

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

A. Explanatory Notes to the Interim Financial Statements as required by FRS134

A1. Basis of preparation

The interim financial report has been prepared in accordance with Financial Reporting Standard 134, Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of Hunza Properties Berhad Group (“the Group”) for the year ended 30 June 2012. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions so as to give a true and fair view of the state of affairs of the Group as of 30 June 2013 and of its result and cash flow for the year then ended.

A2. Changes in accounting policies

The significant accounting policies and methods of computation adopted by the Group in the interim financial statements are consistent with those of the audited financial statements for the year ended 30 June 2012 except for the adoption of:

- i). FRSs, Interpretation and Amendments effective for annual periods beginning on or after 1 January 2012
 - FRS 124, Related Party Disclosures (revised)
 - Amendments to FRS 1, First-time Adoption of Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
 - Amendments to FRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets
 - Amendments to FRS 112, Income Taxes - Deferred Tax: Recovery of Underlying Assets
- ii). Amendments effective for annual periods beginning on or after 1 July 2012
 - Amendments to FRS 101, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income

Adoption of the above FRSs, Interpretation and Amendments do not have any significant impact on the Group’s financial position and results.

Malaysian Financial Reporting Standards, MFRSs

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the MFRS Framework. The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture and IC Interpretation 15 Agreements for Construction of Real Estate, including its parents, significant investor and venture (herein called “Transitioning Entities”) which are granted an initial grace period of one year. Subsequently, on 30 June 2012, MASB extended the aforementioned transition period for another one year.

The Group falls within the scope definition of Transitioning Entities and have opted to defer adoption of the new MFRS Framework. Accordingly, the Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 30 June 2015. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. Such adjustments required will be made retrospectively.

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A3. Declaration of audit qualification

The annual financial statements of the Group for the immediate preceding financial year ended 30 June 2012 were not subject to any qualification on the report of the auditors.

A4. Seasonal or cyclical factors

The business operations of the Group have not been significantly affected by seasonal or cyclical factors, except being primarily a property developer, it is highly correlated to the nation's economy.

A5. Unusual items due to their nature, size or incidence

There were no items affecting assets, liabilities, equity, net income or cash flows that were unusual because of their nature, size, or incidence for the financial period under review.

A6. Changes in estimates

There were no material changes in estimates for the financial period under review.

A7. Debt and equity securities

The number of treasury shares brought forward from the last financial year ended 30 June 2012 was 13,034,600 ordinary shares of RM1 each at total cost of RM20,082,122. During this financial period, HPB has bought back a further 113,000 ordinary shares at the average price of RM1.47 per share. All the above ordinary shares bought back were held as treasury shares in accordance with the requirements of Section 67A of the Companies Act, 1965 and the balance of treasury shares as at 30 September 2012 is accordingly 13,147,600. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 September 2012 (up to 14 November 2012), the Group has not further bought back any other ordinary shares.

On 3 March 2010, 43,679,467 warrants were granted by the Company to the subscribers of the rights shares. The warrants may be exercised at any time on or after the issue date but not later than 5.00 p.m. on 2 March 2015. The number of unexercised warrants as at 1 July 2011 was 43,632,483. During the financial period, no shares have been issued by virtue of exercise of warrants. Hence as at 30 September 2012, 43,632,483 warrants remained unexercised. Subsequent to 30 September 2012, no warrant has been exercised.

A8. Dividend paid/payable

No dividend was paid during the period under review

Please see B11 for proposed final dividend.

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A9. Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units.

	Property Development RM'000	Property Investment RM'000	Construction RM'000	Trading RM'000	Total reportable segment RM'000	Other non-reportable segments RM'000	Elimination RM'000	Consolidated RM'000
Financial period ended 30 September 2012								
External revenue	25,976	1,000	30	-	27,006	10	-	27,016
Inter-segment revenue	-	107	2,109	9,066	11,282	1,179	(12,461)	-
Segment profit / (loss)	12,087	(1,076)	(6)	107	11,112	111	(412)	10,811
Segment assets	361,173	527,910	5,226	8,956	903,265	4,709	-	907,974
Financial period ended 30 September 2011								
External revenue	27,214	-	-	-	27,214	78	-	27,292
Inter-segment revenue	27	-	1,160	6,333	7,520	812	(8,332)	-
Segment profit	11,226	331	(438)	18	11,137	(208)	(351)	10,578
Segment assets	359,288	269,350	5,891	8,452	642,981	27,758	-	670,739

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A10. Valuations of property, plant & equipment

The value of land and buildings is stated at 2010 valuation less accumulated depreciation, after a revaluation exercise carried out on 21 May 2010 by an independent firm of professional valuers using “open market value with existing use” basis. This was in line with our policy that freehold office units and apartments and buildings (held for own use) stated at valuation are revalued at regular intervals of at least once in every five years.

