

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

INTERIM FINANCIAL REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 2010
(UNAUDITED)

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>NOTE</u>	<u>30 SEPT 2010</u> RM'000	<u>31 DEC 2009</u> RM'000 (audited)
ASSETS			
Property, plant and equipment		23,380	25,276
Investment properties		427	434
Concession rights		13,220	15,110
Jointly controlled entities		77,321	68,443
Associates		4,755	4,267
Goodwill on consolidation		2,042	2,007
Deferred tax assets		215	215
Long term receivables	A1(d)	84,061	47,000
Deposits, bank and cash balances		15,863	12,479
Total non-current assets		221,284	175,231
Inventories		1,100	1,017
Trade and other receivables	A1(d)	139,589	176,538
Amount due from a jointly controlled entity		7,150	29,150
Tax recoverable		2,531	6,876
Available-for-sale financial assets	A1(b)(v)	242,204	142,401
Deposits, bank and cash balances		37,377	29,235
Total current assets		429,951	385,217
TOTAL ASSETS		651,235	560,448
EQUITY AND LIABILITIES			
Share capital		218,246	188,347
Reserves		272,202	187,126
Total equity attributable to owners of the Company		490,448	375,473
Non-controlling interest		5,636	5,842
Total equity		496,084	381,315
LIABILITIES			
Borrowings	B8	19	23
Total non-current liabilities		19	23
Borrowings	B8	100,280	122,407
Derivative financial liabilities	A1(b)(iv)	648	-
Trade and other payables		52,456	54,787
Current tax liabilities		1,748	1,916
Total current liabilities		155,132	179,110
TOTAL LIABILITIES		155,151	179,133
TOTAL EQUITY AND LIABILITIES		651,235	560,448
Net assets per share attributable to owners of the Company (RM)		1.1236	0.9968

The Condensed Consolidated Statements of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to these interim financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENTS

	NOTE	3 MONTHS ENDED		9 MONTHS ENDED	
		30 SEPT		30 SEPT	
		2010	2009	2010	2009
		RM'000	RM'000	RM'000	RM'000
Revenue		42,554	39,165	128,967	114,186
Cost of operations		(20,363)	(19,834)	(65,243)	(56,630)
Gross profit		22,191	19,331	63,724	57,556
Other income		1,719	2,128	3,662	6,422
Other expenses		(7,533)	(7,953)	(27,301)	(23,557)
Operating profit		16,377	13,506	40,085	40,421
Fair value gain on derivative financial liabilities	A1(b)(iv)	9,721	-	15,770	-
Finance cost		(4,216)	(3,672)	(12,075)	(11,000)
Share of results of jointly controlled entities, net of tax		3,181	4,185	8,848	6,691
Share of results of associate, net of tax		138	112	488	644
Profit before tax		25,201	14,131	53,116	36,756
Tax expense	B4	(3,790)	(3,759)	(11,079)	(9,615)
Profit for the financial period		21,411	10,372	42,037	27,141
Attributable to:					
Owners of the Company		20,712	10,127	41,798	26,607
Non-controlling interest		699	245	239	534
		21,411	10,372	42,037	27,141
Earnings per share (sen)	B10				
Basic		5.39	2.69	11.01	7.06
Diluted		5.34	2.57	10.58	6.71

The Condensed Consolidated Income Statements should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to these interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>3 MONTHS ENDED</u>		<u>9 MONTHS ENDED</u>	
	<u>30 SEPT</u>		<u>30 SEPT</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>NOTE</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Profit for the financial period	21,411	10,372	42,037	27,141
Other comprehensive income:				
Fair value of available-for-sale financial assets	576	-	769	-
Foreign currency translation differences for foreign operations	(578)	(155)	(1,129)	143
Share of other comprehensive income of jointly controlled entities and associate	24	-	30	-
Other comprehensive income for the financial quarter, net of tax	22	(155)	(330)	143
Total comprehensive income for the financial period	21,433	10,217	41,707	27,284
Attributable to:				
Owners of the Company	20,936	9,924	41,968	26,702
Non-controlling interest	497	293	(261)	582
	21,433	10,217	41,707	27,284

The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to these interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to owners of the Company

