit

For the current quarter, the Group registered a lower PBT of RM9.5 million compared to RM13.8 million in the previous quarter attributable to declines in contribution from all business segments with the losses in the construction division contributing to a significant decline.

Stripping the effects from the discounting, the water treatment, supply and distribution business recorded an operating profit of RM17.5 million compared to RM18.4 million despite recording almost similar revenue levels. This was due to higher maintenance and rehabilitation expenses incurred in the Langkawi operations.

Due to the weaker performance in waste management sector, the profit contribution was lower compared to the previous quarter.

In the toll highway division, the share of results in a jointly controlled entity did not vary materially from the previous quarter which was consistent with marginal growth in ADT at only 0.2%.

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 close to its design capacity of 950 MLD given that the plant has recently completed an upgrading programme to optimise its treatment capacity. 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 are required on deferred consideration from continued delays in receiving payments if the matter is not resolved. Nevertheless, there have been recent media reports that the concerned parties are working towards resolving the issue.

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 (revised downward to RM303 million in tandem with the reduced contract scope), is expected to contribute positively to the Group. Although there has been a 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 2014. To ensure that the division remains viable, it is looking into building up its construction order book by continuously tendering for construction projects, namely in the infrastructure sector.

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. The temporary cessation of operation in the Guanghan San Xin Dui wastewater treatment plant until the first quarter of 2014 will further exacerbate the losses from this division. In respect of the Linhe wastewater and recycle water treatment facility being constructed under a Build-Operate-Transfer basis, the Group is currently in negotiations with the authorities to take-over the facility and depending on the outcome of the negotiations, the Group may likely provide for impairment in the coming quarters.

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:

	<u>Current Quarter</u> <u>3 Months</u> <u>Ended</u> <u>30 Sept 2013</u> RM'000	<u>Year-to-date</u> <u>9 Months</u> <u>Ended</u> <u>30 Sept 2013</u> RM'000
<i>Revenue</i>		
Provision for discounting on receivables (<i>Note A1(c)(ii)</i>)	(5,446)	(19,135)
<i>Other operating income:</i>		
Interest income	148	449
Dividend from available-for-sale financial assets	106	319
Rental income	3	8
Unwinding of discount on receivables	244	733
Reversal of discounting of receivables (<i>Note A1(c)(ii)</i>)	2,855	10,394
Unrealised foreign exchange gain	550	1,314
Realised foreign exchange gain	17	100
Realised gain on available-for-sale financial assets	60	88
Reversal of over-accrual of litigation claims	46	2,207
Waiver of value-added tax	1,158	3,792
<i>Cost of operations, administrative and other expenses:</i>		
Depreciation and amortisation	(4,221)	(13,381)
Unrealised foreign exchange losses	(13)	(725)

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

	<u>Current Quarter</u> <u>3 Months</u> <u>Ended</u> <u>30 Sept 2013</u> RM'000	<u>Year-to-date</u> <u>9 Months</u> <u>Ended</u> <u>30 Sept 2013</u> RM'000
Malaysian income tax:-		
- Current year tax	7,694	16,582
- Over-provision of tax in prior years	(2,188)	(2,188)
Foreign income tax	-	3
Deferred tax expense	(761)	(2,135)
	4,745	12,262

The tax expense is in respect of the estimated Malaysian and foreign income tax charges, overprovision of income taxes in prior years, 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 period.

