

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, 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 2010. 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 2011 and of its result and cash flow 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 2010 except for the adoption of:

FRSs, Interpretation and Amendments effective for annual periods beginning on or after 1 January 2010

- FRS 7, Financial Instruments: Disclosures
- FRS 101, Presentation of Financial Statements (revised)
- FRS 123, Borrowing Costs (revised)
- FRS 139, Financial Instruments: Recognition and Measurement
- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
- Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellation
- Amendments to FRS 7, Financial Instruments: Disclosures
- Amendments to FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement
 - Reclassification of Financial Assets
- Improvements to FRSs (2009)
- IC Interpretation 9, Reassessment of Embedded Derivatives
- IC Interpretation 10, Interim Financial Reporting and Impairment
- IC Interpretation 11, FRS 2 – Group and Treasury Share Transactions

Amendments effective for annual periods beginning on or after 1 March 2010

- Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues

FRSs, Interpretation and Amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, First-time Adoption of Financial Reporting Standards (revised)
- FRS 3, Business Combinations (revised)
- FRS 127, Consolidated and Separate Financial Statements (revised)
- Amendments to FRS 2, Share-based Payment
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

Adoption of the above FRSs, Interpretation and Amendments do not have any significant impact on the Group’s financial position and results except Improvements to FRSs (2009); the amendment that has material impact is FRS 140, Investment Property. Following the amendments to FRS 140, the property under construction or development for future use as investment property is now accounted for as “investment property”, as compared to “property, plant and equipment, construction-in-progress”, previously. See Notes A10 and A11.

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A3. Declaration of audit qualification

The annual financial statements of the Group for the immediate preceding financial year ended 30 June 2010 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.

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 2010 was 5,398,100 ordinary shares of RM1 each at total cost of RM8,688,542. During this period, HPB has bought back a further 961,900 ordinary shares at the average price of RM1.39 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 31 March 2011 is accordingly 6,360,000. There were no share cancellations and resale of treasury shares during the period. Subsequent to 31 March 2011 (up to 16 May 2011), the Group has not further bought back any other ordinary shares.

During the period, no ordinary shares were allotted to the employees of the Group as no ESOS had been exercised. As at 31 March 2011, a total of 15,875 options to subscribe for ordinary shares of RM1 each under ESOS remain unexercised. The expiry date for the unexercised options is 26 November 2011. Subsequent to the quarter ended 31 March 2011, no ESOS has been exercised.

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 2010 was 43,661,467. During the period, 28,384 shares have been issued by virtue of exercise of warrants. As of 31 March 2011, 43,633,083 warrants remained unexercised. Subsequent to 31 March 2011, no warrant has been exercised.

A8. Dividend paid

During the financial period under review ended 31 March 2011, the Company paid the following dividends:

A final single tier dividend of RM0.056 per ordinary share, in respect of the financial year ended 30 June 2010 was approved by the shareholders in the Annual General Meeting held on 9 December 2010. Accordingly, the dividend amounting to RM10.5 million was paid out on 17 January 2011.

Also, please see B14 for proposed dividend.

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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	Construction RM'000	Trading RM'000	Property investment RM'000	Total reportable segment RM'000	Others non-reportable segments RM'000	Elimination RM'000	Consolidated RM'000
Financial period ended 31 March 2011								
External revenue	171,688	3,559	18,967	-	194,214	222	-	194,436
Inter-segment revenue	81	20,277	3,707	-	24,065	16,505	(40,570)	-
Segment profit / (loss)	44,265	826	168	22,336	67,595	12,906	(13,208)	67,293
Segment assets	351,270	9,493	21,728	206,227	588,718	16,974	-	605,692
Financial period ended 31 March 2010 (restated)								
External revenue	167,152	170	7,379	-	174,701	100	-	174,801
Inter-segment revenue	-	29,843	13,473	-	43,316	-	(43,316)	-
Segment profit / (loss)	53,464	1,270	1,002	(146)	55,590	3,874	(10,423)	49,041
Segment assets	389,471	14,172	7,876	122,697	534,216	60,264	-	594,480

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Notes to the Condensed Consolidated Interim Financial Statements:-

A10. Valuations of Property, Plant & Equipment

The value of land and buildings, stated at 2010 valuation, has been brought forward 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 apartments and buildings (held for own use) stated at valuation are revalued at regular intervals of at least once in every five years.

Upon adoption of “Improvements to FRS 140, Investment Property”, the property under construction or development for future use as investment property is now accounted for as Investment Property (refer A2). Hence, Gurney Paragon mall and office, which are under construction and another piece of land were transferred from previous classification of Property, Plant & Equipment to Investment Property during the current period.