	Number of shares	Nominal value	Share premium	Warrant reserve	Share Option reserve	Currency Translation reserve	Fair Value reserve	Merger deficit	Retained earnings	Shareholders' equity	Non- Controlling interest	Total Equity
	'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2010, as previously stated	376,694	188,347	22,149	6,482	2,139	1,414	-	(71,500)	226,442	375,473	5,842	381,315
Effects of applying FRS139 (Note A1(b)(v))	-	-	-	-	-	-	590	-	7,769	8,359	-	8,359
At 1 January 2010, as restated	376,694	188,347	22,149	6,482	2,139	1,414	590	(71,500)	234,211	383,832	5,842	389,674
Total comprehensive income for the financial period	-	-	-	-	-	(629)	769	-	41,828	41,968	(261)	41,707
Issue of ordinary shares pursuant to:- - exercise of ESOS/warrants	59,797	29,899	46,060	-	-	-	-	-	-	75,959	-	75,959
Transfer to/(from) reserve upon exercise/expiry of warrants	-	-	6,482	(6,482)	-	-	-	-	-	-	-	-
Dividends paid (Note A7)	-	-	-	-	-	-	-	-	(11,311)	(11,311)	-	(11,311)
Non-controlling interest arising from business combination	-	-	-	-	-	-	-	-	-	-	55	55
At 30 September 2010	436,491	218,246	74,691	-	2,139	785	1,359	(71,500)	264,728	490,448	5,636	496,084
At 1 January 2009	376,590	188,295	22,059	6,492	2,139	1,434	-	(71,500)	202,712	351,631	5,451	357,082
Total comprehensive income for the financial period	-	-	-	-	-	95	-	-	26,607	26,702	582	27,284
Issue of ordinary shares pursuant to:- - exercise of warrants	104	52	80	-	-	-	-	-	-	132	-	132
Transfers to/(from) reserves upon exercise of ESOS options/warrants	-	-	10	(10)	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(14,831)	(14,831)	-	(14,831)
At 30 September 2009	376,694	188,347	22,149	6,482	2,139	1,529	-	(71,500)	214,488	363,634	6,033	369,667

The Condensed Consolidated Statements Of Changes In Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to these interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>9 MONTHS</u> <u>ENDED</u> <u>30 SEPT 2010</u> <u>RM'000</u>	<u>9 MONTHS</u> <u>ENDED</u> <u>30 SEPT 2009</u> <u>RM'000</u>
OPERATING ACTIVITIES		
Profit before tax	53,116	36,756
Adjustments for:		
Non-cash items	(19,476)	(8,660)
Interest income	(262)	(371)
Finance cost	12,075	11,000
Operating profit before working capital changes	45,453	38,725
Changes in working capital:		
Net change in current assets	(8,181)	(21,947)
Net change in current liabilities	(2,592)	(12,156)
Net cash inflow from operations	34,680	4,622
Interest paid	(1,271)	(2,538)
Interest received	295	457
Tax paid	(6,902)	(11,527)
Net cash inflow/ (outflow) from operating activities	26,802	(8,986)
INVESTING ACTIVITIES		
Acquisition of subsidiary company	(81)	-
Amount due from jointly controlled entity	22,000	9,350
Proceeds from disposal of property, plant & equipment	27	74
Purchase of property, plant & equipment	(2,352)	(637)
Placements of available-for-sale financial assets, net of redemptions	(98,476)	(36,036)
Capital repayment from associate	-	21,323
Dividends received from available-for-sale financial assets	98	-
Net cash outflow from investing activities	(78,784)	(5,926)
FINANCING ACTIVITIES		
Proceeds from issuance of new ordinary shares	75,959	132
Dividends paid	(11,311)	(14,831)
Repayment of borrowings	(14)	(1,535)
(Increase)/Decrease in deposits pledged as security	(3,384)	1,753
Net cash inflow/(outflow) from financing activities	61,250	(14,481)
Effect of foreign exchange rate changes	(1,126)	7
Net change in cash and cash equivalents during the financial period	8,142	(29,393)
Cash and cash equivalents at beginning of financial period	29,235	55,626
Cash and cash equivalents at end of financial period	37,377	26,233
Cash and cash equivalents comprised the following balance sheet amounts:		
Deposits with financial institutions	29,163	15,522
Bank and cash balances	24,077	23,159
Total deposits, bank and cash balances	53,240	38,681
Less: Deposits pledged as security	(15,863)	(12,448)
	37,377	26,233

The Condensed Consolidated Statements of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2009 and the accompanying explanatory notes attached to these interim financial statements.

