TALIWORKS CORPORATION
LGB Group

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2014 (UNAUDITED)

CONTENTS

This Report is authorised for public release on 5 August 2014

CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	30 Jun 2014 RM'000	31 Dec 2013 RM'000 (Audited)
ASSETS			
Property, plant and equipment		20,334	22,319
Investment properties		389	394
Intangible assets		428,507	456,160
Investment in joint venture		121,419	122,245
Investment in associate		5,894	5,171
Goodwill on consolidation		2,504	2,504
Deferred tax assets		8,476	8,730
Long term trade receivables	A1(c)(i)	180,830	157,502
Long term other receivables		517	548
Deposits, cash and bank balances		16,922	20,572
Total Non-Current Assets		**785,792**	**796,145**
Inventories		1,166	1,109
Amount due from contract customers		4,223	1,164
Trade receivables	A1(c)(i)	182,019	192,841
Other receivables, deposits and prepayments		8,523	5,796
Amount due from joint venture		150	-
Tax recoverable		298	4,909
Available-for-sale financial assets		13,551	25,460
Deposits, cash and bank balances	B11	68,079	23,477
Total Current Assets		**278,009**	**254,756**
TOTAL ASSETS		**1,063,801**	**1,050,901**
EQUITY AND LIABILITIES			
Share capital		218,246	218,246
Reserves		392,479	387,311
Total Equity Attributable to Owners of the Company		**610,725**	**605,557**
Non-controlling interests		7,945	4,990
Total Equity		**618,670**	**610,547**
LIABILITIES			
Long-term borrowings	B7	302,057	305,172
Deferred tax liabilities		7	2,246
Long term trade payables		4,503	3,547
Total Non-Current Liabilities		**306,567**	**310,965**
Amount due to contract customers		270	336
Trade payables		63,766	60,315
Other payables and accruals		31,337	34,346
Tax liabilities		6,730	3,240
Short-term borrowings	B7	36,461	31,152
Total Current Liabilities		**138,564**	**129,389**
TOTAL LIABILITIES		**445,131**	**440,354**
TOTAL EQUITY AND LIABILITIES		**1,063,801**	**1,050,901**
Net assets per share attributable to owners of the Company (RM)		1.3992	1.3873

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Note	3 Months Ended 30 Jun 2014 RM'000	3 Months Ended 30 Jun 2013 RM'000 (restated)	6 Months Ended 30 Jun 2014 RM'000	6 Months Ended 30 Jun 2013 RM'000 (restated)
Revenue	B1	**81,800**	**78,700**	**157,403**	**143,337**
Cost of operations	B13	(58,542)	(62,248)	(117,470)	(113,544)
Gross profit		**23,258**	**16,452**	**39,933**	**29,793**
Other operating income		5,423	6,640	14,280	14,644
Administrative and other expenses	B13	(8,275)	(6,105)	(18,136)	(13,848)
Operating profit		**20,406**	**16,987**	**36,077**	**30,589**
Finance costs		(5,576)	(5,500)	(11,259)	(11,205)
Share of profit of joint venture		2,480	2,216	4,656	3,870
Share of results of associate		489	67	723	248
Profit before tax	B4	**17,799**	**13,770**	**30,197**	**23,502**
Income tax expense	B5	(5,140)	(4,049)	(10,107)	(7,517)
Profit for the financial period		**12,659**	**9,721**	**20,090**	**15,985**
Other comprehensive income/(loss):					
Net fair value gain on available-for-sale financial assets		20	46	58	134
Foreign currency translation differences for foreign operations		(2,599)	5,716	(7,628)	8,965
Share of other comprehensive income of joint venture		10	4	18	30
Total other comprehensive income/(loss) for the financial period		**(2,569)**	**5,766**	**(7,552)**	**9,129**
Total comprehensive income for the financial period		**10,090**	**15,487**	**12,538**	**25,114**

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 30 Jun 2014 RM'000	3 Months Ended 30 Jun 2013 RM'000 (restated)	6 Months Ended 30 Jun 2014 RM'000	6 Months Ended 30 Jun 2013 RM'000 (restated)
Profit for the financial period attributable to:					
Owners of the Company		12,691	9,600	16,444	15,238
Non-controlling interests		(32)	121	3,646	747
		12,659	**9,721**	**20,090**	**15,985**
Total comprehensive income/(loss) for the financial period attributable to:					
Owners of the Company		10,502	15,000	9,568	23,683
Non-controlling interests		(412)	487	2,970	1,431
		10,090	**15,487**	**12,538**	**25,114**
Basic and diluted earnings per share attributable to owners of the Company (sen):	B9	2.91	2.20	3.77	3.49

