

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 30 June 2011 and of its result and cash flow for the year 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 year under review.

A6. Changes in estimates

There were no material changes in estimates for the financial year 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 financial year, 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 30 June 2011 is accordingly 6,360,000. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 June 2011 (up to 24 August 2011), the Group has bought back a further 1,062,500 ordinary shares at the average price of RM1.52 per share; these were also treated as treasury shares.

During the period, 15,875 ordinary shares were allotted to the employees of the Group arising from the exercise of the options under ESOS. As at 30 June 2011, there was no outstanding unexercised ESOS option.

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 financial year, 28,984 shares have been issued by virtue of exercise of warrants. As of 30 June 2011, 43,632,483 warrants remained unexercised. Subsequent to 30 June 2011, no warrant has been exercised.

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A8. Dividend paid

During the financial year under review ended 30 June 2011, the Company paid the following dividends:

- a) 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.
- b) A special interim single tier dividend of RM0.025 per ordinary share, in respect of the financial year ended 30 June 2011 amounting to RM4.7 million was paid out on 8 July 2011.*

Also, please see B14 for proposed dividend.

*To mark the Group's 11th year celebration of continuous profitability and growth (HPB was listed on the Main Board of Bursa in March 2000) and to mark the addition of Property Investment Holding/Real Estate to the Group's core business.

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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 year ended 30 June 2011								
External revenue	211,154	5,692	24,112	-	240,958	265	-	241,223
Inter-segment revenue	108	24,919	4,744	-	29,771	22,240	(52,011)	-
Segment profit / (loss)	52,544	1,318	258	24,129	78,249	17,686	(17,772)	78,163
Segment assets	374,542	12,405	17,316	236,069	640,332	25,310	-	665,642
Financial year ended 30 June 2010 (restated)								
External revenue	233,390	86	14,582	-	248,058	133	-	248,191
Inter-segment revenue	-	43,917	18,976	-	62,893	3,882	(66,775)	-
Segment profit / (loss)	73,385	1,793	1,327	1,318	77,823	13,596	(21,295)	70,124
Segment assets	399,404	9,559	17,366	137,862	564,191	31,873	-	596,064

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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 year.

A11. Valuations of Investment Properties

The value of such 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 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

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 RM2,300 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 30 June 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	228,391
Purchase of development land (*)	88,568
	<u>316,959</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 RM9.8 million paid as deposits for the purchase (sales and purchase agreements already previously 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 RM9.1 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 30 June 2011.

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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 recorded revenue of RM46.8 million and profit before taxation of RM10.9 million for current quarter as compared to RM73.4 million and RM20.3 million respectively in preceding year's corresponding quarter. This is mainly attributable to:

- i) Lower sales for the Group as compared to previous year.
- ii) a write-off of RM4.8 million (included in operating expenses) during current quarter resulting from Civil suit between Hunza Parade Development Sdn. Bhd. and The Kwangtung and Tengchow Association Penang (see B13(i) for details).
- iii) Sales mix of the Group.

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

The Group registered profit for the period of RM7.8 million as compared to RM11.2 million for the immediate preceding quarter ended 31 March 2011. The decrease is principally due to the write-off of RM4.8 million which is mentioned in B1 (ii) above.

B3. Prospects for the current financial year

Going forward, the Group shall concentrate on selling the remaining completed units of Gurney Paragon residential towers (Certificate of Fitness for Occupation obtained in June 2011), with prices at a higher level than when under construction. The Group shall focus on the construction and tenanting of Gurney Paragon retail mall, besides preparation and planning the launches for Alila 2, Bertam and Segambut residential projects.

Based on the above factors, the Board is confident that the Group will continue to record a decent performance in this current and coming years.

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 30.6.2011 RM'000	Corresponding Quarter ended 30.6.2010 RM'000	Current Period to date ended 30.6.2011 RM'000	Corresponding Period to date ended 30.6.2010 RM'000
Current tax expenses				
- Current year	(5,803)	(7,700)	(17,065)	(21,671)
- Previous year	885	(46)	2,881	137
Deferred tax	1,532	1,894	(748)	3,255
	<u>(3,386)</u>	<u>(5,852)</u>	<u>(14,932)</u>	<u>(18,279)</u>

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B5. Taxation (continued)

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 (RM24.7 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.

