

TANCO HOLDINGS BERHAD (3326-K)

Notes to the Interim Financial Statements For the First Quarter ended 30 September 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 2017. 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 2017.

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 2017.

A3. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the Group’s audited financial statements for the financial year ended 30 June 2017 was not subject to any audit qualification.

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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.

A8. DIVIDEND PAID

No dividend has been paid for the current financial period.

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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.

3 months ended 30-Sept-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	1,789	8,889	-	-	-	10,678
Inter-segment sales	18	105	-	1	(124)	-
Total revenue	1,807	8,994	-	1	(124)	10,678
Results						
(Loss)/Profit from operations	(2,272)	7,904	(35)	2,310	(3,314)	4,593
Finance costs						(795)
Profit before taxation						3,798
Taxation						-
Profit after taxation						3,798
Other comprehensive income						-
Total comprehensive income						3,798
Other Information						
Depreciation and amortisation	154	510	-	4	798	1,466
Consolidated Statements of Financial Position						
Assets						
Segment assets	338,753	115,041	8,647	269,529	(423,425)	308,545
Liabilities						
Segment liabilities	(256,697)	(114,036)	(9,284)	(129,796)	363,366	(146,447)

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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 22 November 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 22 November 2017, the balance of the advance maintenance fees to be refunded to the Eligible VSC Members concerned has been remitted to the VSC Trustee to effect the necessary payments.

- (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 (“MOU”) 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. As at 22 November 2017, there is no new major development on the said MOU.
- (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 TRB and Pacific Trustees Berhad (“PTB”) for the ratification of the Proposal and subsequently on 8 May 2017, the said Court Order has been duly extracted and filed with the Companies Commission of Malaysia on 8 May 2017. On 3 October 2017, TRB has remitted the

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requisite funds for the Pay-Outs to PTB for its distribution of the same to the Eligible Interval Owners.

- (iv) On 2 October 2017, the Board of Directors of the Group announced that Tanco Properties Sdn. Bhd., an indirect wholly-owned subsidiary of the Company, had entered into a Sale and Purchase Agreement (“SPA”) with Wawasan Indera Sdn. Bhd. to acquire a four-storey building together with all its existing fittings and fixtures and with a gross floor area of approximately 16,355 sq. ft., erected on all that piece of freehold land measuring approximately 435 square metres held under an individual title Geran 71214, Lot 53489, Pekan Kinrara, Daerah Petaling, Negeri Selangor bearing postal address at No. 1, Jalan Bandar Satu, Pusat Bandar Puchong, 47160 Puchong, Selangor Darul Ehsan (“the Property”) for a total cash consideration of Ringgit Malaysia Eight Million (RM8,000,000.00), subject to the terms and conditions as stipulated in the SPA.
- (v) On 20 November 2017, the Board of Directors of the Group announced that Palm Spring Development Sdn Bhd (“PSD”), an indirect wholly owned subsidiary of Company had executed a Facilitation Fund Agreement (“FFA”) with the Government of Malaysia as represented by the Public Private Partnership Unit, Prime Minister’s Department (“the Government”) and Bank Pembangunan Malaysia Berhad wherein subject to the terms and conditions of the FFA, the Government has agreed to provide a grant up to Ringgit Malaysia Twelve Million and Eight Hundred Thousand (RM12,800,000.00) only to PSD to facilitate the planning, designing, financing, development, construction, equipping, installation, completion, testing and commissioning of a theme park and hotel to be known as “Splash Park” consisting of the following project on Lot PT 2764 and PT 2765, Mukim Pasir Panjang, Port Dickson, Negeri Sembilan together the necessary facilities and infrastructures (“the Project”): (a) a water theme park, (b) 1 block of 18 storey hotel and convention hall, (c) 1 block of 24 storey service apartment and (d) 1 block of 20 storey service apartment.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

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

A13. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

As at 30 September 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>37,280</u>

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

B1. REVIEW OF PERFORMANCE

For the financial period ended 30 September 2017, the Group had recorded a profit before taxation (“PBT”) of RM3.80 million as compared to a loss before taxation (“LBT”) of RM2.58 million in the preceding year corresponding financial period ended 30 September 2016. The increase in PBT was mainly attributed to higher property development revenue recognised during the financial period based on the stage of completion of the current development project and higher revenue generated from resort division.