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**
Retained earnings – translation adjustment		**-**	**-**	**-**	**-**	**-**	(35)	(35)	(15)	(50)
Available-for-sale financial assets		-	-	-	58	-	-	58	-	58
Share of other comprehensive income of joint venture		-	-	-	-	-	18	18	-	18
Foreign currency translation differences		-	-	(6,952)	-	-	-	(6,952)	(676)	(7,628)
Total other comprehensive income/ (loss) for the financial period		**-**	**-**	(6,952)	58	-	18	(6,876)	(676)	(7,552)
Profit for the financial period		-	-	-	-	-	16,444	16,444	3,646	20,090
Total comprehensive income/(loss) for the financial period		**-**	**-**	(6,952)	58	-	16,462	9,568	2,970	12,538
Transaction with owners of the Company:										
Dividends paid		**-**	**-**	-	-	-	(4,365)	(4,365)	-	(4,365)
Total transaction with owners of the Company		**-**	**-**	-	-	-	(4,365)	(4,365)	-	(4,365)
As of 30 June 2014	**218,246**	**74,176**	**2,111**	**10,395**	**98**	**(71,500)**	**377,199**	**610,725**	**7,945**	**618,670**

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Note	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 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		-	-	-	-	134	-	-	134	-	134
Share of other comprehensive income of joint venture		-	-	-	-	-	-	30	30	-	30
Foreign currency translation differences		-	-	-	8,281	-	-	-	8,281	684	8,965
Total other comprehensive income for the financial period		**-**	**-**	-	8,281	134	-	30	8,445	684	9,129
Profit for the financial period		-	-	-	-	-	-	15,238	15,238	747	15,985
Total comprehensive income for the financial period		**-**	**-**	-	8,281	134	-	15,268	23,683	1,431	25,114
As of 30 June 2013		**218,246**	**74,176**	**2,205**	**9,739**	**111**	**(71,500)**	**357,145**	**590,122**	**8,200**	**598,322**

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

	6 Months Ended 30 Jun 2014 RM'000	6 Months Ended 30 Jun 2013 RM'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	30,197	23,502
Adjustments for:		
Non-cash items	17,844	5,318
Interest income	(328)	(301)
Finance costs	11,259	11,205
Operating Profit Before Working Capital Changes	58,972	39,724
Net (increase)/decrease in inventories, amount due from contract customers, trade and other receivables and amount due from joint venture	(25,804)	5,047
Net increase/(decrease) in amount due to contract customers and trade and other payables	4,178	(12,478)
Cash Generated From Operations	37,346	32,293
Income tax paid	(8,535)	(8,403)
Income tax refunded	4,532	51
Net Cash From Operating Activities	**33,343**	**23,941**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	382	355
Property, plant and equipment:		
- proceeds from disposal	90	28
- purchase	(4,167)	(2,101)
Purchase of intangible assets	(1,092)	(2,024)
Available-for-sale financial assets:		
- purchase	(7,490)	(18,000)
- proceeds from redemption	19,671	9,975
(Placement)/ Withdrawal of deposits pledged as security	(6,084)	1,667
(Increase)/ Decrease in proceeds deposited in the designated bank accounts	(2,372)	2,199
Net Cash Used In Investing Activities	**(1,062)**	**(7,901)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(11,283)	(15,594)
Repayment of borrowings	(41,485)	(89,295)
Drawdown of borrowings	57,246	84,444
Repayment of finance lease payables	(153)	(123)
Dividends paid	(4,365)	-
Net Cash Used In Financing Activities	**(40)**	**(20,568)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	32,241	(4,528)
Effects of foreign exchange rate changes	800	167
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL PERIOD	15,044	11,888
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL PERIOD	**48,085**	**7,527**

CONDENSED STATEMENTS OF CASH FLOWS

	6 Months Ended 30 Jun 2014 RM'000	6 Months Ended 30 Jun 2013 RM'000 (Restated)
Cash and cash equivalents comprised the following amounts in the statements of financial position:		
Deposits with licensed banks	37,636	22,013
Cash and bank balances	47,365	11,312
Total deposits, cash and bank balances	85,001	33,325
Less: Deposits pledged as security	(26,656)	(15,233)
Less: Proceeds deposited in the designated bank accounts	(5,891)	(2,928)
Less: Cash and bank balances restricted	-	(3)
Less: Overdraft	(4,369)	(7,634)
	48,085	**7,527**

