

**Notes to the Interim Financial Statements
For the Third Quarter ended 31 March 2017**

A1. BASIS OF PREPARATION

The interim financial statements have not been audited and have been prepared in accordance with the requirements of Financial Reporting Standard (“FRS”) 134: “Interim Financial Reporting” and paragraph 9.22 Main Market Listing Requirements (“Listing Requirements”) of the Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2016. 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 financial year ended 30 June 2016.

A2. CHANGES IN ACCOUNTING POLICIES

In conjunction with the planned convergence of FRSs with International Financial Reporting Standards as issued by the International Accounting Standards Board on 1st January 2012, the MASB had on 19th November 2011 issue a new MASB approved accounting standards, MFRSs (“MFRSs Framework”) for application in the annual periods beginning on or after 1st January 2012.

The MFRSs Framework is mandatory for adoption by all Entities Other Than Private Entities for annual periods beginning on or after 1st January 2012, with the exception of entities subject to the application of MFRS 141 Agriculture and/or IC Int 15 Agreements for the Construction of Real Estate (“Transitioning Entities”). The Transitioning Entities shall apply the MFRSs framework for annual periods beginning on or after 1st January 2018. Transitioning Entities also includes those entities that consolidate or equity account or proportionately consolidate another entity that has chosen to continue to apply the FRSs framework for annual periods beginning on or after 1st January 2012.

Accordingly, the Group which are Transitioning Entities have chosen to defer the adoption of the MFRSs framework. The Group will prepare their first MFRSs financial statements using the MFRSs framework for annual periods beginning on 1st July 2018.

The accounting policies adopted are consistent with those as applied in the preparation of the Group’s audited financial statements for the financial year ended 30 June 2016.

A3. AUDITORS’ REPORT

The audit report of the Group’s audited financial statements for the financial year ended 30 June 2016 was not subject to any audit qualification.

TANCO HOLDINGS BERHAD (3326-K)

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 OR 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 of amounts reported which have material effect in the current quarter under review.

A7. DEBT AND EQUITY SECURITIES

There was no other issuance, cancellation, repurchase, resale and repayment of debt and equity securities in the current quarter under review except for the following:-

During the current financial period to date, the paid up share capital of the Company was increased by RM29.20 million by way of allotment and issuance of 295,544,225 new ordinary shares arising from the conversion of the principal amount of Redeemable Convertible Notes and mandatory conversion of Irredeemable Convertible Unsecured Loan Stock.

A8. DIVIDEND PAID

No dividend has been paid for the current financial period.

TANCO HOLDINGS BERHAD (3326-K)

A9. SEGMENTAL REPORTING

Segmental information is presented in respect of the Group's business segments. The primary format, business segments, is based upon the industry of the underlying investment.

The activities of the Group are carried out mainly in Malaysia and as such, segmental reporting by geographical locations is not presented.

9 months ended 31-Mar-17	Property development/ Management RM'000	Resorts and Club Operation/ Management RM'000	Construction RM'000	Investment holding RM'000	Elimination RM'000	Consolidated RM'000
Revenue						
External sales	4,219	1,177	-	-	-	5,396
Inter-segment sales	57	457	-	31	(545)	-
Total revenue	4,276	1,634	-	31	(545)	5,396
Results						
Loss from operations	(1,933)	(1,391)	-	(2,670)	254	(5,740)
Finance costs						(2,941)
Loss before taxation						(8,681)
Taxation						7
Loss after taxation						(8,674)
Other comprehensive income						-
Total comprehensive loss						(8,674)
Other Information						
Depreciation and amortisation	577	764	-	11	(39)	1,313
Consolidated Statements of Financial Position						
Assets						
Segment assets	316,774	90,396	8,652	282,912	(426,983)	271,751
Liabilities						
Segment liabilities	(230,291)	(93,340)	(9,284)	(132,484)	351,137	(114,262)

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

There were no material changes in the valuation on property, plant and equipment in the current quarter under review.

