

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 2015. 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 2015 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 2015.

The Group falls within the scope of IC Interpretation 15, Agreements for the Construction of Real Estate. Therefore, the Group is currently exempted from adopting the Malaysian Financial Reporting Standards (“MFRS”) and are referred to as a “Transitioning Entities”.

Based on MASB’s announcement on 28 October 2015, 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) has been deferred from annual periods beginning on or after 1 January 2017 to annual periods beginning on or after 1 January 2018.

Accordingly, as transitioning entities as defined by the MASB, the Group has elected to continue applying the FRS Framework up till its financial year ending 30 June 2018 and thereafter will adopt the standards of the MFRS Framework.

A3. Declaration of audit qualification

The annual financial statements of the Group for the immediate preceding financial year ended 30 June 2015 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.

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A7. Debt and equity securities

The number of treasury shares brought forward from the last financial year ended 30 June 2015 was 24,499,752 ordinary shares of RM1 each at total cost of RM44,986,446. HPB has no further share buy-back transaction during this quarter. 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. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 September 2015 (up to 13 November 2015), no further shares have been bought back.

The Company's issued and paid-up share capital on 30 September 2015 is 225,085,440 ordinary shares (excluding 24,499,752 treasury shares). Subsequent to 30 September 2015 (up to 13 November 2015), the Company's issued and paid-up share capital is unchanged.

A8. Dividend payable

No dividend was paid during the period under review.

Please refer to note B10 for dividend declared / proposed.

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A9. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. Previously in our reports, we included 4 segments - we have now excluded the construction segment in this disclosure as this segment no longer meets the quantitative thresholds in accordance to FRS 8, Operating Segments and as such the information about this segment would not be useful to the readers.

	Property Development RM'000	Property Investment 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 2015							
External revenue	15,677	15,557	-	31,234	565	-	31,799
Inter-segment revenue	-	551	5,070	5,621	1,097	(6,718)	-
Segment profit	5,481	7,675	(86)	13,070	(564)	(489)	12,017
Segment assets	427,897	962,018	4,820	1,394,735	12,310	-	1,407,045
Financial period ended 30 September 2014							
External revenue	39,766	12,769	-	52,535	468	-	53,003
Inter-segment revenue	-	177	3,660	3,837	4,447	(8,284)	-
Segment profit / (loss)	13,634	4,290	(54)	17,870	3,450	(3,610)	17,710
Segment assets	301,612	1,049,600	4,225	1,355,437	10,367	-	1,365,804

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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. Management does not foresee any significant change in market value of these properties.

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

On 20 October 2015, a wholly-owned subsidiary of the Company, Diamaward (M) Sdn. Bhd. entered into a Sale and Purchase Agreement to purchase a property for a total cash consideration of RM 57,020,420. Please refer to the Company's announcements via Bursa Malaysia Securities Berhad ("Bursa Securities") dated 20 October 2015 for further details on the acquisition of land.

Save as disclosed in B6 and land acquisition above, 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 2015

RM'000

Investment properties

Contract sum	28,552
Less: Progress claims certified to date	<u>(23,781)</u>
Contracted but not provided for	<u><u>4,771</u></u>

A15. Contingent liabilities

There were no contingent liabilities as at 30 September 2015.

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 RM31.8 million and profit before taxation of RM7.4 million for current quarter as compared to RM53.0 million and RM14.0 million respectively in preceding year's corresponding quarter.

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

- i. No new launching of property development in current quarter;
- ii. Strong take up rate from Bandar Putra Bertam Phase 4 double storey link houses (184 units) in preceding year's corresponding quarter, with only one last unit of sales in current quarter (refer Note B1.1 i);
- iii. Sales from our last unit of Mutiara Seputeh Bungalow in preceding year's corresponding quarter;
- iv. Higher operating expenses (mainly due to legal fees for ongoing legal cases) as well as financial expenses (mainly arising from additional loan drawdown for Paragon Mall in September 2014).