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	30 Jun 2014 RM	31 Mar 2014 RM	31 Dec 2013 RM	30 Jun 2013 RM
1 US Dollar (USD)	3.21	3.27	3.28	3.16
1 Singapore Dollar (SGD)	2.57	2.59	2.59	2.50
100 Hong Kong Dollars (HKD)	41.43	42.10	42.24	40.74
100 Chinese Renminbi (RMB)	51.76	52.52	54.11	51.49

(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 RM290.3 million. Based on current repayment pattern, the Group estimates 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 RM3.809 million was made in the current quarter, comprising:-

(i) an additional provision for discounting on a deferred payment consideration of RM7.692 million which was set-off against revenue; and

(ii) a reversal of discounting of receivables amounting to RM3.883 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 they 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

During to the financial period, shareholders of the Company had, in the Annual General Meeting held on 18 June 2014, approved the payment of a final gross dividend of 1.0 sen per share on 436,491,580 ordinary shares of RM0.50 each, amounting to approximately RM4,364,916 in respect of the financial year ended 31 December 2013. The dividends were paid on 25 June 2014.

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 Group is carrying out a re-organisation in several stages ("the Re-organisation") which was announced to the stock exchange on 23 June 2014.

The Re-organisation encompassed the following:-

(i) The Company acquiring 2 ordinary shares of RM1.00 each, and thereafter subscribed for 8,460 new ordinary shares of RM1.00 each, with the total number of shares acquired and subscribed representing 84.62% shareholding in Pinggiran Muhibbah Sdn. Bhd. ("Pinggiran Muhibbah") for a total consideration of RM8,462. Following the acquisition and subscription, Pinggiran Muhibbah became a subsidiary.

(ii) The Company acquiring 2 ordinary shares of RM1.00 each, with the total number of shares acquired representing 100.00% shareholding in Jemari Infiniti Sdn. Bhd. ("Jemari Infiniti") for a total consideration of RM2. Following the acquisition, Jemari Infiniti became a subsidiary.

(iii) A joint venture company, Cerah Sama Sdn. Bhd. ("Cerah Sama"), disposed off 75 ordinary shares of RM1.00 each, representing 75% shareholding in Jejak Melewar Sdn. Bhd. ("Jejak Melewar") to Jemari Infiniti for a total consideration of RM75. Following the disposal, Jejak Melewar ceased to be a subsidiary of Cerah Sama.

(iv) Pinggiran Muhibbah acquiring 75 ordinary shares of RM1.00 each, representing 75% shareholding in Jejak Melewar from Jemari Infiniti for a total consideration of RM75. The shareholders of Jejak Melewar will execute a Shareholders' Agreement whereby they contractually agree under the joint arrangement to jointly share control to direct the activities that will significantly affect the returns of Jejak Melewar. In accordance with the MFRS 11-Joint Arrangements, Jejak Melewar is deemed to be a joint venture of Pinggiran Muhibbah.

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.

3 months ended 30 June	Water treatment, supply and distribution		Waste management		Construction		Others		Total	
	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	54,491	43,510	13,519	12,537	21,482*	29,522	11,544^	962	101,036	86,531
Inter-segment revenue	-	-	(150)	(139)	-	-	(11,394)	(871)	(11,544)	(1,010)
External revenue	54,491	43,510	13,369	12,398	21,482	29,522	150	91	89,492	85,521
Reconciliation:										
Difference in accounting policy (see note below)	(7,692)	(6,821)	-	-	-	-	-	-	(7,692)	(6,821)
Revenue as per statement of comprehensive income	46,799	36,689	13,369	12,398	21,482	29,522	150	91	**81,800**	**78,700**

* *Including RM Nil (Q2FY13: RM121,000) 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 RM10,380,000 (Q2FY13: RMNil) received from the subsidiaries and a joint venture.*

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 30 June	Water treatment, supply and distribution		Waste management		Construction		Toll highway		Others		Total	
	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	2014 RM'000	2013 RM'000
Earnings before finance costs, depreciation and amortisation and income tax expense	20,183	14,893	7,247	7,277	928	1,120	2,480	2,216	4,822	2,879	35,660	28,385
Depreciation and amortisation	(138)	(117)	(4,302)	(4,386)	(100)	(59)	-	-	(581)	(59)	(5,121)	(4,621)
	20,045	14,776	2,945	2,891	828	1,061	2,480	2,216	4,241	2,820	30,539	23,764
Finance costs	-	-	(4,979)	(5,150)	(6)	(5)	-	-	(897)	(563)	(5,882)	(5,718)
Inter-segment results	510	510	442	293	120	-	-	-	(8,419)	(5,146)	(7,347)	(4,343)
Segment results	20,555	15,286	(1,592)	(1,966)	942	1,056	2,480	2,216	(5,075)	(2,889)	17,310	13,703
Share of results of associate											489	67
Profit before tax											17,799	13,770
Income tax expense											(5,140)	(4,049)
Profit for the financial period as per statement of comprehensive income											**12,659**	**9,721**