B7 – Group Borrowings and Debt Securities

Included in the borrowings of the Group are:-

	←-----Short Term-----→			←-----Long Term-----→		
	<u>Secured</u> <u>RM'000</u>	<u>Unsecured</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>	<u>Secured</u> <u>RM'000</u>	<u>Unsecured</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Finance lease liabilities	59	-	59	658	-	658
Government loan	-	3,195	3,195	-	-	-
Term loans (a)	13,712	-	13,712	280,228	-	280,228
Revolving credit (b)	10,000	-	10,000	20,000	-	20,000
Overdraft	-	2,950	2,950	-	-	-
	23,771	6,145	29,916	300,886	-	300,886

- (a) Secured by a subsidiary to finance the acquisition of the Yinchuan TOT Project.
- (b) Secured by the Company and is repayable over four equal instalments of RM10 million a year over a duration of four years, commencing from February 2013 to 2016. The facility 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 13 November 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 follows:-

- (a) The litigation as described in Note A10(b), which was disclosed as a Subsequent Event under Note 45(B) in the audited financial statements;
- (b) *Civil suit by Puresino (Guanghan) Water Co. Ltd., a subsidiary of the Company (“the Plaintiff”) against the Defendants: (i) Puresino International Limited (“PIL”) (ii) Beijing Puresino Boda Environmental Engineering Co. Ltd. (“BODA”) (iii) Miao Dongyuan (iv) Wang Shaoyin (v) Fu Shijun (vi) Li Lu*

On 10 January 2013, the Plaintiff received a civil ruling issued by the Deyang City Intermediate People’s Court whereby the Deyang City Intermediate People’s Court dismissed the Plaintiff’s claims and ordered it to bear the case handling fee of RMB66,047 and verification fee of RMB15,000. On 24 January 2013, the Plaintiff filed an appeal to the Sichuan Provincial Higher People’s Court whereby the appeal was subsequently dismissed via a civil ruling received on 1 July 2013.

- (c) *Arbitration between Hua Sheng Construction Group Co. Ltd (“the Applicant”) and Ningxia Eco Wastewater Treatment Co. Ltd (“the Respondent”), a subsidiary of the Company*

Further to the disclosure made in Note 41(b)(ii) to the audited financial statements, the Applicant had applied for a further arbitration from the China International Economic and Trade Arbitration Commission, Shanghai sub-commission (“CIETAC”) and the Respondent had on 15 October 2013 received a new arbitration notice. As this arbitration is at the preliminary stage, the Group is not in a position to determine the financial impact of the arbitration.

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.

	<u>Current Quarter</u>		<u>Year-to-date</u>	
	<u>3 Months</u>	<u>3 Months</u>	<u>9 Months</u>	<u>9 Months</u>
	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>
	<u>30 Sept 2013</u>	<u>30 Sept 2012</u>	<u>30 Sept 2013</u>	<u>30 Sept 2012</u>
Net profit attributable to owners of the Company (RM'000)	4,997	10,836	20,235	32,563
Weighted average number of shares in issue ('000)	436,492	436,492	436,492	436,492
Basic EPS (sen)	<u>1.14</u>	<u>2.48</u>	<u>4.64</u>	<u>7.46</u>

(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 RM7.1 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:

	<u>Current Quarter Ended 30 Sept 2013 RM'000</u>	<u>Preceding Quarter Ended 30 June 2013 RM'000</u>
Total retained earnings of Taliworks and its subsidiaries:		
- Realised profits	279,060	282,698
- Unrealised profits	11,247	9,943
	290,307	292,641
Total share of retained earnings from associate:		
- Realised profits	4,253	4,067
Total share of retained earnings from jointly controlled entities:		
- Realised profits	77,811	75,013
- Unrealised losses	(15,110)	(14,576)
	357,261	357,145
Total Group's retained earnings		

B13 – Reclassification of Comparatives

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

	<u>As previously stated RM'000</u>	<u>Reclassification RM'000</u>	<u>Restated RM'000</u>
<u>3 months ended 30 September 2012</u>			
Revenue	91,006	(3,866)	87,140
Other operating income	1,455	3,866	5,321
<u>9 months ended 30 September 2012</u>			
Revenue	215,094	(23,155)	191,939
Other operating income	3,995	23,155	27,150

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

B14 - Changes in Accounting Policy in a Jointly Controlled Entity

During the previous financial year, a 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:

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

B15 – Authorisation for Release

This Interim Financial Report for the current quarter and financial period ended 30 September 2013 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
 20 November 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>