

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 2014. 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 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 2014 except for the adoption of the following:-

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to FRS 10, Consolidated Financial Statements: Investment Entities
- Amendments to FRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to FRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to FRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to FRS 136, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to FRS 139, Financial Instruments : Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to FRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)
- Amendments to FRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to FRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to FRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to FRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to FRS 119, Employee Benefits – Defined Benefit Plans: Employee Contributions
- Amendments to FRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
- Amendments to FRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)
- Amendments to FRS 140, Investment Property (Annual Improvements 2011-2013 Cycle)

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

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

A2. Changes in accounting policies (Cont'd)

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".

Based on the MASB announcement on 2 September 2014, the effective date for the adoption of MFRS Framework by transitioning entities (i.e. entities affected by MFRS 141 Agriculture and/or IC Interpretation 15 Agreements for Construction of Real Estate) was deferred from annual period beginning on or after 1 January 2015 to annual periods beginning on or after 1 January 2017.

Accordingly, as a transitioning entity as defined by the MASB, the Company has elected to continue to apply the FRS Framework up till its financial year ending 30 June 2017 and thereafter will adopt the Standards of the MFRS Framework that will be in force as per the MASB during the financial year ending 30 June 2018.

A3. Declaration of audit qualification

The annual financial statements of the Group for the immediate preceding financial year ended 30 June 2014 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 and real estate investor 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 2014 was 16,087,652 ordinary shares of RM1 each at total cost of RM28,787,558. During this financial period, HPB has bought back a further 5,339,600 ordinary shares at the average price of RM1.95 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 2014 is accordingly 21,427,252. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 September 2014 (up to 24 November 2014), the Group has bought back a further 1,420,100 ordinary shares at the average price of RM1.89 per share; these were also treated as treasury shares.

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

A7. Debt and equity securities (Cont'd)

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 2014 was 11,320,229. During the financial period, 192,500 shares have been issued by virtue of exercise of warrants. Hence as at 30 September 2014, 11,127,729 warrants remained unexercised. Subsequent to 30 September 2014 (up to 24 November 2014), no shares have been issued by virtue of exercise of warrants.

After accounting for the share buy-back transactions and warrants conversions, the Company's issued and paid-up share capital on 30 September 2014 is 223,597,152 ordinary shares (excluding 21,427,252 treasury shares). Subsequent to 30 September 2014 (up to 24 November 2014), the Company's issued and paid-up share capital is 222,177,052 ordinary shares (excluding 22,847,352 treasury shares).

A8. Dividend payable

No dividend was paid during the period under review.

Please 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 2014								
External revenue	39,766	12,769	51	-	52,586	417	-	53,003
Inter-segment revenue	-	177	15	3,660	3,852	4,432	(8,284)	-
Segment profit / (loss)	13,634	4,290	37	(54)	17,907	3,413	(3,610)	17,710
Segment assets	301,612	1,049,600	1,947	4,225	1,357,384	8,420	-	1,365,804
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	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

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 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.

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.

A14. Commitments – Group

At end of current quarter
30 September 2014

RM'000

Investment properties

Contract sum	71,301
Less: Progress claims certified to date	(50,353)
Contracted but not provided for	<u>20,948</u>

A15. Contingent liabilities

There were no contingent liabilities as at 30 September 2014.

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 RM53.0 million and profit before taxation of RM14.0 million for current quarter as compared to RM31.3 million and RM4.7 million respectively in preceding year's corresponding quarter.

Revenue and profit before taxation was higher in current quarter compared to preceding year's corresponding quarter was mainly due to:-

- i. Higher sales from the property development segment due to stronger take-up rate;
- ii. Higher occupancy rate for Gurney Paragon Mall and Office Tower as compared to corresponding quarter, as they were just newly opened then in July 2013 and Aug 2013 respectively.

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

i) Property Development

Phase 4 double storey link house (184 units) in Bandar Putra Bertam was launched in 3rd quarter of previous financial year 2014, had shown a strong take up rate. Another 172 units of Phase 4 was just launched and is expected to contribute decently to the Group's results in this fiscal year.

The earthwork for the "Green" building super-condominiums of Alila II is in progress, 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

The property investment segment reported revenue of RM12.8 million and profit before tax of RM1.2 million (this is after a RM3.1 million interest expenses deducted from the operational profit of RM4.3 million, as per the segment reports in note A9) for the current 3 month period as compared to revenue of RM7.1 million and loss before tax of RM3.8 million (this is after a RM3.5 million interest expenses in addition to the operational loss of RM0.3 million) in the corresponding 3 month period ended 30 September 2013.