As at 30 June	Water treatment, supply and distribution		Waste management		Construction		Toll highway		Others		Total	
	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	2014 RM'000	2013 RM'000
Segment assets	372,090	343,489	495,487	491,881	35,260	28,427	121,419	115,975	39,545	19,222	1,063,801	998,994
Segment liabilities	(56,536)	(45,365)	(301,409)	(298,370)	(24,629)	(21,435)	-	-	(62,557)	(35,502)	(445,131)	(400,672)
Net segment assets/(liabilities)	**315,554**	**298,124**	**194,078**	**193,511**	**10,631**	**6,992**	**121,419**	**115,975**	**(23,012)**	**(16,280)**	**618,670**	**598,322**

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

3 months ended 30 June	Revenue 2014 RM'000	Revenue 2013 RM'000	Total assets 2014 RM'000	Total assets 2013 RM'000
Malaysia	68,431^	66,181^	564,401	506,471
China / Hong Kong SAR	13,369	12,519	499,222	492,329
Singapore	-	-	178	194
	81,800	**78,700**	**1,063,801**	**998,994**

^ *including provision for discounting on the deferred payment consideration of RM7,692,000 (Q2FY13: RM6,821,000)*

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 30 Jun 2014 RM'000	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 30 Jun 2013 RM'000
Water treatment, supply and distribution	54,491	54,840	43,510
Construction *(note 1)*	21,482	19,425	29,522
Waste management	13,369	13,170	12,398
Others	150	150	91
	89,492	87,585	85,521
Less: Provision for discounting on a deferred payment consideration	(7,692)	(11,982)	(6,821)
	81,800	**75,603**	**78,700**

Note 1

Including RM Nil (Q1FY14:RMNil; Q2FY13: RM121,000) 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*

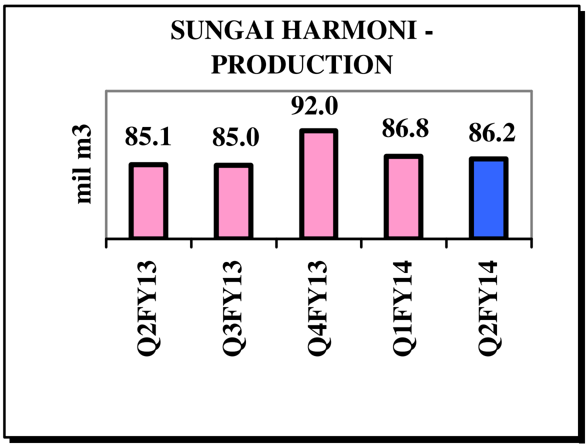
	3 Months Ended 30 Jun 2014 RM'000	3 Months Ended 31 Mar 2014 RM'000	3 Months Ended 30 Jun 2013 RM'000
Water treatment, supply and distribution	20,555	17,936	15,286
Construction *(note 1)*	948	531	1,061
Waste management	3,254	1,185	3,131
Investment holding and others	(4,351)	(3,981)	(2,491)
Operating profit	**20,406**	**15,671**	**16,987**
Finance cost	(5,576)	(5,683)	(5,500)
Share of profit of joint venture	2,480	2,176	2,216
Share of results of associate	489	234	67
Profit before tax	**17,799**	**12,398**	**13,770**