**PART A – EXPLANATORY NOTES PURSUANT TO
FRS 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 FRS134: 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 2009. The explanatory notes 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 Financial Reporting Standards (FRSs), Amendments to FRSs and Interpretations with effect from 1 January 2010 relevant to the Group as follows:-

FRSs, Amendments to FRSs and Interpretations

FRS 7	Financial Instruments: Disclosure
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (revised)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 7	Financial Instruments: Disclosures
Amendments to FRS 8	Operating Segments
Amendments to FRS 107	Statement of Cash Flows
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to FRS 110	Events after the Reporting Period
Amendments to FRS 116	Property, Plant and Equipment
Amendments to FRS 117	Leases
Amendments to FRS 118	Revenue
Amendments to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendments to FRS 123	Borrowing Costs
Amendments to FRS 128	Investments in Associates
Amendments to FRS 131	Interest in Joint Ventures
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 134	Interim Financial Reporting
Amendments to FRS 136	Impairment of Assets
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment



A1 – Basis of Preparation (cont'd)

(b) Changes in accounting policy

Other than the application of FRS 8, FRS 101, FRS 139 and IC Interpretation 9, the application of the above FRSs, Amendments to FRSs and Interpretations did not result in any significant changes in the accounting policies and presentation of the financial statements of the Group.

- (i) FRS 8 *Operating segments*, requires the Group's segment information to be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker, i.e. 'management approach'. The Group presents its segment information based on its business segment, which is consistent to its internal management reports. This standard does not have any significant impact on the financial results of the Group. The Group has identified the Executive Committee as the chief operating decision-maker.
- (ii) FRS 101 *Presentation of financial statements (as revised)*, prohibits the presentation of non-owner changes in equity in the statement of changes in equity. All non-owner changes in equity are required to be shown in the performance statement as total comprehensive income. Comparatives, with the exception of the requirement under FRS 139, had been restated in conformity to this revised standard. This standard does not have any significant impact on the financial results of the Group.
- (iii) FRS 139 *Financial Instruments: Recognition and Measurement*, establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Financial instruments are initially recorded at fair value and are subsequently measured in accordance to its classification. The Group determines its classification on initial recognition and on first adoption of the standard on 1 January 2010.
 - Trade receivables: Prior to the adoption of FRS 139, trade receivables were carried at invoice amount less allowance for doubtful debts. With the adoption of FRS 139, an impairment loss is recognised for trade receivables and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

In subsequent periods, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is taken to the income statement.

- Investments: Prior to the adoption of FRS 139, investments in quoted unit trusts were stated at the lower of costs or market value on a portfolio basis. Under FRS 139, these investments determined by the Group as available-for-sale ("AFS") financial assets are measured at fair value with unrealised gains or losses recognised as other comprehensive income in the AFS reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in the income statement or determined to be impaired and removed from the fair value reserve.
- Convertible Bonds: Prior to the adoption of FRS 139, the Convertible Bonds issued by the Company were initially recognised at net proceeds received upon issuance and adjusted subsequently for accretion of discount to maturity. Under FRS 139, multiple embedded derivatives contained within the Convertible Bonds and deemed not closely related to the host contract are accounted for as derivatives and separately fair valued at the inception date with subsequent measurement of fair value at each reporting date and the difference taken to the income statement.



A1 – Basis of Preparation (cont'd)

- (iv) IC interpretation 9 *Reassessment of Embedded Derivatives*, requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as derivative when the entity first becomes a party to the contract.