A11. Valuations of Investment Properties

The value of such lands are based upon a valuation exercise carried out by independent firms of professional valuers and/or directors. The valuations were arrived at by reference to market evidence of transaction prices for similar properties. This was in line with our policy upon adoption of FRS 140, that investment properties are revalued at regular intervals of at least once every year.

Gain on revaluation of the lands that were transferred out from Property, Plant & Equipment (refer A10 above) amounting to RM22.7 million was recognised in current period.

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

On 9 March 2011, HPB acquired 2 ordinary shares of RM1.00 each representing 100% of the issued and paid-up capital of Constant Perform Sdn Bhd for RM2 only. Please refer to our public announcement dated 9 March 2011 in Bursa-Link or our website for details.

Other than the above, there were no changes in the composition of the Group from the end of previous year until the announcement date of this report.

A14. Capital commitments

Capital commitments not provided for in the financial statement as at 31 March 2011 are mainly for the mall and office tower components of Gurney Paragon integrated development, except otherwise stated. The commitments are as follow:

RM'000

Contracted but not provided for:

Construction contract	244,695
Purchase of development land (*)	93,129
	<u>337,824</u>

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Notes to the Condensed Consolidated Interim Financial Statements:-

A14. Capital commitments (continued)

* Included in “Other receivables and prepaid expenses” is an amount of RM5.3 million paid as deposits for the purchase (sales and purchase agreements duly signed) of a few pieces of development lands. One of the contracts entered by Hunza Properties Berhad (on 30 December 2009) and followed by a supplemental agreement (on 31 March 2011) was to purchase lands for RM91.2 million and RM4.6 million had been paid as deposits (refer to the public announcements via Bursa-Link dated 30 December 2009 and 31 March 2011); it is expected to be completed latest by end of calendar year 2011.

A15. Contingent liabilities

There were no contingent liabilities as at 31 March 2011.

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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 registered revenue of RM66.2 million and profit before taxation of RM15.2 million for current quarter as compared to RM58.4 million and RM14.3 million respectively in preceding year's corresponding quarter.

The increase in revenue of 13% is mainly attributable to stronger sales and higher stage of physical construction from Gurney Paragon project (condominiums). In addition, Mutiara Seputeh in Kuala Lumpur also recorded higher sales of its bungalow units.

Profit before taxation as well as margins, were higher in preceding year's corresponding quarter as a result of sales mix.

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

The Group recorded profit for the period of RM11.2 million as compared to RM10 million for the immediate preceding quarter ended 31 December 2010. The increase is principally due to the stronger take up rate for Gurney Paragon condominiums.

B3. Prospects for the current financial year

In view of the strong market sentiment and construction work of Gurney Paragon having reached its final stages (2 residential tower blocks expecting "Vacant Possession" soon), the Board is confident of a strong performance for financial year 2011.

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 31.3.2011 RM'000	Corresponding Quarter ended 31.3.2010 RM'000	Current Period to date ended 31.3.2011 RM'000	Corresponding Period to date ended 31.3.2010 RM'000
Current tax expenses				
- Current year	(3,758)	(4,443)	(11,262)	(13,971)
- Previous year	1,995	214	1,996	183
Deferred tax	(2,196)	900	(2,280)	1,362
	<u>(3,959)</u>	<u>(3,329)</u>	<u>(11,546)</u>	<u>(12,426)</u>

The effective tax rate of the Group for the current period to date is slightly higher than that of the statutory rate, excluding the gain on revaluation of investment properties (RM22.7 million) which is not taxable. It is due to losses of certain companies which for income tax purposes cannot be set-off against profits of other companies and some expenses that are not deductible in determining taxable profit.

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Notes to the Condensed Consolidated Interim Financial Statements:-

B6. Profits / (loss) on sale of unquoted investments and / or properties

There was no significant sale of unquoted investments and/or properties for the current financial period to date.

