

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 2011. 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 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 2011 except for the adoption of:

- i). FRSs, Interpretation and Amendments effective for annual periods beginning on or after 1 January 2011
 - Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
 - Limited Exemption from Comparative FRS 7 Disclosure for First-time Adopters
 - Additional Exemption for First-time Adopters
 - Amendments to FRS 2, Group Cash-settled Share Based Payment Transactions
 - Amendments to FRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
 - Improvements to FRSs (2010)
 - IC Interpretation 4, Determining whether an arrangement contains a Lease
- ii). Amendments effective for annual periods beginning on or after 1 July 2011
 - IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments

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

A3. Declaration of audit qualification

The annual financial statements of the Group for the immediate preceding financial year ended 30 June 2011 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.

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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 2011 was 6,360,000 ordinary shares of RM1 each at total cost of RM10,024,943. During this financial period, HPB has bought back a further 3,917,300 ordinary shares at the average price of RM1.50 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 2011 is accordingly 10,277,300. There were no share cancellations and resale of treasury shares during the period. Subsequent to 30 September 2011 (up to 16 November 2011), the Group has bought back a further 783,800 ordinary shares at the average price of RM1.46 per share; these were also treated as treasury shares.

On 3 March 2010, 43,679,467 warrants were granted by the Company to the subscribers of the rights shares. The warrants may be exercised at any time on or after the issue date but not later than 5.00 p.m. on 2 March 2015. The number of unexercised warrants as at 1 July 2011 was 43,632,483. During the financial period, no shares have been issued by virtue of exercise of warrants. As of 30 September 2011, 43,632,483 warrants remained unexercised. Subsequent to 30 September 2011, no warrant has been exercised.

A8. Dividend paid

During the financial period under review ended 30 September 2011, the Company paid the following dividends:

- a) 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 final 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 period ended 30 September 2011								
External revenue	27,214	1,160	4,870	-	33,244	78	-	33,322
Inter-segment revenue	27	-	1,463	-	1,490	812	(2,302)	-
Segment profit / (loss)	10,845	(438)	(7)	(42)	10,358	(208)	(53)	10,097
Segment assets	359,288	5,891	8,452	269,350	642,981	27,758	-	670,739
Financial period ended 30 September 2010								
External revenue	59,333	603	4,509	-	64,445	81	-	64,526
Inter-segment revenue	27	11,123	1,743	-	12,893	1,414	(14,307)	-
Segment profit / (loss)	16,298	551	33	22,679	39,561	(316)	(325)	38,920
Segment assets	371,158	7,997	17,433	168,100	564,688	22,288	-	586,976

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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.

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. (refer note B1(ii))

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 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 September 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	215,508
Purchase of development land (*)	88,569
	<u>304,077</u>

* 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); all transactions relating to this acquisition were completed on 11 November 2011 (refer to the public announcements via Bursa-Link dated 11 November 2011).

A15. Contingent liabilities

There were no contingent liabilities as at 30 September 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 registered revenue of RM33.3 million and profit before taxation of RM10.3 million for current quarter as compared to RM64.5 million and RM39.0 million respectively in preceding year's corresponding quarter. This decrease is mainly attributable to:

- i) Higher attributable sales recorded in previous quarter. Note that the Group, however, recorded a higher gross profit margin as a result of sales mix and increased selling price of Gurney Paragon Condominium units (see B3 below).
- ii) A revaluation exercise of Investment Properties (required under Improvement to FRS 140 Investment Properties) which recognised the increase in the carrying amount of RM22.7 million to the Income Statement in preceding's year corresponding quarter. This exercise will be carried out in the 4th quarter during current financial year 2012.

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

There is no material difference in the Group's current quarter net profit compared to the preceding quarter ended 30 June 2011.

B3. Prospects for the current financial year

Going forward, the Group shall concentrate on selling the remaining completed condominium 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 (refer B1(i) above). The Group shall focus on the construction and tenanting of Gurney Paragon retail mall, besides preparation and planning the launch for "Alila 2". Meanwhile Bertam's Phase 3 residential project is scheduled to kick off by next calendar year.

In addition, we will also conduct the annual revaluation of Investment Properties in the 4th quarter of current financial year 2012 (see B1(ii) above).