In these interim financial statements, the amount recognised as derivative financial liabilities was determined by reference to the fair value of the embedded derivatives at the date of inception of the Convertible Bonds. The fair value of the embedded derivatives is computed using the Black-Scholes model and the key parameters used in arriving at their fair values are as disclosed below:-

	Fair Value measured on inception date RM'000	Fair Value measured as at 1 January 2010 RM'000	Fair Value measured as at 30 Sept 2010 RM'000
<u>Type of Derivative</u>			
Derivative financial liabilities (included in current liabilities): Derivatives embedded in the Convertible Bonds issued	44,292	16,418	648
<u>Derivative gain/(losses)</u>			
- difference in fair value measured in inception date and 1 January 2010 adjusted to opening retained earnings in accordance with the transitional provisions of FRS 139	-	27,874	
- cumulative difference in fair value measured on 1 January 2010 and 30 June 2010 credited to the Income Statement in the previous quarters	-	-	6,049
- to be credited to the Income Statement in the current quarter			9,721
<u>Key Parameters used in valuing the embedded derivatives:</u>			
Option price (RM)	0.846647	0.313828	0.012400
Implied/historical volatility (%)	34.80	44.95	21.678
Dividend yield (%)	2.759	4.458	4.858

There are no credit, market and liquidity risks associated with the above derivative nor are there any cash requirements.

- (v) In accordance with FRS 139, the recognition, de-recognition, measurement and hedge accounting requirements are applied prospectively from 1 January 2010. Pursuant to the transitional provisions of FRS 139 for first time adoption, adjustments arising from re-measuring the financial instruments at the beginning of the financial period are to be recognised as adjustments to the opening retained earnings or another appropriate reserve.

A1 – Basis of Preparation (cont'd)

Comparatives as at 31 December 2009 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the statement of financial position as follows:-

<u>As at 1 January 2010</u>	<u>As previously stated</u> RM'000	<u>Effect of FRS 139</u> RM'000	<u>As restated</u> RM'000
Non Current Assets			
Long term receivables			
- Gross amount	47,000	20,816	67,816
- Less: Impairment	-	(7,814)	(7,814)
- Net amount	47,000	13,002	60,002
Current Assets			
Trade and other receivables	176,538	(20,816)	155,722
Available-for-sale financial assets (previously classified as Investments)	142,401	590	142,991
Current Liabilities			
Derivative financial liabilities (Note A1(b)(iv))	-	16,418	16,418
Borrowings (Convertible bonds)	119,377	(32,001)	87,376
Equity			
Retained earnings	226,442	7,769	234,211
Fair Value reserve	-	590	590

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

<u>Foreign currency</u>	<u>30 Sept 2010</u> RM	<u>30 June 2010</u> RM	<u>30 Sept 2009</u> RM
1 US Dollar	3.09	3.24	3.48
1 Singapore Dollar	2.35	2.31	-
100 Hong Kong Dollars	39.76	41.58	44.94
100 Chinese Renminbi	46.10	47.72	51.01

(d) Critical Accounting Estimates and Judgments

The preparation of interim financial statements requires the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

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

- (i) the determination of the fair value of derivatives which give rise to the fair value changes was based on an option pricing model adopted and the key parameters used (Note A(b)(iv));

A1 – Basis of Preparation (cont’d)

(d) Critical Accounting Estimates and Judgments (cont’d)

- (ii) the trade receivables of one of the subsidiaries, Sungai Harmoni Sdn Bhd, were assumed to be realised within twelve months after the reporting period on the basis that the Selangor water consolidation exercise (“Exercise”) will be able to complete within that period. However, if the Exercise cannot complete by then, the Group estimates that based on current repayment pattern, an amount of approximately RM45 million will be required to be reclassified as non-current trade receivables and subsequently be impaired in accordance with FRS 139;
- (iii) based on the current repayment received to-date and the Group’s best estimate, about RM46 million in trade receivables of one of the subsidiaries, Taliworks (Langkawi) Sdn Bhd, were anticipated to be realised after twelve months from the reporting period and as such, has been reclassified as non-current trade receivables and impaired in accordance with FRS 139.

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.

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

There were 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 except those arising from the adoption of FRS 139 as disclosed in Note A1 above.

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 issuance of new ordinary shares of RM0.50 each from the exercise of:-

	During the Current Quarter	Year-to-date	Balance remaining unexercised as at the reporting period
ESOS options at RM1.31 per share	120,000	165,000	75,000
ESOS options at RM1.90 per share	-	15,000	# 4,337,000
Warrants at RM1.27 per share *	58,764,600	59,617,080	-

* a total of 10,171,420 warrants remained unexercised on 21 September 2010 and is deemed null and void and cease to be exercisable thereafter

after taking into account 146,000 ESOS options that lapsed during the financial period



A7 – Dividends Paid

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

<u>In respect of the financial year ended 31 December 2009</u>	<u>RM'000</u>
<ul style="list-style-type: none"> 2nd interim gross dividend of 4.0 sen per share on 377,058,480 ordinary shares of RM0.50 each, less income tax at 25%, paid on 29 March 2010 	11,311

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 except for the early redemption of Convertible Bonds of the Company mentioned in Note B8(ii) below.