B7. Investments

(a) The purchases, disposals and gains or losses of quoted securities, bond and unit trusts for the current quarter and financial period-to-date are as follows:

	AFS Investments RM'000	HTM Investments RM'000
Total consideration for purchases	517	-
Total proceeds from disposals	163	5,066
Fair value loss recognised in PBT	-	(661)
Fair value gain recognised in OCI	342	-
Gain on disposal of investment recognised in PBT	22	48

(b) The total investments in quoted securities as at 31 March 2011 are as follows:

	AFS Investments RM'000	HTM Investments RM'000
At cost	2,246	-
At book value	2,588	-
At fair value	2,588	-

Note: PBT is Profit Before Taxation
OCI is Other Comprehensive Income
AFS are Available-for-Sale Investments
HTM are Held-to-Maturity Investments

B8. Status of corporate proposals

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

B9. Long-term 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 period are as follows:

Nilai Arif Sdn Bhd ("NASB")

A wholly-owned subsidiary of the Company, Hunza Properties (North) Sdn. Bhd. ("HPN") has entered into an agreement with NASB whereby NASB has appointed HPN as project manager cum consultant to provide evaluation and advisory services on a mixed development project. HPN has agreed to provide a sum of up to RM60 million as security deposits and/or financial assistance to NASB in relation to the upcoming corporate guarantee and banking facilities for the mixed development project. HPN is entitled to a share of the profit generated from the said development.

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B9. Long-term receivables (continued)

As at 31 March 2011, the amount of security deposit provided by the subsidiary company to NASB is RM11 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 2011 under this agreement as the said project is still at a preliminary stage of development.

B10. 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	1,654	-	1,654
Overdraft	-	1,758	1,758
Finance lease liabilities	-	861	861
Long-term borrowings due within one year	-	7,263	7,263
	<u>1,654</u>	<u>9,882</u>	<u>11,536</u>
<u>Non-current</u>			
Finance lease liabilities due between 1 and 5 years	-	435	435
Long-term borrowings due between 1 and 5 years	-	30,950	30,950
	<u>-</u>	<u>31,385</u>	<u>31,385</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 at 0.875% and 1% above the banks' cost of funds.

The Group's bankers' acceptances bear interest at rates 1.25% to 1.75% per annum, while overdraft bear interest at rate of 1% per annum above the lending bank's base lending rate. The finance lease liabilities are subject to fixed interest rates ranging from 2.46% to 3.80% per annum.

B11. Off balance sheet financial instruments

The Group has no off balance sheet financial instrument.

B12. Breakdown of Realised and Unrealised Profits or Losses of the Group

	At end of current quarter 31 March 2011 RM'000
Realised profits	190,724
Unrealised profits	43,178
Total retained profits	<u>233,902</u>

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B13. Changes in material litigation

(i) **Civil suit between Hunza Parade Development Sdn. Bhd. ("HPD") and The Kwangtung and Tengchow Association Penang ("Kwangtung")**

HPD, a 92.5% owned subsidiary, has filed a civil suit against the trustees of Kwangtung on the wrongful termination and repudiation of a joint venture agreements (the "JV Agreement") by Kwangtung which has the effect of preventing HPD from undertaking the development of a commercial block. The claims made by HPD against Kwangtung in the subject proceedings are, inter alia for :

- a. a sum of RM31.8 million for loss of profits consequential upon the wrongful termination and repudiation of the JV Agreements; and
- b. a sum of RM4.8 million being damages in respect of actual expenses incurred by HPD pursuant to the JV Agreements.

The solicitors for HPD are of the opinion that HPD has a good chance of success against Kwangtung in its claims and has reasonable chance of claiming proper compensation for the wrongful termination. The matter went for trial (on preliminary issue of liabilities) on 18 and 19 October 2010, 25 February 2011, 15 March 2011, 7 and 19 April 2011, after which the court further fixed 19 May 2011 for submission by both parties.

(ii) **Legal proceeding by Bong Ah Chin Machinery & Construction Sdn. Bhd. ("BACMC") against Hunza Properties (Kedah) Sdn. Bhd. ("HPK")**

HPK, a 94% owned subsidiary company of Hunza Properties Bhd, was served a Writ of Summon on 29 April 2008 by BACMC for a claim of RM20.7 million as well as compensation, interest and other reliefs.

The legal proceeding initiated by BACMC against HPK is premised on HPK's alleged refusal to allow BACMC to extract minerals on Part of Lot 5532 (part of Lot 1870) and Lot 1806, Mukim Sungai Petani, Daerah Kuala Muda, Kedah Darul Aman.

HPK had on 17 April 2011, without admission of liability, entered into a consent order for an amicable settlement with BACMC with regards to Alor Setar High Court Civi Suit No. 22-115-2008, under which HPK has agreed to pay an ex-gratia payment of RM1 million. As a result thereof, BACMC has withdrawn their claim against HPK without liberty to file afresh.

Please refer to our public announcement dated 18 April 2011 on this matter.

(iii) **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 Bina Sdn Bhd's breaches of the Contract and for loss and damage as a result thereof.

HPP and HPG have referred the disputes and differences between themselves and PLB-KH Bina Sdn Bhd under the Contract to arbitration. The Arbitrator appointed for the arbitration is Ar. Koh Beng Teck.

