

TANCO HOLDINGS BERHAD (3326K)

Notes To The Interim Financial Statements For the Fifth Quarter ended 31st March 2011

A1. BASIS OF PREPARATION

The interim financial statements have not been audited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's Audited Financial Report for the year ended 31st December 2009. These 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 year ended 31st December 2009.

On 22nd February 2011, the Group has announced that its Board has approved the change in its the financial year end from 31st December to 30th June. This change was made after taking into consideration the material effects of the outcome of the Proposed Settlement Scheme with Lehman Brothers Commercial Corporation Asia Limited (in liquidation) (the Lender) on the financial position of the Company and the Group which could not be addressed with reasonable certainty in the financial accounts of the Company and of the Group until the Proposed Settlement Scheme becomes effective on all parties to the Agreement. We expect to achieve this before the end of 30th June this year. In view of this, the financial statements for this financial year will be made up to a period of 18 months from 1st January 2010 to 30th June 2011.

A2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those as applied in the preparation of the audited financial statements for the year ended 31st December 2009 and principally remain unchanged. The Group has adopted the new/revised FRS as disclosed below:

(i) FRS 8 Operating Segments

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group's external segmental reporting had been presented based on the internal reporting to the management, who makes decisions on the allocation of resources and assesses the performance of the reportable segments. As this is a disclosure standard, there will be no impact on the financial positions or results of the Group.

(ii) FRS 7 Financial Instruments: Disclosure

FRS 7 requires disclosure of the following:

- (a) the significance of financial instruments for the Group's financial position and performance; and
- (b) quantitative and qualitative information about exposure to risks arising from financial instruments including specific minimum disclosures about credit risk, liquidity risk and market risk.

(iii) FRS 139 Financial instruments

FRS 139 establishes the principles for the recognition and measurement of financial assets and financial liabilities, including hedge accounting.

(iv) FRS 101(revised) Presentation of financial statements

This revised standard introduce the titles of "statement of financial position" and "statements of cash flows" to replace the current titles "balance sheet" and "cash flow statements" respectively. A new statement known as the "statement of comprehensive income" is also introduced in this standard whereby all non-owner change in equity

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are required to be presented in either one statement of comprehensive income or in two statements (i.e. a separate income statement and a statement of comprehensive income).

(v) IC Interpretation 10 Interim Financial Reporting and Impairment

IC Interpretation 10 prohibits impairment losses recognised in an interim period on goodwill and investment in equity instruments and financial assets carried at cost to be reversed at a subsequent reporting date.

(vi) IC Interpretation 15 Agreements for the Construction of Real Estate

IC Interpretation 15 establishes the developer will have to evaluate whether control, and significant risks and rewards of the ownership of work in progress, can be transferred to the buyer as construction progresses before revenue can be recognised as a percentage of completion method.

(vii) FRS3 (revised) and FRS 127 (revised)

The FRS 3 (revised) and FRS 127 (revised) require all acquisition related costs to be recognised as an expense and the purchase and sale of non-controlling shareholdings when control is retained to be accounted as an equity transaction. In addition, the revised FRS3 and FRS 127 require losses to be allocated to Non controlling interest (“NCI”) even if it results in a deficit position.

The adoption of the above FRSs and IC Interpretations do not have any significant impact on the interim financial report of the Group.

A3. QUALIFICATION OF AUDIT REPORT

There was an ‘emphasis of matter’ in the auditors’ opinion on the audited financial accounts of the Group and the Company for the year ended 31st December 2009. Such emphasis concerned the ability of the Group and the Company to continue as going concerns, dependent as it was on the favourable outcome of the litigation against the Lender, and the Group and the Company generating adequate cash flows for their operating activities. This outcome will be satisfactory dealt with in the Proposed Settlement Scheme.

The auditors’ opinion also emphasized that the Group has reclassified the term loan to deferred benefits pending outcome of litigation and has suspended the recognition of interest and any exchange differences arising from the term loan.

A4. SEASONAL OR CYCLICAL FACTORS

Other than the hospitality sector, the operation of the Group was not affected by any significant seasonal or cyclical factors during the quarter under review.

A5. UNUSUAL ITEMS DUE TO THEIR NATURE SIZE OF INCIDENCE

Save for the event explained under note A11, there were no unusual items for the quarter under review.

A6. CHANGES IN ESTIMATES

There were no changes in the estimates that have had a material effect in the current quarter results under review.

A7. ISSUANCES AND REPAYMENT OF DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial quarter under review.

A8. DIVIDEND

No dividend has been paid since the end of the previous financial year.

A9. SEGMENTAL REPORTING

	Revenue	Profit/(Loss)
	15 months	before tax
	Ended	15 months
	31/03/2011	Ended
	RM'000	RM'000
Analysis by Activity		
Property Development	3,524	(231)
Resorts and Club Operation/Management	17,000	(7,069)
Investment Holdings	-	(2,145)
	<u>20,524</u>	<u>(9,445)</u>

Segmental reporting by geographical locations is not presented as the activities of the Group are carried out mainly in Malaysia.