A9 – Changes in Composition of the Group

Save as disclosed below, 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.

- (i) On 16 January 2010, a 45% owned associated company, C.G.E Utilities (M) Sdn. Bhd. was voluntarily wounded up;
- (ii) On 5 March 2010, Taliworks International Limited (“TIL”), a wholly owned subsidiary of Taliworks, completed the acquisition of a 70% equity interest in Taliworks ECO Pte Ltd (formerly known as Eco3 Technology and Engineering Pte Ltd (“Taliworks ECO”)) for a cash consideration of Singapore Dollars 70,000;
- (iii) On 8 April 2010, the Company acquired a 50% equity interest in a jointly controlled entity, Prolific Equity Sdn. Bhd. (“PESB”), for a total cash consideration of RM50. PESB was incorporated in Malaysia on 11 May 2009 as a general trading company and is currently dormant. PESB has an authorised share capital of RM100,000 divided into 100,000 ordinary shares of RM1.00 each of which RM100 comprising 100 ordinary shares of RM1.00 each has been issued and fully paid-up;
- (iv) On 4 June 2010, TIL incorporated a 70% owned subsidiary, TILGEA Consortium Sdn. Bhd. (“TILGEA”) in Malaysia as an investment holding company. TILGEA has an authorised share capital of RM1,000,000 divided into 1,000,000 ordinary shares of RM1.00 each of which RM10 comprising 10 ordinary shares of RM1.00 each has been issued and fully paid-up;
- (v) On 17 June 2010, Taliworks ECO established a wholly owned subsidiary, Ningxia ECO Wastewater Treatment Co., Ltd. as a foreign investment enterprise in the People’s Republic of China. The principal activity of the company is to undertake the construction and management of the Linhe Integrated Industrial Park Wastewater and Recycled Water Treatment Plant in Yinchuan in the PRC with a wastewater treatment capacity of 50 million litres per day under a build-operate-transfer (“BOT”) concept.



A10 – 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>Construction</u>		<u>Waste Management</u>		<u>Investment holding and others</u>		<u>Total</u>	
	RM'000		RM'000		RM'000		RM'000		RM'000	
<u>3 months ended 30 September</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
External revenue	35,206	35,043	3,665	-	3,683	4,122	-	-	42,554	39,165
Inter-segment revenue	-	-	3,922	-	153	400	530	510	4,605	910
Total revenue	35,206	35,043	7,587	-	3,836	4,522	530	510	47,159	40,075
Segment results	15,566	13,419	775	(554)	1,006	859	(896)	(100)	16,451	13,624
Inter-segment elimination	-	-	-	-	(11)	(56)	(63)	(62)	(74)	(118)
Operating profit	15,566	13,419	775	(554)	995	803	(959)	(162)	16,377	13,506
Fair value gain on derivative financial liabilities									9,721	-
Finance cost									(4,216)	(3,672)
Share of results of jointly controlled entities									3,181	4,185
Share of results of associate									138	112
Profit before tax									25,201	14,131
Segment assets	252,830	207,174	34,040	113,679	93,242	69,969	408,735	423,878	788,847	814,700
Inter-segment elimination									(222,434)	(222,672)
Investments in jointly controlled entities									77,321	68,219
Investments in associate									4,755	4,281
Unallocated assets									2,746	5,938
Total assets									651,235	670,466

A11 – Changes in Contingent Liabilities or Contingent Assets

There were no changes to the contingent liabilities of the Group since the last audited date of the statement of financial position except as follows:-

	As at 30 Sept 2010 RM'000	As at 31 Dec 2009 RM'000
<u>Secured against deposits pledged to the financial institutions</u>		
Bank guarantees issued to third parties for services rendered and as performance bonds	11,443	9,771

PART B – EXPLANATORY NOTES PURSUANT TO PARAGRAPH 9.22 OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 – Review of Performance

