

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 31 December 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

The Company falls within the scope of IC Interpretation 15, Agreements for the Construction of Real Estate. Therefore, the Company is currently exempted from adopting the Malaysian Financial Reporting Standards (“MFRS”) and is referred to as a “Transitioning Entity”. Being a Transitioning Entity, the Company will adopt the MFRS and present its first set of MFRS financial statements when adoption of the MFRS is mandated by the MASB.

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.

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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 2,195,700 ordinary shares at the average price of RM2.25 per share and distributed 5,130,848 treasury share to the entitled shareholders as special interim dividend. 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 31 December 2013 is accordingly 10,252,852. There were no share cancellations and resale of treasury shares during the period. Subsequent to 31 December 2013 (up to 21 February 2014), the Group has bought back a further 2,598,300 ordinary shares at the average price of RM1.98 per share; these were also treated as treasury 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 2013 was 43,131,883. During the financial period, 31,148,854 shares have been issued by virtue of exercise of warrants. Hence as at 31 December 2013, 11,983,029 warrants remained unexercised. Subsequent to 31 December 2013 (up to 21 February 2014), 525,800 shares have been issued by virtue of exercise of warrants.

After accounting for the share buy-back transactions, warrants conversions, private placement exercise (refer B6) and special interim dividend of share dividend (refer A8(a)), the Company's issued and paid-up share capital on 31 December 2013 is 233,916,252 ordinary shares (excluding 10,252,852 treasury shares). Subsequent to 31 December 2013 (up to 21 February 2014), the Company's issued and paid-up share capital is 231,843,752 ordinary shares (excluding 12,851,152 treasury shares).

A8. Dividend payable

During the financial period under review ended 31 December 2013,

- a) 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 special interim share dividend of 5,130,848 treasury share had been distributed to the entitled shareholders on 11 November 2013.
- b) A final single tier dividend of RM0.056 per ordinary share, in respect of the financial year ended 30 June 2013 was approved by the shareholders in the Annual General Meeting held on 28 November 2013. Accordingly, the dividend amounting to RM13.10 million was paid out on 16 January 2014.

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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 31 December 2013								
External revenue	46,621	16,741	73	-	63,435	871	-	64,306
Inter-segment revenue	-	826	69	3,378	4,273	2,524	(6,797)	-
Segment profit / (loss)	12,982	8,864	(570)	(201)	21,075	(800)	2,715	22,990
Segment assets	311,787	853,361	1,703	2,507	1,169,358	32,129	-	1,201,487
Financial period ended 31 December 2012								
External revenue	55,742	1,910	65	-	57,717	16	-	57,733
Inter-segment revenue	-	213	3,859	13,850	17,922	2,553	(20,475)	-
Segment profit	21,853	(2,642)	264	112	19,587	401	(888)	19,100
Segment assets	347,277	564,079	4,402	6,994	922,752	8,776	-	931,528

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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.

During current quarter, the gain on revaluation of investment property amounting to RM6.7 million arose from change in use for a piece of land from "land held for property development" to "investment property". The revaluation of other investment properties will, as done annually, take place at the 4th quarter of this financial 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 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.
- ii. 2 ordinary shares of RM1.00 each in Ecotheme Sdn. Bhd.
- iii. 2 ordinary shares of RM1.00 each in Skymeadow Sdn. Bhd.
- iv. 2 ordinary shares of RM1.00 each in Euroanchor Sdn. Bhd.

The intended business of the above companies is investment holding.

Please refer to our public announcement dated 21 October 2013.

A14. Capital commitments

Capital commitments not provided for in the financial statement as at 31 December 2013 are as follow:

	RM'000
Contract sum	37,250
Less: Progress claims certified to date	<u>(3,973)</u>
Contracted but not provided for	<u><u>33,277</u></u>

A15. Contingent liabilities

There were no contingent liabilities as at 31 December 2013.

A16. Significant related party transactions

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

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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

A revaluation gain of investment property amounting to RM6.7 million was recognised in current period (refer Note A11).

If excluding the above mentioned gain, the Group achieved revenue of RM33 million and profit before taxation of RM5.4 million for current quarter as compared to RM30.7 million and RM7.6 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, as in 1st quarter ended 30 September 2013, 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 as the Group now has another operating entity - 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. Phase 4 double storey link house (184 units) is targeted to be launched soon.

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

A revaluation gain of investment property amounting to RM6.7 million was recognised in current period (refer Note A11).

