

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 June 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 8,030,500 ordinary shares at the average price of RM2.04 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 30 June 2014 is accordingly 16,087,652. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 June 2014 (up to 19 August 2014), the Group has bought back a further 978,000 ordinary shares at the average price of RM1.99 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, 31,811,654 shares have been issued by virtue of exercise of warrants. Hence as at 30 June 2014, 11,320,229 warrants remained unexercised. Subsequent to 30 June 2014 (up to 19 August 2014), 178,300 shares have been issued by virtue of exercise of warrants.

After accounting for the share buy-back transactions, warrants conversions and the special interim dividend, the Company's issued and paid-up share capital on 30 June 2014 is 228,744,252 ordinary shares (excluding 16,087,652 treasury shares). Subsequent to 30 June 2014 (up to 19 August 2014), the Company's issued and paid-up share capital is 227,944,552 ordinary shares (excluding 17,065,652 treasury shares).

A8. Dividend payable

During the financial period under review ended 30 June 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 30 June 2014								
External revenue	99,430	38,228	199	-	137,857	(5,006)	-	132,851
Inter-segment revenue	-	1,983	98	9,565	11,646	182,564	(194,210)	-
Segment profit / (loss)	34,057	51,246	152	(258)	85,197	169,680	(174,411)	80,466
Segment assets	323,404	918,788	2,105	3,434	1,247,731	7,068	-	1,254,799
Financial period ended 30 June 2013								
External revenue	108,012	3,904	161	-	112,077	29	-	112,106
Inter-segment revenue	-	427	4,249	21,710	26,386	6,210	(32,596)	-
Segment profit	49,997	132,904	439	156	183,496	1,891	(3,824)	181,563
Segment assets	297,805	826,362	2,169	3,856	1,130,192	10,381	-	1,140,573

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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 the financial year, the gain on revaluation of investment properties included an amount of RM6.7 million arose from change in use for a piece of land from “land held for property development” to “investment property”.

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 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.

(ii) Acquisition of total 190,000 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 (80,000) and 25 June 2014 (110,000). The effective interest of HPB in HPD was 98.1%. Subsequent to the acquisitions, the effective interest of HPB has increased to 100%, via HUV.

Please refer to our public announcement dated 3 March 2014 and 26 June 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 the financial year (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 30 June 2014
	RM'000
Investment properties	
Contract sum	71,579
Less: Progress claims certified to date	<u>(35,083)</u>
Contracted but not provided for	<u>36,496</u>

A15. Contingent liabilities

There were no contingent liabilities as at 30 June 2014.

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

The Group achieved revenue of RM30.9 million and profit before taxation of RM48.9 million for current quarter as compared to RM32.8 million and RM155.4 million respectively in preceding year's corresponding quarter.

The profit before taxation is mainly attributable to the annual revaluation exercise of investment properties (in compliance with FRS 140, Investment Properties). It resulted in the booking of the increases in the carrying amount of RM48.4 million and RM146.1 million to current and previous year respectively.

Revenue was higher in current financial year as compared to previous financial year 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 as comparatively 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.
- v. Lower gain on revaluation of investment properties.

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 previous quarter.

The earthwork for the "Green" building super-condominiums of Alila II has just commenced, and sales are expected to commence in the second half of next calendar year. The Juru Project is planned to take off upon approval by the authorities, which is expected to be in 1st half of next calendar year.

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. Work is progressing smoothly.

ii) Property Investment

A revaluation gain of investment property amounting to RM48.4 million was recognised in current year. (refer Note A11).

If excluding the above mentioned gain, the property investment segment reported revenue of RM38.2 million and loss before tax of RM8.7 million (this is after a RM11.5 million interest expenses deducted from the operational profit of RM2.8 million, as per the segment reports in note A9) for the current year as compared to revenue of RM3.9 million and loss before tax of RM16.7 million (this is after a RM3.5 million interest expenses in additional to the operational loss of RM13.2 million) in the year ended 30 June 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 an increase of RM30.5 million in the Group's current quarter net profit compared to the preceding quarter ended 31 March 2014.

This is mainly attributable to the revaluation exercise on investment properties, nett of corresponding 5% deferred tax liabilities (see note B5 below), that was carried out in current quarter (refer note B1).

