

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 March 2014 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 6,673,300 ordinary shares at the average price of RM2.05 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 March 2014 is accordingly 14,730,452. There were no share cancellations and resale of treasury shares during the period. Subsequent to 31 March 2014 (up to 22 May 2014), the Group has bought back a further 754,400 ordinary shares at the average price of RM1.95 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, 31,781,454 shares have been issued by virtue of exercise of warrants. Hence as at 31 March 2014, 11,350,429 warrants remained unexercised. Subsequent to 31 March 2014 (up to 22 May 2014), 30,200 shares have been issued by virtue of exercise of warrants.

After accounting for the share buy-back transactions, warrants conversions, the Company's issued and paid-up share capital on 31 March 2014 is 230,071,252 ordinary shares (excluding 14,730,452 treasury shares). Subsequent to 31 March 2014 (up to 22 May 2014), the Company's issued and paid-up share capital is 229,347,052 ordinary shares (excluding 15,484,852 treasury shares).

A8. Dividend payable

During the financial period under review ended 31 March 2014,

- 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 March 2014								
External revenue	72,995	27,623	138	-	100,756	1,243	-	101,999
Inter-segment revenue	-	(1,416)	(82)	(6,194)	(7,692)	(4,051)	11,743	-
Segment profit / (loss)	17,857	10,717	(418)	(285)	27,871	(1,264)	2,067	28,674
Segment assets	311,998	863,928	2,090	3,108	1,181,124	11,904	-	1,193,028
Financial period ended 31 March 2013								
External revenue	75,712	3,446	112	-	79,270	25	-	79,295
Inter-segment revenue	-	(320)	(4,184)	(18,080)	(22,584)	(3,543)	26,127	-
Segment profit	28,140	(4,672)	867	134	24,469	481	(1,420)	23,530
Segment assets	319,030	611,755	2,628	5,460	938,873	5,879	-	944,752

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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 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 valuation methods used in determining the valuation are the investment method and comparison method. 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 previous 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:

(i) 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 Ecothème 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.

(ii) Acquisition of 80,000 ordinary shares of RM1.00 each in Hunza Parade Development Sdn Bhd (“HPD”) by Hunza Usaha Ventures Sdn Bhd (“HUV”), a wholly owned subsidiary of the company on 3 March 2014. The effective interest of HPB in HPD was 98.1%. Subsequent to the acquisition, the effective interest of HPB has increased to 98.9%, via HUV.

Please refer to our public announcement dated 3 March 2014.

HPD owns a piece of land which have been reclassified (due to change in use) from “land held for property development” to “investment property” during previous quarter (refer note A11). Hence, the principal activity of HPD was thus changed from property development to property investment.

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Notes to the Condensed Consolidated Interim Financial Statements:-

A14. Commitments – Group

	At end of current quarter 31 March 2014
	RM'000
Investment properties	
Contract sum	36,993
Less: Progress claims certified to date	<u>(8,001)</u>
Contracted but not provided for	<u>28,992</u>

A15. Contingent liabilities

There were no contingent liabilities as at 31 March 2014.

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 RM37.7 million and profit before taxation of RM2.6 million for current quarter as compared to RM21.6 million and RM3.8 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 as the Group now has another operating entity - Gurney Paragon Mall.
- iv. A gratuity amounting to RM5.51 million arising from retirement of directors. This was recommended by remuneration committee and approved by board of directors during the meeting on 24 February 2014.

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) was launched in current quarter.

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 previous quarter. (refer Note A11).

If excluding the above mentioned gain, the property investment segment reported revenue of RM27.6 million and loss before tax of RM4.9 million (this is after a RM8.9 million interest expenses deducted from the operational profit of RM4.0 million, as per the segment reports in note A9) for the current 9 month period as compared to revenue of RM3.4 million and loss before tax of RM4.6 million in the corresponding 9 month period ended 31 March 2013.

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). In addition, the Mall has yet to achieve economies of scale/not fully tenanted yet.

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Notes to the Condensed Consolidated Interim Financial Statements:-

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

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.