If excluding the above mentioned gain, the property investment segment reported revenue of RM16.7 million and loss before tax of RM5.4 million (this is after a RM7.62 million interest expenses deducted from the operational profit of RM2.19 million, as per the segment reports in note A9) for the current 6 month period as compared to revenue of RM1.9 million and loss before tax of RM2.6 million in the corresponding 6 month period ended 31 December 2012. (Note that total finance costs to the Group as reported in the Condensed Consolidated Statement of Comprehensive Income is lower than this RM7.62 million due to elimination of intergroup transactions).

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 resulting loss for these segments is due to the completion of construction of Gurney Paragon Mall; currently they are only serving our Bertam project.

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Notes to the Condensed Consolidated Interim Financial Statements:-

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

There is no material difference in the Group's current quarter net profit compared to the preceding quarter ended 30 September 2013.

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 tenancing 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	Corresponding Quarter ended	Current year to date ended	Corresponding year to date ended
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Current tax expenses				
- Current year	(3,664)	(2,838)	(5,981)	(6,145)
Deferred tax	223	2,060	467	2,060
	<u>(3,441)</u>	<u>(778)</u>	<u>(5,514)</u>	<u>(4,085)</u>

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

B6. Status of corporate proposals

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

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.

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Notes to the Condensed Consolidated Interim Financial Statements:-

B6. Status of corporate proposals (cont'd)

The details of the utilisation of the proceeds up to 31 December 2013 are as follows:

Purpose	Proposed Utilisation	Actual Utilisation	Balance unutilised	Deviation
	RM'000	RM'000	RM'000	%
Repayment of bank borrowings	14,000	14,000	-	
Working capital	18,280	18,212	-	0.1*
Expenses in relation to the Proposed Private Placement	300	368	-	23*
Total	<u>32,580</u>	<u>32,580</u>	<u>-</u>	

*Please refer to a separate announcement of the Company dated 24 February 2014.

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 31 December 2013, the amount of security deposit provided by the subsidiary company to NASB is RM12.07 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 31 December 2013 under this agreement as the said project has not been launched yet, as it is awaiting final approval from the authorities.

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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	257	-	257
Bank overdrafts and revolving credit	-	6,824	6,824
Long-term borrowings due less than 1 year	-	6,567	6,567
	<u>257</u>	<u>13,391</u>	<u>13,648</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	-	20,820	20,820
Long-term borrowings due more than 5 years	-	270,195	270,195
	<u>-</u>	<u>291,015</u>	<u>291,015</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, the Group is negotiating with its banker to restructure the loans relating to the mall.

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

	At end of current quarter 31 December 2013
	RM'000
Realised profits	206,122
Unrealised profits	276,852
Total retained profits	<u>482,974</u>

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B10. Changes in material litigation

(i) 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 in March 2014.

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

(ii) 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.

B11. Dividends declared / proposed

The board of directors has not proposed any dividend for the financial period under review. However, please refer to note A8 for dividends relating to financial year ended 30 June 2013.

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
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	RM’000	RM’000	RM’000	RM’000
Profit attributable to ordinary shareholders	7,405	5,649	8,843	11,655
Weighted average number of ordinary shares in issue (excluding treasury shares)	209,397	181,397	200,699	181,303
Basic earnings per ordinary share (sen)	3.54	3.11	4.41	6.43

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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 31.12.2013 RM'000	Corresponding quarter ended 31.12.2012 RM'000	Current year ended 31.12.2013 RM'000	Corresponding year ended 31.12.2012 RM'000
Profit attributable to ordinary shareholders	7,475	5,782	8,979	11,789
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	215,306	193,441	206,718	193,208
Diluted earnings per ordinary share (sen)	3.47	2.99	4.34	6.10

B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 31.12.2013 RM'000	Corresponding Quarter ended 31.12.2012 RM'000	Current Year to date ended 31.12.2013 RM'000	Corresponding year to date ended 31.12.2012 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	652	708	1,232	1,435
Property, plant and equipment written off	15	1	17	3
Interest expenses	3,065	667	6,205	1,377
and after crediting:				
Fair value gain on investment property	6,703	-	6,703	-
Gain on disposal of financial assets	-	-	-	56
Interest income	202	430	413	882

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B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 31.12.2013 RM'000	Preceding Year Corresponding Quarter ended 31.12.2012 RM'000
Cash and bank balances	15,247	18,571
Deposits with licensed banks	38,689	58,619
Bank overdraft	(6,824)	(10,200)
	<hr/> 47,112	<hr/> 66,990
Less : Deposit pledged	(111)	(117)
	<hr/> <hr/> 47,001	<hr/> <hr/> 66,873

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

24 FEBRUARY 2014