

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 (“FRS”), 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 2013. 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 September 2013 and of its result and cash flows for the period 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 2013 except for the adoption of the following new FRSs and amendments to FRSs that are effective for annual periods beginning on 1 January 2013, as disclosed below: -

- FRS 10, Consolidated Financial Statements
- FRS 13, Fair Value Measurement
- FRS 119, Employee Benefits (2011)
- FRS 127, Separate Financial Statements (2011)
- Amendments to FRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to FRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to FRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to FRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- Amendments to FRS 10, Consolidated Financial Statements: Transition Guidance

Adoption of the above FRSs 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 Interpretations Committee (“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 and on 7 August 2013; it was extended for further 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 2016. 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.

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

A3. Declaration of audit qualification

The annual financial statements of the Group for the immediate preceding financial year ended 30 June 2013 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 2013 was 13,188,000 ordinary shares of RM1 each at total cost of RM20,340,445. During this financial period, HPB has bought back a further 1,000 ordinary shares at the average price of RM2.18 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 2013 is accordingly 13,189,000. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 September 2013 (up to 28 November 2013), the Group has bought back a further 588,500 ordinary shares at the average price of RM2.32 per share; these were also treated as treasury shares.

However, on 11 November 2013, a total of 5,130,848 treasury share had been distributed to the entitled shareholders as special interim share dividend. See note B11 on dividend.

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 2013 was 43,632,483. During the financial period, 95,300 shares have been issued by virtue of exercise of warrants. Hence as at 30 September 2013, 43,131,883 warrants remained unexercised.

Subsequent to 30 September 2013 (up to 28 November 2013), 6,179,900 shares have been issued by virtue of exercise of warrants.

A8. Dividend paid

No dividend was paid during the period under review

Refer to note B11 for dividend declared / proposed.

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

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 2013								
External revenue	23,692	7,143	24	-	30,859	452	-	31,311
Inter-segment revenue	-	292	29	1,399	1,720	987	(2,707)	-
Segment profit / (loss)	9,188	(253)	(274)	(19)	8,642	(461)	(378)	7,803
Segment assets	308,137	827,230	1,791	2,103	1,139,261	18,601	-	1,157,862
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	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

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

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 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 (for Investment Properties which are significant) 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

Save as disclosed below, there are no material events subsequent to the current quarter that have not been reflected in the financial statements:

- i. On 11 November 2013, the Company distributed twenty five (25) treasury shares for every one thousand (1,000) existing ordinary shares of RM1.00 each. A total of 5,130,848 treasury share had been distributed to the entitled shareholders as special interim share dividend.
- ii. Subsequent to 30 September 2013 (up to 28 November 2013), 6,179,900 shares have been issued by virtue of exercise of warrants.

A13. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year to-date except for the following:

On 21 October 2013, HPB acquired :

- i. 2 ordinary shares of RM1.00 each in Eaglecrest Sdn. Bhd. ("EGCSB")
- ii. 2 ordinary shares of RM1.00 each in Ecotheme Sdn. Bhd. ("ECTSB")
- iii. 2 ordinary shares of RM1.00 each in Skymeadow Sdn. Bhd. ("SMDSB")
- iv. 2 ordinary shares of RM1.00 each in Euroanchor Sdn. Bhd. ("ERACSB").

The principal activity of EGCSB, ECTSB, SMDSB and ERACSB 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 24 October 2013.

A14. Capital commitments

Capital commitments not provided for in the financial statement as at 30 September 2013 are as follow:

	RM'000
Contract sum	37,374
Less: Progress claims certified to date	<u>(1,598)</u>
Contracted but not provided for	<u>35,776</u>

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

A15. Contingent liabilities

There were no contingent liabilities as at 30 September 2013.

A16. Significant related party transactions

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

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

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

B1. Performance review of the Group

The Group achieved revenue of RM31.3 million and profit before taxation of RM4.7 million for current quarter as compared to RM27.0 million and RM10.1 million respectively in preceding year's corresponding quarter.