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

There is a decrease of RM6.6 million in the Group's current quarter net profit compared to the preceding quarter ended 31 December 2013.

This is mainly due to the gain on revaluation of investment property amounting to RM6.7 million which was carried out in the preceding quarter (refer note A11) and gratuity paid in current quarter (refer note B1)

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 31.03.2014 RM'000	Corresponding Quarter ended 31.03.2013 RM'000	Current year to date ended 31.03.2014 RM'000	Corresponding year to date ended 31.03.2014 RM'000
Current tax expenses				
- Current year	(1,279)	(1,910)	(7,260)	(8,072)
- Previous year	552	(213)	552	(213)
Deferred tax	306	727	773	2,804
	<u>(421)</u>	<u>(1,396)</u>	<u>(5,935)</u>	<u>(5,481)</u>

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

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B6. Status of corporate proposals

There were no corporate proposals that have been announced but not yet completed as at the date of issuance of the quarterly report.

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 March 2014, the amount of security deposit provided by the subsidiary company to NASB is RM20.43 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 March 2014 under this agreement. The 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> Unsecured	<u>RM'000</u> Secured	<u>RM'000</u> Total
<u>Current</u>			
Bankers' acceptances	880	-	880
Bank overdrafts and revolving credit	-	24,817	24,817
Long-term borrowings due less than 1 year	-	11,597	11,597
	<u>880</u>	<u>36,414</u>	<u>37,294</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	-	112,065	112,065
Long-term borrowings due more than 5 years	-	182,520	182,520
	<u>-</u>	<u>294,585</u>	<u>294,585</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.

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B8. Group borrowings

The Group's bankers' acceptances and bank overdrafts bear interest rates at 0.5% to 2% above the lending bank's base lending rate. The revolving credit bears interest rates ranging from 1.25% to 2% above the banks' cost of funds per annum.

We have accepted a Letter of Offer from the existing financiers of our Gurney Paragon Mall. The classification of the said loan into current or non-current portion is in accordance with this letter of offer.

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

	At end of current quarter 31 March 2014
	RM'000
Realised profits	210,603
Unrealised profits	272,561
Total retained profits	<u>483,164</u>

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 May 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.

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B11. Dividends declared / proposed

The board of directors has not proposed any dividend for the financial period under review.

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 31.03.2014 RM'000	Corresponding quarter ended 31.03.2013 RM'000	Current year ended 31.03.2014 RM'000	Corresponding year ended 31.03.2013 RM'000
Profit attributable to ordinary shareholders	170	1,530	9,013	13,185
Weighted average number of ordinary shares in issue (excluding treasury shares)	232,120	181,282	211,778	181,296
Basic earnings per ordinary share (sen)	0.07	0.84	4.26	7.27

(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 31.03.2014 RM'000	Corresponding quarter ended 31.03.2013 RM'000	Current year ended 31.03.2014 RM'000	Corresponding year ended 31.03.2013 RM'000
Profit attributable to ordinary shareholders	236	1,664	9,197	13,585
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	237,079	193,046	217,251	193,154
Diluted earnings per ordinary share (sen)	0.07	0.84	4.23	7.03

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B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 31.03.2014 RM'000	Corresponding Quarter ended 31.03.2013 RM'000	Current Year to date ended 31.03.2014 RM'000	Corresponding year to date ended 31.03.2013 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	253	(160)	1,485	1,275
Property, plant and equipment written off	3	1	20	4
Interest expenses	3,155	658	9,360	2,035
and after crediting:				
Fair value gain on investment property	-	-	6,703	-
Gain on disposal of financial assets	-	-	-	56
Gain on disposal of property, plant and equipment	230	-	230	3
Interest income	212	347	625	1,233

B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 31.03.2014 RM'000	Preceding Year Corresponding Quarter ended 31.03.2013 RM'000
Cash and bank balances	16,854	10,826
Deposits with licensed banks	18,091	35,135
Bank overdraft	(10,817)	(9,896)
	<u>24,128</u>	<u>36,065</u>
Less : Deposit pledged	(111)	(117)
	<u><u>24,017</u></u>	<u><u>35,948</u></u>

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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

28 MAY 2014