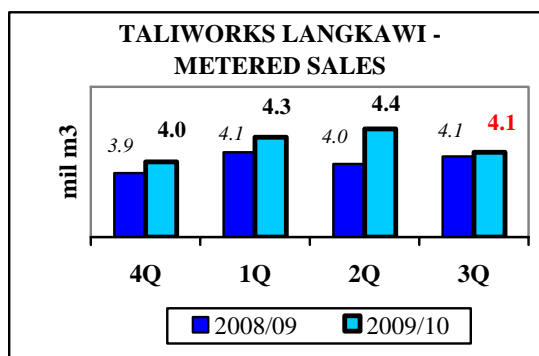
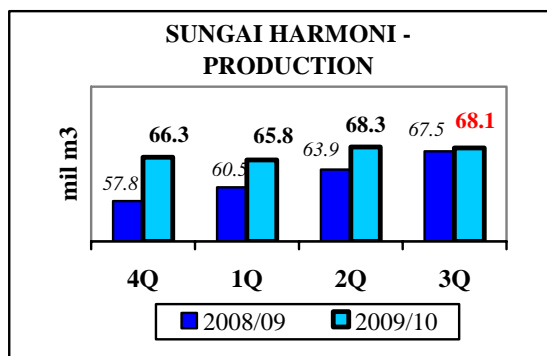
(a) *Revenue*

	3 Months Ended <u>30 Sept 2010</u> RM'000	3 Months Ended <u>30 June 2010</u> RM'000	3 Months Ended <u>30 Sept 2009</u> RM'000
Water treatment and distribution	35,206	36,797	35,043
Construction	3,665	2,199	-
Waste management	3,683	2,946	4,122
Others	-	102	-
	42,554	42,044	39,165

(b) *Profit Before Tax*

	3 Months Ended <u>30 Sept 2010</u> RM'000	3 Months Ended <u>30 June 2010</u> RM'000	3 Months Ended <u>30 Sept 2009</u> RM'000
Water treatment and distribution	15,566	14,504	13,419
Construction	775	(212)	(554)
Waste management	995	(1,219)	853
Investment holding and others	(959)	(1,131)	(212)
Operating profit	16,377	11,942	13,506
Derivative gain/ (loss)	9,721	(5,645)	-
Finance cost	(4,216)	(4,004)	(3,672)
Share of results of a jointly controlled entities	3,181	2,706	4,185
Share of results of associate	138	160	112
Profit before tax	25,201	5,159	14,131

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



B1 – Review of Performance (cont'd)

Review of Y-o-Y Results

Revenue

Group revenue improved from RM39.2 million to RM42.5 million (or by about 9%) primarily from the increase in construction activity that contributed RM3.7 million. Revenue from the water business was flat with insignificant increases in production from Sungai Selangor Water Treatment Works Phase I (“SSP1”) (+1.0% i.e. from 67.48 mil m³ (or 734 MLD) to 68.15 mil m³ (or 741 MLD) and metered sales from Langkawi operations (+2% i.e. from 4.06 mil m³ (44.2 MLD) to 4.13 mil m³ (44.9 MLD)).

Meanwhile, waste management segments recorded lower revenue by 10% from decrease in waste processed from Guanghan operations (-7% i.e. from 3.2 mil m³ to 3.0 mil m³) whilst waste processed in the Tianjin operations was up 2% from 90,359 tons (1,001 tons/day) processed to 92,130 tons (982 tons/day).

Profit

The Group chalked up profit before taxation (“PBT”) of about RM25.2 million compared to RM14.1 million Y-o-Y, mainly due to fair value gain in derivative financial liabilities of RM9.7 mil. At the operating level, operating profit stood at RM16.4 million against RM13.5 million due to the higher profits recorded from all business components. Operationally, the Group’s performance was enhanced by the higher recognition of profit from the Bekalan Air Padang Terap Project and lower operating expenditure in the water treatment plants.

Review of Q-o-Q Results

Revenue

Revenue was flat for the two quarters. Production from SSP1 dipped marginally from 68.32 mil m³ (751 MLD) to 68.15 mil m³ (741 MLD) whilst metered sales from Langkawi operations was down by almost 8% from 4.44 mil m³ (48.89 MLD) to 4.13 mil m³ (44.92 MLD). The lower contribution from the water business was off-set by the higher revenue from the increased construction activities and higher volume of waste processed.