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.

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Notes to the Condensed Consolidated Interim Financial Statements:-

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 30.9.2011 RM'000	Corresponding Quarter ended 30.9.2010 RM'000	Current Period to date ended 30.9.2011 RM'000	Corresponding Period to date ended 30.9.2010 RM'000
Current tax expenses				
- Current year	(2,611)	(4,265)	(2,611)	(4,265)
- Previous year	-	1	-	1
Deferred tax	-	(50)	-	(50)
	<u>(2,611)</u>	<u>(4,314)</u>	<u>(2,611)</u>	<u>(4,314)</u>

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 for the current quarter and financial period-to-date are as follows:

	AFS Investments RM'000
Total consideration for purchases	211
Total proceeds from disposals	17
Fair value loss recognised in OCI	(356)
Gain on disposal of investment recognised in PBT	4

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

	AFS Investments RM'000
At cost	2,474
At book value	2,478
At fair value	2,478

Note: PBT is Profit Before Taxation
OCI is Other Comprehensive Income
AFS are Available-for-Sale 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 September 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.

B9. Long-term receivables (continued)

No share of profit was recorded for the period ended 30 September 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	302	-	302
Bank overdrafts	-	1,058	1,058
Finance lease liabilities	-	627	627
	<u>302</u>	<u>1,685</u>	<u>1,987</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	-	73,450	73,450
Long-term borrowings due more than 5 years	-	22,792	22,792
	<u>-</u>	<u>96,470</u>	<u>96,470</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 1.5% above the banks' cost of funds and 1.25% above the lending bank's base lending rate.

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

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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 30 September 2011 RM'000
Realised profits	196,926
Unrealised profits	47,836
Total retained profits	<u>244,762</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.

(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's breaches of the Contract and for loss and damages as a result thereof.

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Notes to the Condensed Consolidated Interim Financial Statements:-

B13. Changes in material litigation (continued)

(ii) Arbitration & Litigation between Hunza Properties (Gurney) Sdn Bhd (“HPG”), Hunza Properties (Penang) Sdn Bhd (“HPP”) and PLB-KH Bina Sdn Bhd (“PLB-KH”) (continued)

HPP and HPG have referred the disputes and differences between themselves and PLB-KH under the Contract to arbitration.

The hearing of the arbitration is now set to commence on 16th May 2012 at the request of both parties. 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, 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. A hearing date has yet to be fixed for the Appeal.

B14. Proposed Dividend

The board of directors had 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 September 2011 would amount to RM10.5 million. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting of the company. EX-date, entitlement date and payment date of the proposed dividend are on 16 December 2011, 20 December 2011 and 5 January 2012 respectively.

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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 30.9.2011 RM'000	Corresponding quarter ended 30.9.2010 RM'000	Current period ended 30.9.2011 RM'000	Corresponding period ended 30.9.2010 RM'000
Profit attributable to ordinary shareholders	7,476	34,694	7,476	34,694
Weighted average number of ordinary shares in issue (excluding treasury shares)	186,972	188,578	186,972	188,578
Basic earnings per ordinary share (sen)	4.00	18.39	4.00	18.39

(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 30.9.2011 RM'000	Corresponding quarter ended 30.9.2010 RM'000	Current period ended 30.9.2011 RM'000	Corresponding period ended 30.9.2010 RM'000
Profit attributable to ordinary shareholders	7,676	35,044	7,676	35,044
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	199,028	196,576	199,028	196,576
Diluted earnings per ordinary share (sen)	3.86	17.83	3.86	17.83

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B16. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 30.9.2011 RM'000	Preceding Year Corresponding Quarter ended 30.9.2010 RM'000
Cash and bank balances	14,561	19,077
Deposits with licensed banks	72,163	22,264
Bank overdrafts	(1,058)	-
	<hr/>	<hr/>
	85,666	41,341
Less : Deposit pledged	(169)	(1,150)
Sinking fund and service charges deposit placed on behalf of housebuyers	(2,348)	(2,289)
	<hr/>	<hr/>
	83,149	37,902
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By Order of the Board
Hunza Properties Berhad

GUNN CHIT GEOK
CHEW SIEW CHENG
Secretaries

Penang

23 November 2011