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

i) Property Development

172 units of Phase 4 in Bandar Putra Bertam, which was launched in the previous financial year recorded decent sales, with more than 80% sold cumulatively. The Group has just launched another 232 units of Phase 4 in October 2015, which is expected to contribute decently to the Group's results in this financial year.

The preliminary and foundation works for the "Green" building super-condominiums of Alila II are in progress, and sales are expected to commence in the 4th quarter of calendar year 2015. The Juru Project is planned to take off upon approval of the revised plan by the authorities. The terms and conditions imposed for the initial plan is deemed not viable, hence, we submitted a revised plan.

The construction of low cost apartments, one of the major steps undertaken to re-settle squatters in our 43+ acres land in Bayan Baru, is progressing smoothly.

ii) Property Investment

The property investment segment reported revenue of RM15.6 million and profit before tax of RM3.4 million (this is after a RM4.3 million interest expenses deducted from the operational profit of RM7.7 million, as per the segment reports in note A9) for the current 3 months period as compared to 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) in the corresponding 3 month period ended 30 September 2014.

The increase in revenue and profit before tax were mainly due to higher occupancy rate for Gurney Paragon Mall and Office Tower. Indeed the Office Tower is now fully tenanted.

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Notes to the Condensed Consolidated Interim Financial Statements:-

B1.1 Performance and current year prospects of each operating segment (cont'd)

iii) Trading

The trading arm of the Group currently comprises sales of building materials to contractors for our low cost flats in Bayan Baru (to re-settle squatters) and Bertam project.

Its purpose 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 more projects ie. our low cost flats and Bertam project. However such were low margin products, hence leading to not significant results.

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

The Group achieved profit before taxation of RM7.4 million for current quarter as compared to RM15.3 million in preceding quarter ended 30 June 2015.

The decrease in profit before taxation for the current quarter is mainly due to :-

- i. Higher attributable sales contribution from property development segment in preceding quarter from Bandar Putra Bertam Phase 4 double storey link houses;
- ii. Increase in operating expenses such as legal fees for ongoing legal cases, accrual for staff bonus (which is normally paid out early in the calendar year) and expenses relating to Paragon Mall loyalty programme, launched in August 2015; and
- iii. Higher other income in preceding quarter mainly resulting from write-back of provision no longer required.

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 tenancing and management of Gurney Paragon Retail Mall and Office Tower. We also place importance on the construction of low cost apartments.

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 30.09.2015 RM'000	Corresponding Quarter ended 30.09.2014 RM'000	Current year to date ended 30.09.2015 RM'000	Corresponding year to date ended 30.09.2014 RM'000
Current tax expenses				
- Current year	(1,485)	(3,289)	(1,485)	(3,289)
- Previous year	59	-	59	-
Deferred tax	-	(96)	-	(96)
	<u>(1,426)</u>	<u>(3,385)</u>	<u>(1,426)</u>	<u>(3,385)</u>

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Notes to the Condensed Consolidated Interim Financial Statements:-

B5. Taxation (cont'd)

The current tax expenses for current quarter are lower than the statutory tax rate due to recognition of previously unrecognised deferred tax assets offset to a certain extent by losses of certain companies which for income tax purposes cannot be set-off against profits of other companies.

B6. Status of corporate proposals

During last financial year, the Company received a letter from Khor Teng Tong Holdings Sdn. Bhd. ("KTTHSB"), a major shareholder of the Company, requesting for the Company to undertake a selective capital reduction and repayment exercise under Section 64 of the Companies Act, 1965 ("Proposed SCR"). The Proposed SCR involves the Company undertaking a selective capital reduction and repayment exercise to all shareholdings of the Company other than KTTHSB and persons acting-in-concert, whose name appear in the Record of Depositors of the Company as at the close of business on an entitlement date to be determined and announced later ("Entitled shareholders").

Please refer to the Company's announcements via Bursa Securities dated 20 March 2015, 31 March 2015, 4 August 2015, 6 August 2015, 22 October 2015 and 23 October 2015 for further details on the Proposed SCR.