A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM PERIOD

As at 24 May 2017, being the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report, the material events of the Group subsequent to the end of the interim period are as follows:

- (i) On 4 April 2014, the Board of Directors of the Group announced that Tanco Resorts Berhad (“TRB”), a wholly owned subsidiary of the Company, proposed to undertake the proposed payment in cash to the respective eligible Vacation SuperClub (“VSC”) members an entitlement sum calculated based on the remaining unutilized tenure of their respective VSC membership agreements as at 30 April 2014 (“cut-off date”) and proposed distribution and refund and thereafter the proposed termination and dissolution of the VSC (“Proposal”). The proposal was duly approved by the VSC Members at the Extraordinary General Meeting held on 26 April 2014 by a poll with a 86.17% majority. On 29 August 2014, the Group has secured a loan facility of RM15,000,000.00 from HSBC Bank Malaysia Berhad to fund the Pay-Out Sum.

The relevant Court Order ratifying the Proposal has been obtained by the VSC Trustee and the funds for the Pay-Out Sum have been deposited with the VSC Trustee, towards enabling the Trustee to effect the relevant pay-outs to the eligible VSC members. As at 24 May 2017, only the refund of the balance of the advance maintenance fees to the Eligible VSC Members concerned remain to be settled.

- (ii) On 15 October 2016, the Company via its wholly-owned subsidiary, Palm Springs Development Sdn Bhd (“PSD”) has entered into a Memorandum of Understanding with Evergreen Offshore Inc. (“Evergreen”) to allow the various development phases in Dickson Bay to be introduced and considered as part of the Projects towards enabling the same to be developed accordingly in a strategic collaboration with Evergreen. Vide an announcement made on 23 December 2016, the Company further updated that Evergreen has confirmed their intention and interest to engage the Asia Pacific One Belt One Road Tourism Industry Fund in the following projects of PSD: (1) Doubletree Hilton, (2) Theme Park, (3) Spa Village, and (4) Service Suites and Convention Hall.

- (iii) On 25 November 2016, the Board of Directors of the Group announced that Tanco Resorts Berhad (“TRB”), a wholly owned subsidiary of the Company, will be convening an Extra-Ordinary General Meeting (“EGM”) of Interval Owners of the Duta Vista Vacation Ownership (“DVVO”) Scheme on 18 December, 2016 to seek the approval for a proposed Pay-Out in cash to the respective Eligible Interval Owners based on an ascribed value per interval type, which would be determined premised on a RM30 million valuation of the DVVO timeshare apartment units and tabulated in accordance with the formula prescribed in the DVVO Trust Deed, the proposed Distribution thereof, and thereafter the proposed Termination and Dissolution of the DVVO Scheme. The proposal is subject to the approval by a 75% majority of present and voting intervals at the EGM. The proposal was duly approved by the DVVO Members at the Extraordinary General Meeting held on 18 December 2016 with a 97.71% majority from the 612 votes present and voting thereat. On 18 April 2017, the High Court of Malaya approved the application by Tanco Resorts Berhad and Pacific Trustees Berhad for the ratification of the

TANCO HOLDINGS BERHAD (3326-K)

Proposal and the said Court Order has been duly extracted and filed with the Companies Commission of Malaysia on 8 May 2017.

- (iv) On 10 February 2017, the Board of Directors of the Company ("Board") announced that the Board has received a notice of conditional mandatory take-over offer ("Notice") from Mercury Securities Sdn Bhd ("Mercury Securities"), on behalf of the Joint Offerors, to acquire the following:

(a) all the remaining ordinary shares in Tanco ("Tanco Shares") not already held by the Joint Offerors and such number of new Tanco Shares that may be issued pursuant to the conversion of any outstanding redeemable convertible notes 2016/2019 ("RCN") in Tanco and/or exercise of any outstanding options granted pursuant to Tanco's Share Issuance Scheme (collectively, "Offer Shares"); and

(b) any outstanding RCN ("Offer RCN"),

for a cash offer price of RM0.0812 per Offer Share and RM1.624 per Offer RCN ("Offer"). The Offer Shares and the Offer RCN shall be collectively referred to as "Offer Securities". In accordance with the Rules on Take-Overs, Mergers and Compulsory Acquisitions, the Board has resolved to engage an Independent Adviser to advise the non-interested Directors and holders of the Offer Securities on the Offer, to which an announcement on such engagement will be made accordingly in due course.