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 year 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 year-to-date are as follows:

	AFS Investments RM'000	HTM Investments RM'000
Total consideration for purchases	729	-
Total proceeds from disposals	423	5,066
Fair value loss recognised in PBT	-	(661)
Fair value gain recognised in OCI	360	-
Gain on disposal of investment recognised in PBT	102	48

(b) The total investments in quoted securities as at 30 June 2011 are as follows:

	AFS Investments RM'000	HTM Investments RM'000
At cost	2,276	-
At book value	2,636	-
At fair value	2,636	-

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.

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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.

As at 30 June 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 30 June 2011 under this agreement as the said project is still at a preliminary stage of development.

B10. Group borrowings

Details are as follows:

	RM'000	RM'000	RM'000
	Unsecured	Secured	Total
<u>Current</u>			
Bankers' acceptances	977	-	977
Finance lease liabilities	-	850	850
Long-term borrowings due within one year	-	2,835	2,835
	<u>977</u>	<u>3,685</u>	<u>4,662</u>
<u>Non-current</u>			
Finance lease liabilities due between 1 and 5 years	-	228	228
Long-term borrowings due between 1 and 5 years	-	55,933	55,933
Long-term borrowings due more than 5 years	-	19,092	19,092
	<u>-</u>	<u>75,253</u>	<u>75,253</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 1.5% above the banks' cost of funds and 1.25% above the lending bank's base lending rate.

The Group's bankers' acceptances bear interest at rates 1.25% per annum. 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.

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

	At end of current quarter 30 June 2011 RM'000
Realised profits	190,793
Unrealised profits	46,492
Total retained profits	<u>237,285</u>

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, had 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 had 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 Court had on 30 June 2011 dismissed HPD's claim with costs of RM20,000 wherein the Court found that "time is of essence" of the JV Agreement and that the JV Agreement had expired without any further agreement to extend time. Therefore there is no wrongful termination and HPD cannot claim any damages thereof.

Resulting from the Court's judgement, HPD wrote-off the RM4.8 million (item(b) above, which was carried in its book as an asset) in the financial year ended 30 June 2011.

HPD had on 21 July 2011 filed a Notice of Appeal to the Court of Appeal against the decision of the High Court on 30 June 2011 in dismissing HPD's claim for wrongful determination of the JV Agreement.

Please refer to our public announcements dated 1 July 2011 and 21 July 2011 on above matters.

(ii) 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 damages 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.

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B13. Changes in material litigation (continued)

The hearing days previously set to be commenced on 7 September 2011 have been vacated and have now been rescheduled and commence on 19 October 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.

(iii) 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”).

On 21 September 2010, 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 interim, the High Court Judge granted a stay of execution of the Summary Judgment pending the disposal of the Defendant’s Appeal at the Court of Appeal.

B14. Proposed Dividend

The board of directors proposed a final single tier dividend of RM0.056 per ordinary share, in respect of the financial year ended 30 June 2011. The proposed dividend if payable in respect of all outstanding ordinary shares in issue as of 30 June 2011 would amount to RM10.5 million. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting of the company.

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	Corresponding quarter ended	Current period ended	Corresponding period ended
	30.6.2011	30.6.2010	30.6.2011	30.6.2010
	RM’000	RM’000	RM’000	RM’000
Profit attributable to ordinary shareholders	7,830	14,495	63,681	50,925
Weighted average number of ordinary shares in issue (excluding treasury shares)	188,043	188,966	188,263	159,867
Basic earnings per ordinary share (sen)	4.16	7.67	33.83	31.85

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B15. Earnings per share (continued)

(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 30.6.2011 RM'000	Corresponding quarter ended 30.6.2010 RM'000	Current period ended 30.6.2011 RM'000	Corresponding period ended 30.6.2010 RM'000
Profit attributable to ordinary shareholders	8,550	15,150	66,561	51,796
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	201,678	194,307	200,947	167,952
Diluted earnings per ordinary share (sen)	4.16	7.67	33.12	30.84

B16. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.6.2011 RM'000	Preceding Year Corresponding Quarter ended 30.6.2010 RM'000
Cash and bank balances	33,504	55,883
Deposits with licensed banks	29,114	11,486
	<hr/> 62,618	<hr/> 67,369
Less : Deposit pledged	(169)	(1,148)
Sinking fund and service charges		
deposit placed on behalf of housebuyers	(2,348)	(2,289)
	<hr/> (2,517)	<hr/> (3,437)
	<hr/> <hr/> 60,101	<hr/> <hr/> 63,932

By Order of the Board
Hunza Properties Berhad

GUNN CHIT GEOK
Secretary

Penang

25 August 2011