The higher current quarter revenue was mainly due to rental revenue from the newly opened Gurney Paragon Mall (official soft opening on July 23, 2013). Despite the increase in revenue, profit before tax is not so strong due to: -

- i. Interest expenses no longer capitalised but charged out as period cost after completion of Gurney Paragon Mall.
- ii. Opening promotional expenses in relation to newly opened Gurney Paragon Mall.
- iii. Higher direct operating overhead for Gurney Paragon Mall.

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

i) Property Development

Phase 3B double storey link houses (173 units) in Bandar Putra Bertam which was launched in 3rd quarter of previous financial year 2013, had shown a strong take up rate. Whilst, Phase 4 double storey link house (184 units) is targeted to be launched in 4th quarter of this financial year.

Other development projects (Alila II and Juru projects) are planned to take off upon approval by the authorities. We had begun the construction of low cost apartments as one of the major steps undertaken to re-settle squatters in our 42+ acres land in Bayan Baru.

ii) Property Investment

The property investment segment reported revenue of RM7.1 million and loss before tax of RM3.8 million (this is after a RM3.56 million interest expenses in addition to the operational loss of RM0.25 million, as per the segment reports in note A9) for the current 3 month period as compared to revenue of RM1.0 million and loss before tax of RM1.4 million in the corresponding 3 month period ended 30 September 2012.

The increase in revenue was mainly due to the newly opened (official soft opening on July 23, 2013) Gurney Paragon Mall. However, despite the increase in revenue, this segment reported a loss due to the reason as per note B1.(i - iii).

iii) Construction and Trading

The construction and trading arms of the Group currently is made up of sales of building materials and rental of machinery to contractors for Bertam 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.

The decrease in revenue and profit for these segments is due to the completion of construction of Gurney Paragon Mall; currently they are only serving our Bertam project.

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

There is a decrease of RM154.9 million in the Group's current quarter net profit compared to the preceding quarter ended 30 June 2013. This is mainly due to the revaluation exercise on investment properties carried out in preceding quarter (see note A11 for our accounting policy) which resulted in a gain of RM146.1 million.

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B3. Prospects for the current financial year

Going forward, the Group shall concentrate on constructing the double storey link houses in Bandar Putra Bertam and stress on the commencement of projects in the pipeline. At the same time, we will maintain focus on the tenanting and management of Gurney Paragon 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 30.09.2013 RM'000	Corresponding Quarter ended 30.09.2012 RM'000	Current year to date ended 30.09.2013 RM'000	Corresponding year to date ended 30.09.2012 RM'000
Current tax expenses				
- Current year	(2,316)	(3,307)	(2,316)	(3,307)
Deferred tax	244	-	244	-
	<u>(2,073)</u>	<u>(3,307)</u>	<u>(2,073)</u>	<u>(3,307)</u>

The effective tax rate is higher compared to statutory rate mainly due to losses incurred by certain subsidiaries.

B6. Status of corporate proposals

Following the completion of the Private Placement and the listing of and quotation for 18,100,000 Placement Shares on the Main Market of Bursa Malaysia Securities Berhad on 31 July 2013, the Company's issued and paid-up share capital increased to 199,832,250 ordinary shares of RM1.00 each.

The details of the utilisation of the proceeds up to 30 September 2013 are as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance unutilised RM'000	Intended Timeframe for Utilisation
Repayment of bank borrowings	14,000	14,000	-	By June 2014
Working capital	17,954	11,842	6,112	
Expenses in relation to the Proposed Private Placement	300	326	(26)	
Total	<u>32,254</u>	<u>26,168</u>	<u>6,086</u>	

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B7. Other 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 year 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.

As at 30 Sept 2013, the amount of security deposit provided by the subsidiary company to NASB is RM11.3 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 2013 under this agreement as the said project has not been launched yet, as it is awaiting final approval from the authorities.

B8. Group borrowings

Details are as follows:

	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
	Unsecured	Secured	Total
<u>Current</u>			
Bankers' acceptances	867	-	867
Bank overdrafts and revolving credit	-	6,815	6,815
Long-term borrowings due less than 1 year	-	54,666	54,666
	<u>867</u>	<u>61,481</u>	<u>62,348</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	-	84,424	84,424
Long-term borrowings due more than 5 years	-	157,647	157,647
	<u>-</u>	<u>242,071</u>	<u>242,071</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 1.0% 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 0.5% 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.