On 2 May 2017, the Company had received the press notice from Mercury Securities, on behalf of the Joint Offerors, informing that the Joint Offerors have received valid acceptances in respect of the Offer Shares resulting in the Joint Offerors holding in aggregate more than 50% of the voting shares of Tanco. Accordingly, the Acceptance Condition of the Offer has been fulfilled and the Offer has become unconditional. The Offer closed on 16 May 2017, with the Joint Offerors having 52.49% of the voting shares of Tanco thereat.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

- (i) On 19 January 2017, the Company had disposed 2,600,002 ordinary shares of RM1/- each, representing 100% of the total issued and paid-up share capital of DB Spa Villas Management Sdn Bhd (formerly known as Pentapeak Properties Sdn Bhd) ("DBSVM"), a direct wholly-owned subsidiary of the Company to Splash Park Sdn Bhd, a direct wholly-owned subsidiary of the Company for a total consideration of RM47,580.04. ("Internal Reorganisation").

The Internal Reorganisation was completed on 5 April 2017, whereupon DBSVM became an indirect wholly-owned subsidiary of the Company.

- (ii) On 30 March 2017, the Company had announced that Gerak Gaya Land Sdn Bhd ("GGLSB"), an indirect 54% owned dormant subsidiary of Tanco has received the final notice dated 29 December 2016 from Companies Commission of Malaysia ("CCM") indicating that the name of GGLSB has been struck off from the Register of the CCM pursuant to Section 308 of the Companies Act, 1965 with effect from 29 December 2016.

Save for the above note (i) & (ii), there was no material change to the composition of the Group during the current financial quarter under review.

TANCO HOLDINGS BERHAD (3326-K)

A13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

As at 31 March 2017, the Group has no other contingent assets and contingent liabilities save as disclosed below.

	RM'000
Corporate guarantees given by our Company to banks for credit facilities granted to the subsidiaries	<u>43,842</u>

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

B1. REVIEW OF PERFORMANCE

For the financial period ended 31 March 2017, the Group had recorded a loss before taxation ("LBT") of RM3.69 million as compared to a LBT of RM2.18 million in the preceding year corresponding financial period ended 31 March 2016. The increase in LBT was mainly attributed to lower property development revenue recognised during the financial period based on the stage of completion of the current development project. In addition, the Group also incurred higher administrative expenses and finance costs in the current quarter compared to the preceding year's corresponding quarter.

For the nine (9) months financial period ended 31 March 2017, the Group has recorded a LBT of RM8.67 million as compared to LBT of RM7.14 million in the preceding year's corresponding financial period 31 March 2016. The losses was primarily due to a reduction of revenue as compared to the preceding year's corresponding financial period, followed by higher administrative expenses and finance costs compared to preceding year's corresponding financial period.

B2. MATERIAL CHANGES IN THE QUARTERLY RESULTS COMPARED TO THE RESULTS OF THE PRECEDING QUARTER ENDED 31 DECEMBER 2016

For the current quarter ended 31 March 2017, the Group recorded revenue of RM3.03 million and a LBT of RM3.69 million as compared to RM0.54 million in revenue and a LBT of RM2.41 million for the preceding quarter ended 31 December 2016. The increase in revenue was mainly attributable to increase in development activities of Splash Park Suites in the current quarter ended 31 March 2017. However, the additional losses was mainly due to higher administrative expenses and finance costs compared to preceding quarter.

B3. PROSPECTS

With the current economic outlook, the overall sentiment is expected to remain challenging. However, with the ongoing focus and efforts by the government to support and enhance local tourism and tourism related developments and products, the Group's activities in the development of resort hotel projects should be well placed to benefit accordingly.

Attractive exchange rates for foreign currencies is also expected to weigh positively in attracting more foreign tourist arrivals whilst encouraging more domestic travels, and this will boost the demand and interest for tourism related developments and foreign investments in the same.