Profit

The Group recorded PBT of about RM25.2 million compared to RM5.2 million in the previous quarter mainly due to fair value changes. Operating profit was higher at RM16.4 million compared to RM12.0 million. The improvement in operating profit in the current quarter stemmed from the effects of a temporary closure of the Tianjin operations to facilitate a major refurbishment of building, plant and equipment) and the drastic drop in waste produced in the previous quarter which significantly impacted the waste management division in that quarter. For the other two operating divisions, higher construction activities and lower operating expenditure in the water treatment plants help to deliver better performance for the current quarter.

B2 – Current Year Prospects

The operating profit of the Group is largely driven by the performance of the water business as this segment contributes the bulk of the revenue and profits. The Group is optimistic that the overall water demand will remain intact given the better economic environment.

During the quarter, the Group announced two significant transactions which is expected to increase the Group’s profile within the industrial and municipal waste management business in the People’s Republic of China, (“PRC”) namely the following:-



B2 – Current Year Prospects (cont'd)

- (a) the proposed acquisition of a 30-year concession for the management and operation of four (4) existing municipal waste water treatment plants with recycled water facilities in Yinchuan, Province of Ningxia for a total purchase consideration of RMB810 million (equivalent to about MYR375 million) on a Takeover-Operate-Transfer (“TOT”) basis. This proposed acquisition is pending completion; and
- (b) the designing, construction, operation and maintenance of a 50 MLD industrial waste water treatment and recycled water plant in the Ningdong Energy Chemical Base Meihua Industrial Park, Province of Ningxia for a 30-year concession on a Build-Operate-Transfer (“BOT”) basis.

B3 – Profit Forecasts or Profit Guarantees

Not applicable as no profit forecast or guarantees was published.

B4 – Taxation

	<u>3 Months</u> <u>Ended</u> <u>30 Sept 2010</u> RM'000	<u>9 Months</u> <u>Ended</u> <u>30 Sept 2010</u> RM'000
Malaysian income tax:-		
- Current year tax	3,790	11,097
- Over-provision in prior years	-	(18)
	3,790	11,079

The tax expense is in respect of the estimated Malaysian income tax charge 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 fair value changes, expenses not allowed as tax deductions, tax effect of share of results of jointly controlled entity and associates, receipt of tax exempt dividend income and capital gains arising from the redemption of available-for-sale financial assets, losses incurred by certain subsidiaries which were not available to be set-off against taxable profits in other companies within the Group.

B5 – Profits on Sale of Unquoted Investments and Properties

There was no sale of unquoted investments and properties for the current quarter and financial period.

B6 – Purchase or Disposal of Quoted Securities

- (a) There were no purchases or disposals of quoted securities for the current quarter and financial period except for the placement and/or redemption of quoted money market unit trust funds which are categorised as available-for-sale financial assets.
- (b) There were no investments in quoted shares as at end of the reporting period.

B7 – Status of Corporate Proposals Announced But Not Completed
(i) Status of Corporate Proposals

There were no corporate proposals announced but not completed as at end of the reporting period, save and except for, the proposed issuance of RM395 million of serial bonds by Destinasi Teguh Sdn Bhd (“DTSB”), 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 (“SC”) to implement the proposal will lapse on 26 November 2010. The Company has on 24 November 2010 submitted an application to the SC to further extend the timeframe for implementation of the proposal.

B7 – Status of Corporate Proposals Announced But Not Completed (cont'd)

Details of the proposed issuance of the DTSB bonds are contained in the announcement by RAM Rating Services Berhad on 10 November 2009 (<http://www.ram.com.my>)

 (ii) *Status of Proposed Utilisation of Proceeds*

As at 19 November 2010 (being a date not earlier than 7 days from the date of this report), the status of utilisation of proceeds raised from the issuance of the Convertible Bonds was as follows:-

	<u>Total Net Proceeds Raised</u> RM'000	<u>Cumulative Amount Utilised from the Previous Quarters</u> RM'000	<u>Balance Unutilised</u> RM'000
(i) For future local and overseas business expansion	196,400	(144,844)*	51,556
(ii) For general working capital purposes (current requirements and those arising from future local and overseas business expansion)	21,850	(12,700)	9,150
TOTAL	218,250	(157,544)	60,706