Upon completion of Gurney Paragon Mall, subsequent to the reporting period, the Group is negotiating with its banker to restructure the loans relating to the mall.

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

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

	At end of current quarter 30 September 2013 RM'000
Realised profits	216,881
Unrealised profits	271,694
Total retained profits	<u>488,575</u>

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.

On 3 July 2013, the Court of Appeal dismissed HPD's appeal and the board decided not appeal against the decision of the court.

See public announcements dated 15 July 2013 and 17 July 2013.

(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 arbitral hearing commenced the first tranche of hearings from 16th May 2012 – 18th May 2012, whereby HPP & HPG opened their case as the Claimants. The arbitration proceedings are still on-going, and are at the stage of evidence taking of HPP & HPG's witnesses. The arbitration has been fixed for continued hearing on 20th – 24th January 2014.

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.

However, PLB Eng had subsequently referred the issue on the payment out of the guarantee sum under the Corporate Guarantee to be part of the on-going arbitration between HPP & HPG and PLB-KH.

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

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B10. Changes in material litigation (cont'd)

(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.

On 28 October 2013, the Federal Court had delivered its unanimous decision affirming the decisions of the High Court and Court of Appeal in setting aside the Plaintiff’s claims against all defendants including BKB, and dismissed with cost of RM10,000 each to be paid by the Appellants to BKB and the other Respondents respectively.

See public announcement dated 28 October 2013.

B11. Dividends declared / proposed

The board of directors had declared a special interim dividend of share dividend on the basis of 25 treasury shares for every 1,000 existing ordinary shares of RM1.00 each held in the Company, in respect of the financial year ended 30 June 2013. The share dividend was subject to the approval of Bursa Depository Sdn Bhd (“BDSB”), which was still pending as at end of 1st quarter, 30 September 2013. Subsequent to 30 September 2013, after approval by BDSB, the said special interim share dividend of 5,130,848 treasury share had been distributed to the entitled shareholders on 11 November 2013.

The board of directors has proposed a final single tier dividend of RM0.056 per ordinary share, in respect of the financial year ended 30 June 2013. The proposed dividend if payable in respect of all outstanding ordinary shares in issue as of 30 June 2013 would amount to RM10.18 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	Corresponding quarter ended	Current year ended	Corresponding year ended
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	RM’000	RM’000	RM’000	RM’000
Profit attributable to ordinary shareholders	1,438	6,006	1,438	6,006
Weighted average number of ordinary shares in issue (excluding treasury shares)	194,337	186,972	194,337	183,972
Basic earnings per ordinary share (sen)	0.74	3.31	0.74	3.31

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B12. Earnings per share (cont'd)

(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 30.09.2013 RM'000	Corresponding quarter ended 30.09.2012 RM'000	Current year ended 30.09.2013 RM'000	Corresponding year ended 30.09.2012 RM'000
Profit attributable to ordinary shareholders	1,677	6,139	1,677	6,139
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	215,605	193,099	215,605	193,099
Diluted earnings per ordinary share (sen)	0.74	3.18	0.74	3.18

B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.09.2013 RM'000	Corresponding Quarter ended 30.09.2012 RM'000	Current Year to date ended 30.09.2013 RM'000	Corresponding year to date ended 30.09.2012 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	580	727	580	727
Property, plant and equipment written off	2	2	2	2
Interest expenses	3,140	710	3,140	710
Impairment loss on financial assets	-	56	-	56
Gain on disposal of financial assets	-	-	-	-
Interest income	211	452	211	452

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.09.2013 RM'000	Preceding Year Corresponding Quarter ended 30.09.2012 RM'000
Cash and bank balances	17,773	16,468
Deposits with licensed banks	21,135	61,315
Bank overdraft	(6,815)	(271)
	<hr/>	<hr/>
	32,093	77,512
Less : Deposit pledged	(111)	(117)
	<hr/>	<hr/>
	31,982	77,395

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

29 NOVEMBER 2013