The increase in revenue and profit was mainly due to higher occupancy rate for Gurney Paragon Mall and Office Tower (refer B1 ii above).

iii) Construction and Trading

The construction and trading arms of the Group currently comprises 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 increase in revenue for trading was due to serving more projects ie. our low cost apartments (refer B1.1 i) and Bertam project where there were more low margin products transacted during current quarter.

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

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

The Group achieved profit before taxation of RM14.0 million for current quarter as compared to RM48.9 million in preceding quarter ended 30 June 2014.

If excluding the gain on revaluation of investment properties which amounted to RM41.7 million in preceding quarter, the increase of profit before taxation for the current quarter was mainly attributable to the higher sales from the property development segment (refer B1 i).

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. At the same time, we will maintain focus on the tenanting and management of Gurney Paragon Retail Mall and Office Tower. We also stress on the construction of low cost apartments which currently progressing smoothly (refer B1.1 i).

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 30.09.2014 RM'000	Corresponding Quarter ended 30.09.2013 RM'000	Current year to date ended 30.09.2014 RM'000	Corresponding year to date ended 30.09.2013 RM'000
Current tax expenses				
- Current year	(3,289)	(2,316)	(3,289)	(2,316)
- Previous year	-	-	-	-
Deferred tax	(96)	244	(96)	244
	<u>(3,385)</u>	<u>(2,073)</u>	<u>(3,385)</u>	<u>(2,073)</u>

The current tax expenses approximate the statutory tax rate.

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.

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 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 September 2014, the amount of security deposit provided by the subsidiary company to NASB is RM22.19 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 2014 under this agreement. The earthwork of Alila II is in progress and sales are targeted to begin 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	565	-	565
Bank overdrafts and revolving credit	-	36,283	36,283
Long-term borrowings due less than 1 year	2,701	9,480	12,181
	<u>3,266</u>	<u>45,763</u>	<u>49,029</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	391	148,881	149,272
Long-term borrowings due more than 5 years	-	266,062	266,062
	<u>391</u>	<u>414,943</u>	<u>415,334</u>

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

The Group's secured long-term loans obtained from local licensed banks bear interest rates ranging from 1 % to 2% above the banks' cost of funds and fixed rate at 5.25%.

The Group's bankers' acceptances and bank overdrafts bear interest rates at 0.5% to 1% above the lending bank's base lending rate. The revolving credit bears interest rates at 1.5% above bank's cost of funds per annum.

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 2014
	RM'000
Realised profits	193,085
Unrealised profits	328,730
Total retained profits	<u>521,815</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 from September to 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.

B11. Dividends declared / proposed

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

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B12. Earnings per share

(a) Basic

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

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 30.09.2014 RM'000	Corresponding quarter ended 30.09.2013 RM'000	Current year ended 30.09.2014 RM'000	Corresponding year ended 30.09.2013 RM'000
Profit attributable to ordinary shareholders	7,628	1,438	7,628	1,438
Weighted average number of ordinary shares in issue (excluding treasury shares)	227,066	194,337	227,066	194,337
Basic earnings per ordinary share (sen)	3.36	0.74	3.36	0.74

(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 30.09.2014 RM'000	Corresponding quarter ended 30.09.2013 RM'000	Current year ended 30.09.2014 RM'000	Corresponding year ended 30.09.2013 RM'000
Profit attributable to ordinary shareholders	7,677	1,677	7,677	1,677
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	232,032	215,605	232,032	215,605
Diluted earnings per ordinary share (sen)	3.31	0.74	3.31	0.74

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.09.2014 RM'000	Corresponding Quarter ended 30.09.2013 RM'000	Current Year to date ended 30.09.2014 RM'000	Corresponding year to date ended 30.09.2013 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	564	580	564	580
Property, plant and equipment written off	5	2	5	2
Interest expenses	3,667	3,140	3,667	3,140
and after crediting:				
Gain on disposal of property, plant and equipment	142	-	142	-
Interest income	332	211	332	211

B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.09.2014 RM'000	Preceding Year Corresponding Quarter ended 30.09.2013 RM'000
Cash and bank balances	19,267	17,773
Deposits with licensed banks	109,558	21,135
Bank overdraft	(9,283)	(6,815)
	<u>119,542</u>	<u>32,095</u>
Less : Deposit pledged	(172)	(111)
	<u><u>119,370</u></u>	<u><u>31,982</u></u>

B15. Derivative financial instruments

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

HUNZA PROPERTIES BERHAD

(Company No. 461624-X)

Notes to the Condensed Consolidated Interim Financial Statements:-

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

26 November 2014