A11. Valuations of investment properties

The value of such are based upon a valuation exercise carried out by independent firms of professional valuers and/or directors. The valuations were arrived at by reference to market evidence of transaction prices for similar properties. This was in line with our policy upon adoption of FRS 140, that investment properties are revalued at regular intervals of at least once every year.

A12. Material events subsequent to the interim reporting period

There are no material events subsequent to the end of the period reported on that have not been reflected in the financial statements for the said period.

A13. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter except for the following:

- (i) Acquisition of 2 ordinary shares of RM1.00 each in Panorama Diversified Sdn. Bhd. (“PDSB”) and 2 ordinary shares of RM1.00 each in Ratusan Venture Sdn. Bhd. (“RVSB”) by Bandar Kepala Batas Sdn. Bhd. (“BKB”), a subsidiary of the Company on 5 September 2012, resulting in PDSB and RVSB becoming wholly owned subsidiaries of BKB.

The principal activity of PDSB and RVSB is to build, construct, maintain on land and other landed, immovable or real property, buildings such as office blocks, commercial and other complexes for rental and long term investment purposes.

Please refer to our public announcement dated 5 September 2012.

A14. Capital commitments

Capital commitments not provided for in the financial statement as at 30 September 2012 are for the mall and office tower components of Gurney Paragon integrated development. The commitments are as follow:

	RM'000
Contract sum	282,054
Less: Progress claims certified to date	<u>(186,683)</u>
Contracted but not provided for	<u>95,371</u>

A15. Contingent liabilities

There were no contingent liabilities as at 30 September 2012.

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A16. Significant related party transactions

There were no significant related party transactions for the financial period to-date.

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B. Additional information required by the listing requirements of Bursa Malaysia Securities Berhad

B1. Performance review of the Group

The Group achieved revenue of RM27 million and profit before taxation of RM10.1 million for current quarter as compared to RM27.3 million and RM10.3 million respectively in preceding year's corresponding quarter.

The Group recorded a higher gross profit margin for current quarter as a result of write back of provisions no longer required resulting from completed projects amounting to RM2.4 million.

Operating expenses for current quarter was higher compared to preceding year's corresponding quarter due to the commencement of operation of 1st Phase of Gurney Paragon's retail mall in second quarter of fiscal 2012.

B1.1 Performance and current year prospects of each operating segment

i) Property Development

Revenue for the current quarter declined by RM1.2 million (5%) as compared to preceding year's corresponding quarter, mainly resulting from fewer completed units sold for Gurney Paragon Condominiums.

The Phase 3 double storey terrace houses in Bandar Putra Bertam will be launched in the near future; together with the double-storey semi-detached houses (launched last year), these 2 products will be contributing significantly to the Group's revenue and profit in this financial year.

ii) Property Investment

Revenue, which comprises rental income from tenants at Gurney Paragon's retail podium and St. Jo's heritage building, amounted to RM1 million for the current quarter. This is a new stream of recurring income which just started for Hunza, after obtaining Certificate of Fitness for Occupation late first half of fiscal 2012. This revenue contribution will increase significantly to the Group upon completion and operation of the Gurney Paragon Phase 2 Retail Mall and Office Tower next year.

iii) Construction and Trading

The construction and trading activities of the Group comprise mainly sales of building materials to contractors for Bertam and Gurney Paragon projects. The purpose of these activities is mainly for sourcing materials at a better quality and pricing directly from the manufacturers for the Group's own development and investment projects.

B2. Material changes in the quarterly results as compared with preceding quarter

There is a decrease of RM68 million in the Group's current quarter net profit compared to the preceding quarter ended 30 June 2012. This is mainly due to the revaluation exercise on investment properties carried out in preceding quarter which resulted in a gain of RM69.1 million.

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B3. Prospects for the current financial year

Going forward, on “Property Development” segment, the Group shall concentrate on selling the remaining completed condominium units of Gurney Paragon Condominiums (with prices at a higher level than when under construction) as well as marketing and constructing the Phase 3 double storey semi-detached and terrace houses in Bandar Putra Bertam.