The matter has been brought to the extraordinary general meeting ("EGM") today.

See separate announcement for EGM results.

B7. 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	1,207	-	1,207
Revolving credit	-	10,500	10,500
Long-term borrowings due less than 1 year	588	11,280	11,868
	<u>1,795</u>	<u>21,780</u>	<u>23,575</u>
<u>Non-current</u>			
Long-term borrowings due between 1 and 5 years	56	186,605	186,661
Long-term borrowings due more than 5 years	-	246,630	246,630
	<u>56</u>	<u>433,235</u>	<u>433,291</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 licensed financial institutions 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 bear interest rates at 1.25% to 1.75% above the banks' cost of funds. The revolving credit bears interest rates at 1.5% to 2.0% above bank's cost of funds per annum.

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B8. Breakdown of realised and unrealised profits or losses of the Group

The breakdown of the retained earnings of the Group as at 30 September 2015, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows :

	At end of current quarter 30 September 2015
	RM'000
Total retained profits of the Group :	
- Realised	341,847
- Unrealised	325,415
	<hr/> 667,262
Less : Consolidation adjustments	(127,334)
Total retained earnings	<hr/> <hr/> 539,928

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

B9. 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 November 2015 to May 2016.

The solicitors still continue to have the opinion that HPP and HPG have a good arguable case against the Respondent in the arbitration.

(ii) Suit in Penang High Court of Lye Siew Weng (as public officer for Persatuan Kwangtung Dan Tengchow, Pulau Pinang) with Hunza Parade Development Sdn Bhd (“HPD”)

HPD, a wholly-owned subsidiary of the Company, received a writ and statement of claim both dated 2 December 2014 from Lye Siew Weng, on behalf of Persatuan Kwangtung and Tengchow, Pulau Pinang (“Kwangtung”) over a joint venture dispute relating to a development in Penang (“JV Agreements”). The joint venture between Kwangtung and HPD was entered into in 1990. The Penang High Court on 30 June 2011, has vide CS no. 22-416-2003 (“the First Proceedings”), inter alia, found that the JV Agreements were lawfully terminated on 28 August 2000.

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B9. Changes in material litigation (cont'd)

In 2014, Kwangtung recommenced legal proceedings under Penang High Court (“the Proceedings”) against HPD for inter alia, the claims and reliefs as follows :-

- (a) a sum of RM7.2 million due to Kwangtung in respect of moneys received from the sale of the Condominium Blocks;
- (b) a sum of RM10.6 million being one-third (1/3) of the total net profits that Kwangtung would have made from the sale of the Commercial Block (under the JV Agreements); and
- (c) interest at the rate of 5% per annum on the above sums.

HPD’s solicitors is of the opinion that :-

- (a) the alleged claim of RM7.2 million arising from the sale of the Condominium Blocks is unsustainable;
- (b) the claims of RM7.2 million and RM10.6 million pursuant to the JV Agreements which were terminated on 28 August 2000 are time barred under the Limitations Act, 1953; and
- (c) HPD has a valid and sustainable defence under the doctrine of res Judicata and/or estoppel upon the premise that the claims arising from the JV Agreements should have been litigated and disposed under First Proceedings.

Statements of Defence were filed by HPD on 13 January 2015 with the Penang High Court. HPD has also applied to strike out Kwangtung’s claim on grounds that it is time barred, frivolous and an abuse of court process and res judicata. The application was dismissed with costs by the High Court. HPD subsequently filed an appeal to the Court of Appeal against the said decision. The Notice of Appeal was filed on 27 May 2015 and the Record of Appeal was filed on 3 July 2015. In the interim, HPD has applied to stay all proceedings in the High Court outcome the disposal of its appeal to the Court of Appeal. The Court of Appeal is set to hear HPD’s appeal in the month of November 2015.

HPD’s solicitors opine that HPD has a good arguable case to succeed in its appeal to the Court of Appeal.