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B13. Changes in material litigation (continued)

The hearing of the arbitration has been set to commence on 7 September 2011. In the interim, the parties are required to comply with the pre-hearing directions ordered by the Arbitrator.

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

(iv) 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. HPP and HPG subsequently filed a Summons in Chambers seeking for summary judgment of the sum of RM1.52 million together with interest of 8% on the sum of RM1.52 million from 9 September 2009 to the date of full settlement, and costs (“Summary Judgment”).

The Summons In Chambers was called for hearing on 26 August 2010, and after hearing counsel, the High Court adjourned the matter for decision on 21 September 2010, on which date the High Court granted Summary Judgment in favour of HPP and HPG.

PLB Eng had on the same day, 21 September 2010, lodged a Notice of Appeal at the Court of Appeal against the decision of the High Court Judge in granting the Summary Judgment. In the meanwhile, the High Court Judge has granted a stay of execution of the Summary Judgment pending the disposal of the Defendant’s Appeal at the Court of Appeal.

(v) Writ Action filed by Ikatan Kelab-Kelab Melayu Negeri Pulau Pinang & 33 Others against Bandar Kepala Batas Sdn Bhd (“BKB”) as one of the 9 Defendants

BKB, a 70% owned subsidiary of the Company was served with a Writ of Summons and Statement of Claim both dated 7th September 2010 (“Writ Action”) filed by Ikatan Kelab-Kelab Melayu Negeri Pulau Pinang & 33 Others as the Plaintiffs against 9 Defendants, in which BKB is one of the 9 Defendants.

In the Writ Action, the Plaintiffs are seeking for, inter alia, a declaration that the Joint Venture Agreement entered into between BKB on the one part and Kumpulan Pinang Hartanah Sdn Bhd (“the 3rd Defendant named in the Writ Action) and Kumpulan Pinang Properties Sdn Bhd (“the 9th Defendant named in the Writ Action”) on the other part, is null and void.

BKB had filed an application to strike out the Plaintiffs’ claim against it on the grounds, inter alia, that the Plaintiffs have no locus standi to commence this Writ Action and/or otherwise frivolous and vexatious. The striking out applications were heard before the High Court Judge In Chambers, and the decision was delivered on 27 April 2011 whereby the High Court allowed the striking out applications with costs on the ground that the plaintiffs had no locus standi to commence the action, and the Plaintiffs’ claims were thereby struck out *in limine*.

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B14. Proposed Dividend

The board of directors hereby declare a special interim single tier dividend of RM0.025 per share for the financial year ending 30 June 2011. EX-date, entitlement date and payment date of the proposed dividend are on 22 June 2011, 24 June 2011 and 8 July 2011 respectively.

B15. 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 31.3.2011 RM'000	Corresponding quarter ended 31.3.2010 RM'000	Current period ended 31.3.2011 RM'000	Corresponding period ended 31.3.2010 RM'000
Profit attributable to ordinary shareholders	11,135	11,077	55,851	36,430
Weighted average number of ordinary shares in issue (excluding treasury shares)	188,199	159,581	188,335	150,203
Basic earnings per ordinary share (sen)	5.92	6.94	29.66	24.25

(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 been adjusted for the dilutive effects of all potential ordinary shares, i.e shares exercisable under warrants.

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31.3.2011 RM'000	Corresponding quarter ended 31.3.2010 RM'000	Current period ended 31.3.2011 RM'000	Corresponding period ended 31.3.2010 RM'000
Profit attributable to ordinary shareholders	11,855	11,213	58,011	36,565
Adjusted weighted average number of ordinary shares in issue* (excluding treasury shares)	201,772	164,408	200,689	159,121
Diluted earnings per ordinary share (sen)	5.88	6.82	28.91	22.98

* Share options granted to employees under ESOS are not included in this computation as the number of unexercised ESOS is insignificant.

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B16. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.3.2011 RM'000	Preceding Year Corresponding Quarter ended 31.3.2010 RM'000
Cash and bank balances	16,383	32,657
Deposits with licensed banks	4,462	46,766
Bank overdrafts	(1,758)	-
	<hr/>	<hr/>
	19,087	79,423
Less : Deposit pledged	(168)	(2,129)
Sinking fund and service charges		
deposit placed on behalf of housebuyers	(2,289)	(2,214)
	<hr/>	<hr/>
	16,630	75,080
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By Order of the Board
Hunza Properties Berhad

TAN CHOONG KHIANG
Secretary

Penang

19 May 2011