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation, amortisation and impairment loss.

A11. SUBSEQUENT EVENTS

The Company and its affected subsidiaries (collectively “the THB Group”) had on 21st February 2011 executed a conditional Settlement Agreement with the Lender and other related parties on the amicable settlement of all claims on the Facility Agreement dated 16th November 2007 and the Amended Facility Agreement dated 24th December 2007 (collectively “the Facility Agreements”), the writ against the Lender and other related parties and the Defence and Counterclaim by the Lender against the THB Group [cumulatively “**the Civil Suit**”] for the sum of RM144,587,595 (the Settlement Sum). The Settlement Sum comprises of a cash settlement sum of RM44 million (to be repaid by the Group over a period of 12 months in the manner prescribed in the Proposed Settlement Scheme), and the transfer and vesting of Settlement Properties at the agreed value of RM100,587,595 (as prescribed in the Proposed Settlement Scheme) to Malaysian Trustees Bhd for the

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benefit of the Lender or such other person nominated by the Lender, on the terms and conditions set out in the Proposed Settlement Scheme.

The Proposed Settlement Scheme as set out in the Settlement Agreement was subject to the approval of the Company's shareholders, which has been secured on 24th May 2011.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

There was no material change to the composition of the Group during the current financial quarter.

A13. CONTINGENT LIABILITIES

As at 31st March 2011, the contingent liabilities of the Group are as follows: -

	RM'000
Bank guarantees	
- secured over fixed deposit of certain subsidiary companies	37
A resort property pledged to a merchant bank for loan facility granted to Renown Projects Sdn Bhd in which certain directors have interests	14,150
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	14,187
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As at 31st March 2011, the Company has given corporate guarantee amounting to RM129.162 million to secure banking facilities given to its subsidiaries and has advanced in total RM412.438 million in the form of loans and advances to its subsidiaries with interest ranging from 1% to 15% per annum. The Company has on 29th May 2009 filed a writ against the Lender to set aside this corporate guarantee and all ancillary security and attendant documents provided for these banking facilities. The settlement to this writ is part of the Proposed Settlement Scheme as set out in note A11.

Bursa Malaysia Listing Requirements (Part A of Appendix 9B)

B1. REVIEW OF PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES

The Group for the 15 months' financial period ended 31st March 2011 had recorded a loss before taxation and minority interest of RM6.826 million as compared to the profit of RM5.172 million in the previous corresponding 12 months' financial period ended 31st December 2009, a variance of RM11.998 million. The variance is principally due to lower revenue generated during the period and higher operating expenses incurred.

B2. MATERIAL CHANGES IN THE QUARTERLY RESULTS COMPARED TO THE RESULTS OF THE PRECEDING QUARTER ENDED 31ST DECEMBER 2010

The Group for this quarter ended 31st March 2011 has recorded a loss before taxation and minority interest of RM0.177 million as compared to a loss of RM3.673 million in the preceding quarter ended 31st December 2010, a variance of RM3.496 million. The variance is principally due to a reversal of provision for liquidated and ascertained damages amounting to RM2.619 million. The provision is no longer

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required given that there has been no claims made and that any future claims from hereon are statute barred.

B3. PROSPECTS FOR THE CURRENT FINANCIAL YEAR

General economic conditions remain cautious and uncertain, affecting market confidence. Our principal businesses will be affected significantly by the underlying negative sentiment. Prospects in the resort and hospitality sector, although challenging due to intense competition, has a better immediate outlook.

Following the completion of the Proposed Settlement Scheme, the Group, free of its constraints will be able to focus on reviving its business operations particularly in the property development sector.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Company did not issue any profit forecast during the financial year.

B5. TAXATION

Included in Taxation is: -

	Current Quarter	Year to date
	RM'000	RM'000
Over provision in prior years	-	1,218
	<u>-</u>	<u>1,218</u>

B6. PROFIT ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There was no other sale of unquoted investments or properties other than those exercised in the ordinary course of business of the Group for the quarter.

B7. QUOTED SECURITIES

a) There were no purchases or sale of quoted securities made in this quarter.

b) Investments in Quoted Securities

	RM'000
Quoted shares in Malaysia, at cost	23
Provision for diminution in value	(21)
	<u>2</u>
Market value of quoted shares	<u>3</u>

B8. STATUS OF CORPORATE PROPOSALS

There is none currently being worked on by the Group and the Company.

B9. GROUP BORROWINGS AND DEBT SECURITIES

Total Group borrowings as at 31st March 2011 are as follows: -

Short term borrowings	
Hire purchase and lease payables	RM'000
Subtotal	103
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Long Term Borrowings	
Hire purchase and lease payables	RM'000
Subtotal	206
Total	309
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B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As at 25th May 2011, the latest practicable date, which is not earlier than 7 days from the date of this issue of this quarterly report, the Group does not have any financial instruments with off balance sheet risk.