As for “Property Investment” segment, Hunza will maintain focus on the construction and tenancing of Gurney Paragon Phase 2 Retail Mall and Office Tower.

Based on the above factors, the Board is confident that the Group will continue to record a decent performance in current financial year.

B4. Variance of actual profit from forecast profit

Not applicable. The Group has not published any profit forecast nor profit guarantee for the period under review.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.09.2012 RM'000	Corresponding Quarter ended 30.09.2011 RM'000	Current period to date ended 30.09.2012 RM'000	Corresponding period to date ended 30.09.2011 RM'000
Current tax expenses				
- Current year	(3,307)	(2,611)	(3,307)	(2,611)
	<u>(3,307)</u>	<u>(2,611)</u>	<u>(3,307)</u>	<u>(2,611)</u>

The effective tax rate is higher than statutory rate because of intergroup transfer of land held for property development is subject to income tax.

B6. Status of corporate proposals

There were no corporate proposals that have been announced but not yet completed during the period under review.

B7. Long-term receivables

Pursuant to paragraph 8.23 (1)(ii), (2)(e) and PN No.11/2001 of the Bursa Securities Listing Requirements, the Board of HPB wishes to announce the financial assistance provided by the Group during the period are as follows:

Nilai Arif Sdn Bhd (“NASB”)

A wholly-owned subsidiary of the Company, Hunza Properties (North) Sdn. Bhd. (“HPN”) had entered into an agreement with NASB whereby NASB appointed HPN as project manager cum consultant to provide evaluation and advisory services on a mixed development project “Alila 2”. HPN had agreed to provide a sum of up to RM60 million as security deposits and/or financial assistance to NASB in the form of corporate guarantee for banking facilities for the mixed development project. HPN is entitled to a share of the profit generated from the said development.

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B7. Long-term receivables (Cont'd)

As at 30 September 2012, the amount of security deposit provided by the subsidiary company to NASB is RM11 million and there was no corporate guarantee given by HPB group at that juncture. The security deposit shall be repaid to HPN before NASB is entitled to its share of profit.

No share of profit was recorded for the period ended 30 September 2012 under this agreement as the said project has not been launched yet.

B8. Group borrowings

Details are as follows:

	<u>RM'000</u> Unsecured	<u>RM'000</u> Secured	<u>RM'000</u> Total
<u>Current</u>			
Bankers' acceptances	3,560	-	3,560
Bank overdrafts and revolving credit	-	19,271	19,271
Finance lease liabilities	-	104	104
Long-term borrowings due less than 1 year	-	2,328	2,328
	<u>3,560</u>	<u>21,703</u>	<u>25,263</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	-	189,001	189,001
Long-term borrowings due more than 5 years	-	30,856	30,856
	<u>-</u>	<u>219,857</u>	<u>219,857</u>

All borrowings are denominated in *Ringgit Malaysia*. Those secured are by way of legal charge over lands, fixed and floating charge over other assets and corporate guarantee.

The Group's secured long-term loans obtained from local licensed banks bear interest rates ranging from 1% to 2.5% above the banks' cost of funds and 1.25% above the lending bank's base lending rate.

The Group's bank overdrafts and bankers' acceptances bear interest rates at 1% to 2% above the lending bank's base lending rate. The revolving credit bear interest rates ranging from 1.25% to 2% above the banks' cost of funds per annum and the finance lease liabilities are subject to fixed interest rates ranging from 2.46% to 3.80% per annum.

B9. Breakdown of realised and unrealised profits or losses of the Group

	At end of current quarter 30 September 2012 RM'000
Realised profits	220,510
Unrealised profits	116,726
Total retained profits	<u>337,236</u>

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B10. Changes in material litigation

(i) Civil suit between Hunza Parade Development Sdn. Bhd. ("HPD") and The Kwangtung and Tengchow Association Penang ("Kwangtung")

HPD, a 92.5% owned subsidiary, had filed a civil suit against the trustees of Kwangtung on the wrongful termination and repudiation of a joint venture agreements (the "JV Agreement") by Kwangtung which had the effect of preventing HPD from undertaking the development of a commercial block.