With this, coupled with the Group's ongoing endeavours for more strategic tie-ups and joint-ventures with branded local and foreign labels to provide the Group's projects with further enhanced branding, the Board is cautiously optimistic that the prospects of the Group will be satisfactory for the financial year ending 30 June 2017, and that it will be well positioned to prudently progress with its goals while constantly reviewing market conditions that more business opportunities may be developed, but at the same time remaining alert on the possible changes and policies in the property market.

TANCO HOLDINGS BERHAD (3326-K)

B4. PROFIT FORECAST

The Company did not announce any profit forecast nor profit guarantee for the current financial period under review.

B5. TAXATION

	Current Quarter 31/03/2017 RM'000	Current Period to date 31/03/2017 RM'000
Income Tax		
- Current period	-	7
	<u>-</u>	<u>7</u>

The Group's tax rate is disproportionate to the statutory tax rate due to unabsorbed tax loss and unutilised tax allowances and deferred tax benefits of certain companies within the Group.

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 disposal 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>2</u>

B8. STATUS OF CORPORATE PROPOSALS

Save for the following, there are no other corporate proposals announced by the Company but not completed as at 24 May 2017, being the latest practicable date, which is not earlier than 7 days from the date of issue of this quarterly report.

(a) Redeemable Convertible Notes program ("RCN")

On 29 September 2016, all the conditions precedent in relation to RCN Issue has been fulfilled.

As at 24 May 2017, the Company has issued twenty-six (26) Sub-Tranches under Tranche 1 of the RCNs amounting to RM13.0 million of which RM2 million was issued from September to December 2016; RM9.0 million was issued from January

TANCO HOLDINGS BERHAD (3326-K)

to March 2017 and RM2.0 million was issued in April 2017. Following the aforesaid issuance, RCNs of RM12.0 million were converted into a total of 230,599,756 new ordinary shares of the Company.

As at the date of this report, the status of the utilisation of the gross proceeds of RM13.0 million arising from the RCN issuance is as follows:-

Purposes	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Explanations
Splash Park project	79,600	7,613	Within thirty six (36) months	
Acquisition of land	5,500	550	Within twelve (12) months	
Repayment of bank borrowings	1,000	-	Within twelve (12) months	
Working capital	6,400	3,250	Within thirty six (36) months	Note A
Estimated expenses in relation to the Proposals	7,500	1,587	Within thirty six (36) months	
Total	100,000	13,000		

Note A: The utilisation of the proceeds is within the estimated timeframe. The Group does not expect any material deviation as at the date of this quarterly report.

(b) Proposed En-Bloc Sale Of All The Unit Parcels In Duta Vista Executive Suites

On 8 February 2017, the Board of Directors of the Company announced that Tanco Properties Sdn. Bhd. ("TPSB") and Tanco Resorts Bhd ("TRB"), both indirect wholly-owned subsidiaries of Tanco, had on 8 February 2017 entered into a conditional Sale and Purchase Agreement ("SPA") with Eternal Village Sdn. Bhd. ("ETERNAL") to dispose of all the unit parcels in Duta Vista Executive Suites ("DVES") bearing address at No. 1, Persiaran Ledang, Off Jalan Tuanku Abdul Halim, 50480 Kuala Lumpur and sited on Master Title GRN 26990 Lot 131 Seksyen 97, Bandar Kuala Lumpur, Daerah Kuala Lumpur for a total cash consideration of Ringgit Malaysia Fifty Million (RM50,000,000.00) only ("Purchase Price"), subject to the terms and conditions as stipulated in the SPA ("the Proposed Disposal").

On 28 April 2017, the Company had submitted an application to Bursa Securities to seek an extension of time till 31 May 2017 to comply with paragraph 9.33(1)(a) of the Main Market Listing Requirements of Bursa Securities for the submission of the draft circular in relation to the Proposed Disposal and Bursa Securities had on 4 May 2017 approved the said application for the extension of time. The draft circular in relation to the Proposed Disposal was submitted to Bursa Securities on 3 May 2017 for review. With this, the Proposed Disposal is presently expected to be completed by the end of September 2017.