(iii) Writ action filed by Loke Wan Yat Realty Sdn Bhd (“Loke Realty”) against Hunza Properties (Gurney) Sdn. Bhd. (“HPG”)

HPG, a wholly-owned subsidiary of the Company, has received a Writ and Statement of Claim both dated 18 March 2015 from Loke Realty. Loke Realty is the registered proprietor of Loke Mansion located in Penang Persiaran Gurney (“the Loke Mansion”). Development was carried out by HPG on its land adjacent to Loke Mansion since 2006.

Memorandum of Appearance was entered into by HPD in April 2015 with the Penang High Court. On 11 August 2015, Loke Realty filed its Amended Statement of Claim, and on 28 September 2015, HPG filed its Statement of Defence.

Loke Realty’s legal proceedings under Penang High Court (“the Proceedings”) against HPG is for inter alia, the claims and reliefs amended on 11 August 2015 that:

- (a) the loss of rentals, maintenance costs, monitoring and attendance costs and professional fees all amounting to RM930,648;
- (b) general damages for negligence and nuisance, exemplary and/or aggravated damages all amounting to RM2,250,000; and

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B9. Changes in material litigation (cont'd)

- (c) injunction that HPG take such necessary measures forthwith to rectify the ventilation and exhaust ducts.

HPG's solicitors is of its professional opinion that:

- (i) the alleged claims for loss of rentals, maintenance costs, monitoring and attendance costs and professional fees are unsustainable and/or too remote;
- (ii) HPG has a valid and sustainable defence against Loke Realty's claim of negligence and nuisance as HPG has taken all reasonable care and/or acted reasonable in carrying out the development on HPG's lands; and
- (iii) HPG has a good and/or meritorious case.

The solicitors acting for HPD are preparing the necessary course papers for this matter.

(iv) **High Court of Penang Suit brought by the Joint Management Body of Gurney Park ("Plaintiff") against Hunza Properties Berhad ("the Company")**

The Plaintiff commenced legal proceedings against the Company premised on road subsidence incidences which happened in 2009 and 2010 ("Incidences"). It was alleged, among others, that the Company, its servants and/or its agents had been negligent in carrying out construction works in Persiaran Gurney, Pinang and are liable for claims arising from the Incidences. The Plaintiff claimed for, among others, a sum of RM20,020,300 and interest and costs.

On 16 October 2015, the Company entered an appearance and has also instructed its solicitors to defend the claim and make an application to strike out the suit.

The solicitors are of the opinion that the Company has a good arguable case against the Plaintiff and has a reasonable chance of success in defending the claim and striking out the suit.

B10. Dividends declared / proposed

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

B11. Earnings per share ("EPS")

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

	Individual Quarter		Cumulative Quarter	
	Current quarter ended	Corresponding quarter ended	Current year ended	Corresponding year ended
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
Profit attributable to ordinary shareholders	4,441	7,628	4,441	7,628
Weighted average number of ordinary shares in issue (excluding treasury shares)	225,085	227,066	225,085	227,066
Basic EPS (sen)	1.97	3.36	1.97	3.36

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B12. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.09.2015 RM'000	Corresponding Quarter ended 30.09.2014 RM'000	Current Year to date ended 30.09.2015 RM'000	Corresponding Year to date ended 30.09.2014 RM'000
Profit for the year is arrived at after charging:				
Depreciation of property, plant and equipment	649	564	649	564
Property, plant and equipment written off	-	5	-	5
Interest expenses	4,582	3,667	4,582	3,667
and after crediting:				
Gain on disposal of property, plant and equipment	-	142	-	142
Interest income	455	332	455	332

B13. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.09.2015 RM'000	Preceding Year Corresponding Quarter ended 30.09.2014 RM'000
	Cash and bank balances	36,258
Deposits with licensed banks	49,358	109,558
Bank overdraft	-	(9,283)
	<u>85,616</u>	<u>119,542</u>
Less : Deposit pledged	(116)	(172)
	<u><u>85,500</u></u>	<u><u>119,370</u></u>

B14. Derivative financial instruments

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

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B15. 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

18 November 2015