The Court had on 30 June 2011 dismissed HPD's claim with costs of RM20,000 wherein the Court found that "time is of essence" of the JV Agreement and that the JV Agreement had expired without any further agreement to extend time. Therefore there is no wrongful termination and HPD cannot claim any damages thereof.

HPD had on 21 July 2011 filed a Notice of Appeal to the Court of Appeal against the decision of the High Court on 30 June 2011 in dismissing HPD's claim for wrongful determination of the JV Agreement. Hearing date is yet to be fixed.

Please refer to our public announcements dated 1 July 2011 and 21 July 2011.

(ii) Arbitration & Litigation between Hunza Properties (Gurney) Sdn Bhd ("HPG"), Hunza Properties (Penang) Sdn Bhd ("HPP") and PLB-KH Bina Sdn Bhd ("PLB-KH")

On 3 September 2009, HPG and HPP, wholly-owned subsidiaries of the Company issued a Notice of Arbitration referring the disputes and differences between HPP and HPG, and PLB-KH under the contract dated 14 January 2008 entered among HPP, HPG and PLB-KH ("the Contract") to arbitration. The Contract was for the basement construction works of the Gurney Paragon Project. HPP's and HPG's claims are premised upon PLB-KH's breaches of the Contract and for loss and damages as a result thereof.

The hearing of the arbitration has commenced from 16th May 2012 to 18th May 2012 with the Claimants' opening statement and statement of the Claimant's first witness. The Claimants' case continued on 30th May 2012 and 31st May 2012. The arbitration hearing is to continue at the next tranche of hearings fixed from 26th November 2012 to 30th November 2012.

The solicitors are of the preliminary opinion that HPP and HPG have a good arguable case against the Respondent in the arbitration.

(iii) Writ action filed by HPG and HPP against PLB Engineering Bhd ("PLB Eng")

HPG and HPP have on 3 November 2009 jointly commenced a Writ Action against PLB Eng which is the holding company of PLB-KH pursuant to the Letter of Corporate Guarantee dated 20 August 2008 wherein PLB Eng guaranteed a sum of RM1.52 million amounting to 5% of the contract price of the Contract. HPP and HPG subsequently filed a Summons in Chambers seeking for summary judgment of the sum of RM1.52 million together with interest of 8% on the sum of RM1.52 million from 9 September 2009 to the date of full settlement, and costs ("Summary Judgment").

On 21 September 2010, the High Court granted Summary Judgment in favour of HPP and HPG.

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B10. Changes in material litigation (Cont'd)

(iii) Writ action filed by HPG and HPP against PLB Engineering Bhd (“PLB Eng”) (Cont'd)

PLB Eng had on the same day, 21 September 2010, lodged a Notice of Appeal at the Court of Appeal against the decision of the High Court Judge in granting the Summary Judgment. In the meanwhile, the High Court Judge has granted a stay of execution of the Summary Judgment pending the disposal of the Defendant’s Appeal at the Court of Appeal. The hearing of PLB Eng’s Appeal was heard, and dismissed by the Court of Appeal on 29 March 2012.

The solicitors acting for HPG and HPP had on 28 April 2012 received a letter from the Federal Court that PLB Eng’s Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal has been allowed.

Pursuant to the case management at the Federal Court on 22 October 2012, the Court has fixed the hearing for PLB Eng’s Leave Application on 19 February 2013.

HPG and HPP’s solicitors are of the opinion that HPG and HPP have a good arguable case against PLB Eng.

(iv) Writ Action filed by Ikatan Kelab-Kelab Melayu Negeri Pulau Pinang & 33 Others against Bandar Kepala Batas Sdn Bhd (“BKB”) as one of the 9 Defendants

BKB, a 70% owned subsidiary of the Company was served with a Writ of Summons and Statement of Claim both dated 7th September 2010 (“Writ Action”) filed by Ikatan Kelab-Kelab Melayu Negeri Pulau Pinang & 33 Others as the Plaintiffs against 9 Defendants, in which BKB is one of the 9 Defendants.

In the Writ Action, the Plaintiffs are seeking for, inter alia, a declaration that the Joint Venture Agreement entered into between BKB on the one part and Kumpulan Pinang Hartanah Sdn Bhd (“the 3rd Defendant named in the Writ Action) and Kumpulan Pinang Properties Sdn Bhd (“the 9th Defendant named in the Writ Action”) on the other part, is null and void.