B9. GROUP BORROWINGS AND DEBT SECURITIES

Total Group's borrowings as at 31 March 2017 are as follows: -

	As at 31/03/2017 RM'000
Short term borrowings	
Secured: -	
- Bank overdraft	2,493
- Hire purchase and lease liabilities	313
- Term loan	1,789
	<u>4,595</u>
Long Term Borrowings	
Secured: -	
- Hire purchase and lease liabilities	742
- Bridging loan	38,772
- Term loan	3,281
	<u>42,795</u>
Total	<u>47,390</u>

The above borrowings are denominated in Ringgit Malaysia (RM).

B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As at 24 May 2017, being the latest practicable date, which is not earlier than 7 days from the date of issue of this quarterly report, the Group does not have any off balance sheet financial instruments.

B11. MATERIAL LITIGATION

As at 24 May 2017, being the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report, the Group is not engaged in any material litigation except for:

- i. Claims by 2 sets of purchasers against a wholly-owned subsidiary of the Company for specific performance and damages on units purchased totalling approximately RM758,148.97. Following hearings and appeals on the matter, the claims for specific performance have been dismissed and only the issue of damages remains to be re-assessed by the court. Following hearings for the assessment of damages, the Court awarded the purchasers the sums of RM75,054.00 (with an allocatur of RM3,002.15) and RM78,056.11 (with an allocatur of RM3,112.20) respectively. The Purchasers filed an appeal on this award with 29 June 2016 set for hearing of the appeal. Pursuant to the hearing of both the purchasers' appeals on the issue of assessment for damages, the High Court on 27 July 2016 had ordered the subsidiary to pay RM165,054.00 and RM168,056.00 plus interest and cost of RM20,000.00 respectively to each of the purchasers. The subsidiary is appealing the said decisions to the Court of Appeal. The subsidiary's application in relation to the said Appeals has been allowed by the Court on 23 February 2017 together with an interim stay of execution. The hearing date for 1 of the said Appeals has been set for 4 July 2017 and the subsidiary's lawyers are applying for the other of the said Appeals to be heard concurrently on 4 July 2017 in the same court.

TANCO HOLDINGS BERHAD (3326-K)

- ii. A claim against a wholly-owned subsidiary of the Company by a group of claimants for damages, the sum of RM4,679,261/- together with interest at the rate of 8.9% per annum from 24 October 2003 until realisation, late payment interest and such further relief as the court may allow. This claim was 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. No provision for losses has been made as the directors, based on the Company's solicitor's advice, are confident that the subsidiary will succeed in its defence. The claimants have also not pursued any further action on their counterclaim against the subsidiary since judgment was taken against the claimants by the financial institution in October 2007. Solicitors of the subsidiary are in the process of checking court records on whether the claimants counterclaim was struck off when judgment was entered against the claimants in 2007, and with the relevant authorities on the current status of the claimants (as some Claimants have already been wound-up and/ or made bankrupts), before filing an application against the claimants to strike out the counterclaim for want of prosecution.

B12. DIVIDEND

There was no dividend declared during the current quarter under review.

B13. LOSS PER SHARE

<u>Basic</u>		Current Period Quarter	Preceding Year Corresponding Quarter	Current Period To Date	Preceding Year Corresponding Period
		<u>31/03/2017</u>	<u>31/03/2016</u>	<u>31/03/2017</u>	<u>31/03/2016</u>
Net loss attributable to owners of the Company	(RM'000)	(3,688)	(2,180)	(8,670)	(7,131)
Weighted average number of ordinary shares	('000)	630,431	334,887	630,431	334,887
Basic loss per share	(Sen)	(0.58)	(0.65)	(1.38)	(2.13)

As at 31 March 2017, the Group has no potential dilutive ordinary shares. As such, there is no dilutive effect on the net loss per share of the Group for the current quarter under review.

TANCO HOLDINGS BERHAD (3326-K)

B14. DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

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

	As at 31/03/2017 (Unaudited) RM'000	As at 30/06/2016 (Audited) RM'000
Total retained profits of the Group:-		
- Realised	62,499	72,897
- Unrealised	-	-
Total group retained profits as per statements of financial position	<u>62,499</u>	<u>72,897</u>

By Order of the Board,

Chan Keng Yew
Choi Siew Fun
Company Secretaries
Date: 30th May 2017