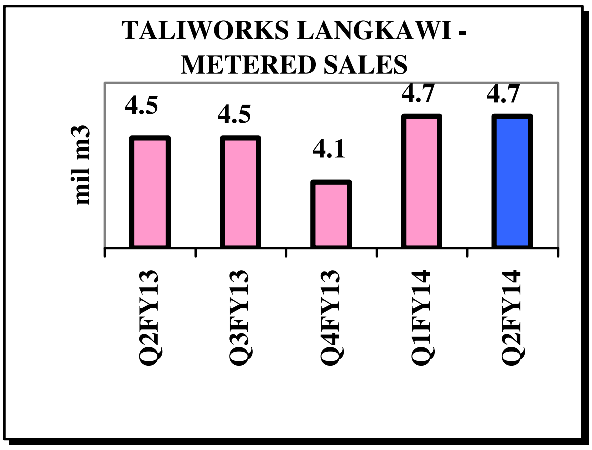
Note 1

Including RM Nil (Q1FY14:RMNil; Q2FY13: RM11,000) 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 revenue recorded an increase from RM85.5 million to RM89.5 million in the current quarter mainly due to higher contribution from the water treatment, supply and distribution business, and to a lesser extent from the waste management. However, after taking into account the impact from the provision for discounting on a deferred payment from a customer, the Group revenue reduced to RM81.8 million, which is still higher as compared to RM78.7 million achieved a year ago.

At the operating level, the water treatment, supply and distribution business recorded a substantial increase in revenue from RM43.5 million to RM54.5 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") coupled with higher electricity rebates arising from increases in electricity rates; and

(b) to a certain extent from the increase in production from the Sungai Selangor Water Treatment Works Phase I ("SSP1") where SSPI registered a marginal increase in production by 1.3% (i.e. from 85.08 million m^3 (or 935 MLD) to 86.16 million m^3 (or 947 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 an increase in metered sales by 4.0% i.e. from 4.48 million m^3 to 4.66 million m^3.

Revenue in the construction segment has declined sharply by RM8.0 million to RM21.5 million from RM29.5 million mainly on account of the lower percentage of completion recognised in the on-going Mengkuang Dam Expansion Project ie. 7.1% compared to 10.6%. To a lesser extent, 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 also played a role in contributing to the decline.

In the waste management segment, the revenue was marginally higher by RM1.0 million at RM13.4 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 6% drop in the quantity of wastewater effluent treated to 28.67 million m^3 (or 315 MLD).

B1 – Analysis of Performance (continued)

Profit

The Group's profit before taxation ("PBT") recorded an increase to RM17.8 million in the current quarter compared to RM13.8 million achieved a year ago, primarily attributable to the higher contribution from water treatment, supply and distribution business as a result of the BSR Increase coupled with increases in production levels/metered sales .

In the water treatment, supply and distribution business, profit recorded an increase of RM5.3 million as compared to the corresponding quarter. Stripping out the effects of the discounting, profit contribution from this segment stood at RM24.2 million as compared to RM18.2 million in the corresponding quarter. Nevertheless, higher operating costs especially electrical costs due to the revision in electricity tariff ("Electricity Tariff Increase") effective from 1 January 2014, as well as higher maintenance and rehabilitation expenses incurred in both SSPI and Langkawi operations have mitigated the gain from the increase in revenue.

The profit contribution from construction has declined marginally in the current quarter, which was in line with the lower revenue recorded in this segment, whereas in the waste management business, the higher profits compared to the corresponding period was mainly from the effect of Tariff Revision mentioned above.

Operating cost of the Group has also increased considerably due to higher rental and depreciation expenses incurred in the current quarter due to significant capital expenditure incurred at the end of the previous financial year.

Despite the lower Average Daily Traffic ("ADT") by 5.8% i.e. from 138,838 vehicles per day to 130,831 vehicles per day, the Group's share of results in the joint venture was marginally higher mainly attributable to higher foreign exchange gain and lower tax provision recorded in the current quarter in the joint venture.

The Group's share of results of associate was higher on account of higher expenses incurred in the corresponding quarter.

Analysis of Q-o-Q Results

Revenue

Compared to the previous quarter, the Group revenue increased slightly by RM1.9 million i.e from RM87.6 million to RM89.5 million (before taking into account the impact from provision for discounting) mainly attributable to higher contribution from construction business. After taking into account the impact from the provision for discounting on a deferred payment from a customer, the quantum of increase was actually much higher by RM6.2 million at RM81.8 million, a jump from RM75.6 million achieved in the previous quarter.

Revenue from the water treatment and distribution business recorded a marginal decline from RM54.8 million to RM54.5 million on account of the drop in production levels in both SSP1and Langkawi operations. Sales of treated water in SSP1 recorded a marginal decrease of 0.8% i.e. from 86.83 million m3 (or 965 MLD) to 86.16 million m3 (or 947 MLD) whereas the Langkawi operations registered a reduction of 1.5% in metered sales from 4.73 million m3 to 4.66 million m3.

The increase in revenue in the construction segment, from RM19.4 million to RM21.5 million was solely attributable to the higher percentage completion recognised from the on-going Mengkuang Dam Expansion Project.