B2. MATERIAL CHANGES IN THE QUARTERLY RESULTS COMPARED TO THE RESULTS OF THE PRECEDING QUARTER ENDED 30 JUNE 2017

For the current quarter ended 30 September 2017, the Group recorded revenue of RM10.68 million and a PBT of RM3.80 million as compared to RM4.60 million in revenue and a LBT of RM2.77 million for the preceding quarter ended 30 June 2017. The increase in revenue was mainly due to higher revenue recognition from resort division in the current quarter ended 30 September 2017.

B3. PROSPECTS

With the current economic outlook, the overall sentiment is expected to remain challenging for Financial Year 2017/2018. 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 the development of the Splash Park project progressing well and with the other resort development phases in Dickson Bay attracting keen interest both from prospective investors and operators, 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 following the financial year ending 30 June 2018, 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 in the trends and policies in the property market.

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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 30/09/2017 RM'000	Current Year to date 30/09/2017 RM'000
Income Tax		
- Current year	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</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>

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B8. STATUS OF CORPORATE PROPOSALS

Save for the following, there are no other corporate proposals announced by the Company but not completed as at 22 November 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")

As at 22 November 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 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.

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(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”).

The Proposed Disposal was approved by the shareholders at the Extraordinary General Meeting held on 6 July 2017.

As at the date of this report, the status of the utilisation of the proceeds raised from the Proposed Disposal is as follows:-

Purposes	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Explanations
Repayment of bank borrowings / Redemption Sum	5,000	4,556	Within six (6) months	
To settle TRB’s commitment on the DVVO Scheme / timeshare’s dissolution	21,430	21,430	Within six (6) months	
Working capital	17,420	15,330	Within twenty-four (24) months	Note A
Real Property Gain Tax under the SPA	150	-	Within six (6) months	
Future development and/or investments	5,500	3,500	Within twelve (12) months	
Defray estimated expenses in relation to the Proposed Disposal	500	31	Within one (1) month	
Total	50,000	44,847		

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.

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B9. GROUP BORROWINGS AND DEBT SECURITIES

Total Group's borrowings as at 30 September 2017 are as follows: -

	As at 30/9/2017 RM'000
Short term borrowings	
Secured: -	
- Bank overdraft	2,399
- Hire purchase and lease liabilities	306
	<u>2,705</u>
Long Term Borrowings	
Secured: -	
- Hire purchase and lease liabilities	617
- Bridging loan	37,279
	<u>37,896</u>
Total	<u>40,601</u>

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

B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

As at 22 November 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

The Group has no outstanding material litigation for the financial period ended 30 September 2017.

B12. DIVIDEND

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

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B13. PROFIT/(LOSS) PER SHARE

<u>Basic</u>		Current Period Quarter	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Year
		<u>30/09/2017</u>	<u>30/09/2016</u>	<u>30/09/2017</u>	<u>30/09/2016</u>
Net income/(loss) attributable to owners of the Company	(RM'000)	3,798	(2,578)	3,798	(2,578)
Weighted average number of ordinary shares	('000)	661,650	334,887	661,650	334,887
Basic earnings/(loss) per share	(Sen)	0.57	(0.77)	0.57	(0.77)

As at 30 September 2017, the Group has no potential dilutive ordinary shares. As such, there is no dilutive effect on the net profit/(loss) per share of the Group for the current quarter under review.

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 30/09/2017 (Unaudited) RM'000	As at 30/06/2017 (Audited) RM'000
Total retained profits of the Group:-		
- Realised	65,012	61,213
- Unrealised	-	-
Total group retained profits as per statements of financial position	65,012	61,213

By Order of the Board,

Choi Siew Fun
Chan Keng Yew
Company Secretaries
Date: 28th November 2017