B3. Prospects for the current financial year

Going forward, the Group shall concentrate on constructing the latest phase of double storey link houses in Bandar Putra Bertam and the "Green" building super-condominiums of Alila II. We also stress on the commencement of projects in the pipeline (Juru Project). 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 30.06.2014 RM'000	Corresponding Quarter ended 30.06.2013 RM'000	Current year to date ended 30.06.2014 RM'000	Corresponding year to date ended 30.06.2013 RM'000
Current tax expenses				
- Current year	(3,124)	(3,690)	(10,384)	(11,762)
- Previous year	-	-	552	(213)
Deferred tax	(12,270)	5,782	(11,497)	8,586
	<u>(15,394)</u>	<u>2,092</u>	<u>(21,329)</u>	<u>(3,389)</u>

The current tax expenses are higher than the statutory tax rate mainly due to losses incurred by certain subsidiaries. The deferred tax is mainly derived from booking of 5% RPTG for the cumulative gain on revaluation of investment properties.

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B5. Taxation (Cont'd)

It is due to changes in RPGT rate from zero to 5% for disposal, if any, of real property which has been held for more than 5 years. The 5% rate is to take into account the latest change in prevailing tax rules.

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 II”. 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 June 2014, the amount of security deposit provided by the subsidiary company to NASB is RM21.78 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 June 2014 under this agreement. The earthwork of Alila II was just commenced and targeted sales in the second half of next calendar year.

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	2,085	-	2,085
Bank overdrafts and revolving credit	-	31,995	31,995
Long-term borrowings due less than 1 year	-	8,741	8,741
	<u>2,085</u>	<u>40,736</u>	<u>42,821</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	-	126,982	126,982
Long-term borrowings due more than 5 years	-	183,006	183,006
	<u>-</u>	<u>309,988</u>	<u>309,988</u>

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Notes to the Condensed Consolidated Interim Financial Statements:-

B8. Group borrowings (Cont'd)

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 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.

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

	At end of current quarter 31 March 2014
	RM'000
Realised profits	206,020
Unrealised profits	307,978
Total retained profits	<u>513,998</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 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 September, October, November and December 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 30.06.2014 RM'000	Corresponding quarter ended 30.06.2013 RM'000	Current year ended 30.06.2014 RM'000	Corresponding year ended 30.06.2013 RM'000
Profit attributable to ordinary shareholders	30,908	152,849	39,920	166,034
Weighted average number of ordinary shares in issue (excluding treasury shares)	229,525	181,419	216,202	181,327
Basic earnings per ordinary share (sen)	13.47	84.25	18.46	91.57

(b) Diluted

The diluted earnings 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 30.06.2014 RM'000	Corresponding quarter ended 30.06.2013 RM'000	Current year ended 30.06.2014 RM'000	Corresponding year ended 30.06.2013 RM'000
Profit attributable to ordinary shareholders	30,964	152,978	40,132	166,674
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	234,437	201,218	221,534	195,558
Diluted earnings per ordinary share (sen)	13.21	76.03	18.12	85.23

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B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.06.2014 RM'000	Corresponding Quarter ended 30.06.2013 RM'000	Current Year to date ended 30.06.2014 RM'000	Corresponding Year to date ended 30.06.2013 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	(440)	712	1,045	1,987
Property, plant and equipment written off	12	2	32	7
Provision of bad debts	594	46	594	46
Interest expenses	2,799	2,631	12,159	4,666
and after crediting:				
Fair value gain on investment property	41,737	146,137	48,440	146,137
Gain on disposal of financial assets	121	4	344	52
Gain on disposal of property, plant and equipment	7	8	237	11
Interest income	177	330	802	1,563

B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.06.2014 RM'000	Preceding Year Corresponding Quarter ended 30.06.2013 RM'000
Cash and bank balances	28,963	12,899
Deposits with licensed banks	10,357	13,224
Bank overdraft	(1,994)	-
	<u>37,326</u>	<u>26,123</u>
Less : Deposit pledged	(111)	(119)
	<u><u>37,215</u></u>	<u><u>26,004</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

27 AUGUST 2014