As for the waste management business, the increase in revenue was contributed by all of the wastewater treatment plants due to longer operating days.

B1 – Analysis of Performance (continued)

Profit

For the current quarter, the Group's PBT was up significantly to RM17.8 million compared to the previous quarter's RM12.4 million. This was primarily due to the better performance recorded in all the business segments. Nevertheless, Group profits were dragged down by 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 was actually increased by RM1.2 million, at RM24.2 million compared to RM23.0 million in the previous quarter, despite of a drop in revenue. The increase was mainly attributable to lower electricity, maintenance and rehabilitation expenses incurred in SSP1 operations, whilst unit operating costs in Langkawi operation was comparatively higher than previous quarter.

The increase in PBT for construction segment was in line with the increase in revenue recorded in the current quarter.

In the waste management sector, despite of having marginal increase in revenue, the quantum of increase in PBT was much higher by RM2.1 million as compared to the previous quarter attributable to lower operating expenses incurred in Yinchuan TOT Project.

In the toll highway division, the higher of share of results in a joint venture despite the lower ADT by 2.5% at 130,831 vehicles per day was mainly due to lower repair and maintenance incurred in the current quarter.

The Group's share of results of associate was higher on account of lower operating expenses coupled with higher other operating income in the current 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 position of Syarikat Pengeluar Air Sungai Selangor Sdn Bhd ("SPLASH") in 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.

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.

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 of the wastewater treatment plant #3 has commenced in the current quarter 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 3 Months Ended 30 June 2014 RM'000	Year-to-date 6 Months Ended 30 June 2014 RM'000
Revenue		
Provision for discounting on receivables *(Note A1(c)(i)(b)(i))*	(7,692)	(19,674)
Other operating income:		
Interest income on fixed deposits with licensed banks	180	328
Dividend from available-for-sale financial assets	87	210
Rental income	9	12
Unwinding of discount on receivables	132	264
Reversal of discounting of receivables (*Note A1(c)(i)(b)(ii))*	3,883	10,668
Unrealised foreign exchange gain	(199)	89
Realised gain on available-for-sale financial assets	4	6
Waiver of value-added tax	1,228	2,498
Cost of operations, administrative and other expenses:		
Depreciation and amortisation	(5,121)	(10,667)
Reversal of interest income imputed on retention sum	133	(25)
Unrealised foreign exchange losses	(239)	(976)
Realised loss on available-for-sale financial assets	-	(2)

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 3 Months Ended 30 Jun 2014 RM'000	Year-to-date 6 Months Ended 30 Jun 2014 RM'000
Malaysian income tax:-		
- Current year tax	3,864	12,104
Deferred tax expense	1,276	(1,997)
	5,140	**10,107**

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	157	-	157	705	-	705
Government loan	-	3,105	3,105	-	-	-
Term loans (a)	28,830	-	28,830	301,352	-	301,352
Overdraft	-	4,369	4,369	-	-	-
	28,987	7,474	36,461	302,057	-	302,057

(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.

B8 – Changes in Material Litigations

As at 30 July 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		Year-to-date	
	3 Months Ended 30 Jun 2014	3 Months Ended 30 Jun 2013	6 Months Ended 30 Jun 2014	6 Months Ended 30 Jun 2013
Net profit attributable to owners of the Company (RM'000)	12,691	9,600	16,444	15,238
Weighted average number of shares in issue ('000)	436,492	436,492	436,492	436,492
Basic EPS (sen)	2.91	2.20	3.77	3.49

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 RM34.9 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 30 Jun 2014 RM'000	Preceding Quarter Ended 31 Mar 2014 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realised profits	299,957	287,410
- Unrealised profits	7,588	9,312
	307,545	296,722
Total share of retained earnings from associate:		
- Realised profits	3,773	3,285
Total share of retained earnings from joint venture:		
- Realised profits	78,000	81,119
- Unrealised losses	(12,119)	(12,228)
Total Group's retained earnings	377,199	368,898

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 30 June 2013			
Cost of operations	61,375	873	62,248
Administrative and other expenses	6,978	(873)	6,105
6 months ended 30 June 2013			
Cost of operations	111,928	1,616	113,544
Administrative and other expenses	15,464	(1,616)	13,848

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

B14 – Authorisation for Release

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

By Order of the Board
Tan Bee Hwee (MAICSA 7021024)
Queck Wai Fong (MAICSA 7023051)
Company Secretaries
5 August 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