- (a) *Depending on the funding requirements of the Company, its subsidiaries and its joint venture companies namely Cerah Sama Sdn Bhd (“Cerah Sama”), the Company may re-allocate the amount of proceeds to be utilised between each of the abovementioned categories.*
- (b) *In addition, any proceeds not fully utilised under (i) above within the stipulated timeframe will be utilised for general working capital purposes if not re-allocated during the stipulated timeframe. Proceeds under (i) above may also be utilised to fund any shareholders’ advances to Cerah Sama.*
- (c) *The proceeds are to be utilised within 2 years from the issuance of the Convertible Bonds. There has been no deviation in the utilisation of proceeds.*

* *Including RM119.36 million utilised to re-purchase RM112 million nominal value of Convertible Bonds representing about 50% of the nominal value of the Convertible Bonds issued by the Company from existing holders of the Convertible Bonds.*

B8 – Group Borrowings and Debt Securities

Included in the borrowings are:-	Short Term		Long Term	
	<u>Secured</u> RM'000	<u>Unsecured</u> RM'000	<u>Secured</u> RM'000	<u>Unsecured</u> RM'000
Hire purchase	9	-	19	-
Government support loan	-	2,766	-	-
Convertible bonds	-	97,514	-	-
	9	100,280	19	-

- (i) All the borrowings of the Group are denominated in Malaysian Ringgit save and except for the Government Support Loan of RMB6.0 million which is to be repaid by a subsidiary in the People’s Republic of China.



B8 – Group Borrowings and Debt Securities (cont’d)

- (ii) In accordance with the Trust Deed dated 29 November 2007, at the option of the holder of any Convertible Bonds, the Company is required to redeem all or some of that holder’s Convertible Bonds on the 3rd anniversary of the issue date of the Convertible Bonds at the Early Redemption Amount of RM1,112,800 for every RM1,000,000 nominal value of the Convertible Bonds.

At the date of this Report, all the holders of the Convertible Bonds have exercised their option to redeem all the outstanding bonds at the Early Redemption Amount amounting to RM125,746,400 to be payable on 6 December 2010.

B9 – Material Litigations

As at 19 November 2010 (being a date not earlier than 7 days from the date of this Report), the Group is not aware of any pending material litigations against the Company or its subsidiary companies.

B10 – Earnings Per Share (“EPS”)

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of shares in issue.

	3 Months Ended 30 Sept 2010	3 Months Ended 30 Sept 2009	9 Months Ended 30 Sept 2010	9 Months Ended 30 Sept 2009
Net Profit attributable to Owners of the Company (RM’000)	20,712	10,127	41,798	26,607
Weighted average number of shares in issue (‘000)	384,251	376,694	379,475	376,671
Basic EPS (sen)	5.39	2.69	11.01	7.06

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the net profit attributable to owners of the Company (as adjusted) by the weighted average number of shares in issue (as adjusted). The net profit attributable to owners of the Company is adjusted for net savings from the after-tax effects of the financing costs of the Convertible Bonds as if the Convertible Bonds were converted into shares at the beginning of the financial period. The weighted average number of shares in issue is adjusted for potential dilutive shares from the exercise of outstanding ESOS options, Warrants (if applicable) and Convertible Bonds of the Company.

	3 Months Ended 30 Sept 2010	3 Months Ended 30 Sept 2009	9 Months Ended 30 Sept 2010	9 Months Ended 30 Sept 2009
Net Profit attributable to Owners of the Company (as adjusted) (RM’000)	20,712	10,127	41,798	26,607
Weighted average number of shares in issue (as adjusted) (‘000)	388,067	394,426	395,128	396,737
Diluted EPS (sen) *	5.34	2.57	10.58	6.71

B10 – Earnings Per Share (“EPS”) (cont’d)

** The ESOS options that could potentially dilute the earnings per share have been excluded from the computation because of their anti-dilutive effect.*

B11 – Dividends

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

B12 – Off Balance Sheet Financial Instruments

Not applicable as financial instruments with off balance sheet risk are to be accounted for on the statement of financial position in accordance with FRS 139.

B13 – Authorisation for Release

This Interim Financial Report for the current quarter and financial year ended 30 September 2010 has been seen and approved by the Board for public release.

By Order of the Board
Ng Yim Kong
Company Secretary (LS 0009297)
25 November 2010

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>