BKB had filed an application to strike out the Plaintiffs’ claim against it on the grounds, inter alia, that the Plaintiffs have no locus standi to commence this Writ Action and/or otherwise frivolous and vexatious. The striking out applications were heard before the High Court Judge In Chambers, and the decision was delivered on 27 April 2011 whereby the High Court allowed the striking out applications with costs on the ground that the plaintiffs had no locus standi to commence the action, and the Plaintiffs’ claims were thereby struck out *in limine*.

The Appellants then appealed against the High Court’s decisions.

On 5 January 2012, the Court of Appeal dismissed the Appellants’ appeals with costs, and affirmed the decisions of the High Court Judge.

The Appellants have now filed a Motion at the Federal Court for leave to appeal against the said decision of the Court of Appeal. On 18 June 2012, the Federal Court has, after hearing submission from counsel, allowed the Appellants’ application for leave to proceed with their appeal to the Federal Court on its merits, and ordered that costs of the application to be in the cause. Pursuant to the case management held on 19 September 2012 at the Federal Court, the Court has fixed the hearing date of the Appeal proper on 3 December 2012.

BKB’s solicitors in this matter, are of the opinion that BKB have a good arguable case against the Plaintiffs.

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B11. Proposed dividend

The board of directors proposed a final single tier dividend of RM0.056 per ordinary share, in respect of the financial year ended 30 June 2012. The proposed dividend if payable in respect of all outstanding ordinary shares in issue as of 30 June 2012 would amount to RM10.16 million. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting of the company.

B12. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Profit for the period by the weighted average number of ordinary shares in issue during the period, excluding treasury shares held by the Company.

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 30.09.2012 RM'000	Corresponding quarter ended 30.09.2011 RM'000	Current period ended 30.09.2012 RM'000	Corresponding period ended 30.09.2011 RM'000
Profit attributable to ordinary shareholders	6,006	7,476	6,006	7,476
Weighted average number of ordinary shares in issue (excluding treasury shares)	181,322	186,972	181,322	186,972
Basic earnings per ordinary share (sen)	3.31	4.00	3.31	4.00

(b) Diluted

The diluted earning per share is based on the profit attributable to ordinary shareholders and after adjusting for notional savings on interest arising from proceeds resulting from the conversion of warrants. The weighted average numbers of ordinary shares in issue during the period have also been adjusted for the dilutive effects of all potential ordinary shares, i.e shares exercisable under warrants.

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 30.09.2012 RM'000	Corresponding quarter ended 30.09.2011 RM'000	Current period ended 30.09.2012 RM'000	Corresponding period ended 30.09.2011 RM'000
Profit attributable to ordinary shareholders	6,139	7,612	6,139	7,612
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	193,099	199,028	193,099	199,028
Diluted earnings per ordinary share (sen)	3.18	3.82	3.18	3.82

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B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.09.2012 RM'000	Corresponding Quarter ended 30.09.2011 RM'000	Current Period to date ended 30.09.2012 RM'000	Corresponding Period to date ended 30.09.2011 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	727	615	727	615
Property, plant and equipment written off	2	9	2	9
Interest expenses	710	372	710	372
Impairment loss on financial assets	-	-	-	-
Net foreign exchange loss	-	-	-	-
Receivables written off	-	-	-	-
Write-down of inventories	-	-	-	-
and after crediting:				
Gain on disposal of financial assets	56	4	56	4
Gain on disposal of property, plant and equipment	-	34	-	34
Interest income	455	550	455	550

B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.09.2012 RM'000	Preceding Year Corresponding Quarter ended 30.09.2011 RM'000
Cash and bank balances	16,468	14,561
Deposits with licensed banks	61,315	72,163
Bank overdraft	(271)	(1,058)
	<u>77,512</u>	<u>85,666</u>
Less : Deposit pledged	(117)	(169)
Sinking fund and service charges deposit placed on behalf of housebuyers	-	(2,348)
	<u>77,395</u>	<u>83,149</u>

During the current financial period, the Group refunded the sinking fund and service charges deposit placed on behalf of housebuyers to the residents' association.

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B15. Derivative financial instruments

There were no financial instruments with off balance sheet risk for the financial period under review.

B16. Gains or Losses arising from fair value changes of financial liabilities

There were no gains or losses resulting from fair valuing of financial liabilities for the financial period under review.

By Order of the Board
Hunza Properties Berhad

GUNN CHIT GEOK
CHEW SIEW CHENG
Secretaries

Penang

27 November 2012