B11. MATERIAL LITIGATION

As at 25th May 2011, the latest practicable date that is not earlier than 7 days from the issue of this quarterly report, the Group is not engaged in any material litigation except for:

- i. claims by purchasers against a wholly owned subsidiary of the Company for specific performance and/ or damages on units purchased. The purchasers have obtained judgments on their respective claims and are now claiming damages totalling approximately RM758,148.97. Appeals to review the judgments have been filed and are pending hearing dates to be fixed.
- ii. a claim against a wholly owned subsidiary of the Company by a group of Claimants for damages, the sum of RM4,385,169.51 and RM294,092.05 together with interest at the rate of 8.9% per annum from 24th October 2003 until realisation, late payment interest and such further relief as the court may allow. This claim is initiated by way of a counterclaim against the subsidiary from an initial suit filed against the said group by a financial institution allegedly for breach of certain terms and conditions of a facilities agreement by the said group. The claim against the subsidiary is disputed and is being defended by the subsidiary's solicitors;
- iii. claims by a party against a wholly owned subsidiary of the Company for inter alia the sum of RM2,489,857.91 and RM39,590,400.00 together with interest at the rate of 14% per annum from date of the Statement of Claim until realisation and damages allegedly for breach of certain terms and conditions of agreements that the claimant has entered into with the subsidiary. The claims are disputed and are being defended by the subsidiary's solicitors.

Note: The claimants in both (ii) and (iii) above are related parties claiming against the same subsidiary and referencing the agreements stated in (iii).

- iv. a claim by the Government of Malaysia against a wholly owned subsidiary of the Company for alleged statutory arrears amounting to RM1,073,550.43 together with interest and costs. This has resulted in a judgment claim for

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RM1,111,187.92. An appeal has been filed on this matter as there is a dispute on the sums claimed. The matter has been resolved and the process to record the same in the court proceedings is ongoing.

- v. The THB Group have on the 29th May 2009, filed a suit against the Lender to set aside the Facility Agreements and the ancillary security documents on the basis that this had contravened the Money Lenders Act 1951 and the loans extended under the Facility Agreements are to be deemed unlawful and unenforceable. On 9th March, 2010, the Kuala Lumpur High Court granted the Group's application for an interim injunction to restrain Malaysian Trustees Berhad as Trustee for the Lender from exercising any rights, entitlements and/or powers pursuant to the finance and ancillary security documents in respect of this matter. The Lender is now appealing against this decision but no hearing date for the appeal has been fixed as yet.

The Lender had filed a counterclaim against the THB Group in the same Suit. The Counterclaim is, amongst others, for the sum of USD90,664,705.73, interests and late payment interests pursuant to the Facility Agreement and for general damages and costs. As at to date, hearing date of this matter has not been fixed. This Counterclaim is being defended by the Group's solicitors.

The Lender had on 9.8.2010 filed a counterclaim against the THB Group in the same Suit for:

- a. USD90,664,705.73,
- b. Interest of USD6,799,852.93 as at 27.5.2009,
- c. Late payment interest of USD406,658.87 as at 27.5.2009,
- d. Interest accruing on USD90,664,705.73 at 15% per annum from the date of the Writ and Statement of Claim until full settlement,
- e. Late payment interest at 5% per annum over and above the interest rate from the date of the Writ and Statement of Claim until full settlement,
- f. Damages,
- g. Interest on all sums payable on (f) at 8% per annum from the date of the Counterclaim to full settlement;
- h. Costs; and
- i. Other relief the Court may grant.

This Counterclaim is being defended by the Group's solicitors.

On 21st February 2011, the parties to (iv) and (v) above have executed a Settlement Agreement for the amicable settlement of all claims thereto and the necessary announcements have been issued on the same. On 24th May 2011, THB's shareholders have approved the Settlement Agreement in accordance to the resolutions proposed at a duly convened extraordinary general meeting and the necessary announcements have since been issued on the same.

- vi. A claim by 2 related Claimants against a wholly owned subsidiary of the Company for the sum of RM1,100,000.00 and RM400,000.00 respectively (together with interest at 8% per annum from the date of the demand till full realisation, costs and other relief as may be granted by the Court), being the refund of moneys paid by the Claimants on the sale and purchase transaction(s) for the said subsidiary's properties, which have been terminated by the said subsidiary. This claim is being disputed and contested by the said subsidiary vide its solicitors. The case management of this matter has been fixed for 30th May 2011.

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Apart from the above, there is no other material litigation pending as at the date of this announcement.

B12. DIVIDEND

The Board does not recommend the payment of any dividend for the financial period ended 31st March 2011.

B13. EARNINGS PER SHARE

The basic loss per share is calculated based on the Group's loss for the period after taxation and minority interest of RM0.177 million and on number of ordinary shares in issue of 334,886,726.

By Order of the Board,

Choi Siew Fun
Company Secretary

Date: 31st May 2011