

# 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 31 December 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 4,795,200 ordinary shares at the average price of RM1.49 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 December 2011 is accordingly 11,155,200. There were no share cancellations and resale of treasury shares during the period. Subsequent to 31 December 2011 (up to 22 February 2011), the Group has bought back a further 1,267,300 ordinary shares at the average price of RM1.56 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 31 December 2011, 43,632,483 warrants remained unexercised. Subsequent to 31 December 2011, no warrant has been exercised.

## A8. Dividend paid/payable

During the financial period under review ended 31 December 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.\*
- b) A final single tier dividend of RM0.056 per ordinary share, in respect of the financial year ended 30 June 2011 was approved by the shareholders in the Annual General Meeting held on 15 December 2011. Accordingly, the dividend amounting to RM10.26 million was paid out on 5 January 2012.

\*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	Other non-reportable segments RM'000	Elimination RM'000	Consolidated RM'000
<b>Financial period ended 31 December 2011</b>								
External revenue	53,939	1,290	16,065	26	71,320	95	-	71,415
Inter-segment revenue	54	-	3,054	-	3,108	12,820	(15,928)	-
Segment profit / (loss)	21,320	(275)	53	(1,079)	20,019	10,741	(11,186)	19,574
Segment assets	349,135	5,857	10,006	297,306	662,304	106,064	-	768,368
<b>Financial period ended 31 December 2010</b>								
External revenue	114,842	2,022	11,199	-	128,063	181	-	128,244
Inter-segment revenue	54	16,852	2,885	-	19,791	15,649	(35,440)	-
Segment profit / (loss)	29,411	770	113	22,381	52,675	12,993	(13,580)	52,088
Segment assets	356,893	9,004	18,355	187,478	571,730	29,469	-	601,199

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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.

## 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 B3)

## 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 31 December 2011 are for the mall and office tower components of Gurney Paragon integrated development, except otherwise stated. The commitments are as follow:

	RM'000
Contract sum	302,549
Less: Progress claims certified to date	<u>(116,825)</u>
Contracted but not provided for	<u>185,724</u>

## A15. Contingent liabilities

There were no contingent liabilities as at 31 December 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 RM38.1 million and profit before taxation of RM9.7 million for current quarter as compared to RM63.7 million and RM13.2 million respectively in preceding year's corresponding quarter.

This is mainly due to 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.

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

- i) **Property development**  
Revenue for the current quarter and period to date declined by RM25.6 million (40%) and RM60.1 million (53%) as compared to preceding year's corresponding quarter and period to date, mainly resulting from fewer completed units sold. Nevertheless, current quarter as well as period to date ended December 2011 recorded a higher margin resulting from the increase in selling price, especially our Gurney Paragon Condominium.

Gurney Paragon Condominium will be the main contributor for the property development segment for this financial year ended June 2012. The up-coming Phase 3 double storey semi-detached of Bandar Putra Bertam, which is planned to be launched soon, together with double-storey terrace (at planning stage currently) will only be contributing significantly to the Group's revenue and profit in next financial year.

- ii) **Construction**  
Revenue recorded a significant drop of more than 90% with loss for current quarter and period to date as compared to preceding year's corresponding quarter and period to date, as a result of decline in inter-segment revenue. This decrease is in line with the completion of physical construction of Gurney Paragon Condominium Towers in 4<sup>th</sup> quarter of financial year ended 2011, for which Masuka Bina Sdn. Bhd. (the component for our "construction" segment) was the main contractor.

Going forward, the revenue from this segment is mainly derived from rental of machineries and supply of concrete.

- iii) **Trading**  
Revenue recorded were RM9.3 million and RM 19.1 million for current quarter and period to date, which was an increase of 19% and 35% respectively as compared to preceding year's corresponding quarter and period to date. However, there is a decline in profit mainly due to decrease in gross profit margin. This is resulted from business decision with third party in order to maintain its competitiveness.

Going forward, revenue will also increase upon the launch of Bertam residential project. Nevertheless, contribution to the Group is not significant as compared to other segment.

- iv) **Property investment**  
Preceding year's period to date recorded a profit of RM22.7 million as a result of revaluation of Investment Properties. Under Improvement to FRS 140, Investment Properties, Gurney Paragon mall and office, even though under construction are revalued at regular intervals of at least once every year.

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

### iv) Property investment (Cont'd)

This segment will contribute significantly to the Group upon completion and operation of the Gurney Paragon Phase 2 Retail Mall and Office in coming years. In addition, the yearly revaluation of the mall and office tower will also significantly impact the Group in future.

For this current year compliance with “FRS 140, Investment Properties”, we will carry out the revaluation of our investment properties in our Quarter 4. Also see note B3 below.

## 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 September 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. 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 its construction and sales launch soon.

In addition, we will also conduct the annual revaluation of Investment Properties in the 4<sup>th</sup> quarter of current financial year 2012.

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 31.12.2011 RM'000	Corresponding Quarter ended 31.12.2010 RM'000	Current Period to date ended 31.12.2011 RM'000	Corresponding Period to date ended 31.12.2010 RM'000
Current tax expenses				
- Current year	(2,547)	(3,239)	(5,158)	(7,504)
- Previous year	-	-	-	1
Deferred tax	-	(34)	-	(84)
	<u>(2,547)</u>	<u>(3,273)</u>	<u>(5,158)</u>	<u>(7,587)</u>

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## B6. Status of corporate proposals

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

## B7. 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 “Alila 2”. HPN has agreed to provide a sum of up to RM60 million as security deposits and/or financial assistance to NASB in the form of corporate guarantee for banking facilities for the mixed development project. HPN is entitled to a share of the profit generated from the said development.

As at 31 December 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 December 2011 under this agreement as the said project has not been launched yet (see note B3 above).

## B8. Group borrowings

Details are as follows:

	<u>RM'000</u> Unsecured	<u>RM'000</u> Secured	<u>RM'000</u> Total
<u>Current</u>			
Bankers' acceptances	1,162	-	1,162
Bank overdrafts and revolving credit	1	17,674	17,675
Finance lease liabilities	-	552	552
Long-term borrowings due less than 1 year	-	1,015	1,015
	<u>1,163</u>	<u>19,241</u>	<u>20,404</u>
<u>Non-current</u>			
Finance lease liabilities due between 1 and 5 years	-	86	86
Long-term borrowings due between 1 and 5 years	-	96,123	96,123
Long-term borrowings due more than 5 years	-	78,956	78,956
	<u>-</u>	<u>175,165</u>	<u>175,165</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.

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## B8. Group borrowings (Cont'd)

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 revolving credit are subject to fixed interest rates ranging from 4.84% to 5.73% per annum and the finance lease liabilities are also subject to fixed interest rates ranging from 2.46% to 3.80% per annum.

## B9. Breakdown of realised and unrealised profits or losses of the Group

	At end of current quarter 31 December 2011
Realised profits	RM'000 193,590
Unrealised profits	47,836
Total retained profits	<hr/> 241,426 <hr/>

## B10. 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



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## **B10. Changes in material litigation (Cont'd)**

### **(ii) Arbitration & Litigation between Hunza Properties (Gurney) Sdn Bhd (“HPG”), Hunza Properties (Penang) Sdn Bhd (“HPP”) and PLB-KH Bina Sdn Bhd (“PLB-KH”) (Cont'd)**

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.

HPP and HPG have then 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 16<sup>th</sup> 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. The Appeal has been scheduled for hearing on 29 March 2012.

### **(iv) 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

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## B10. Changes in material litigation (Cont'd)

### (iv) 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 (Cont'd)

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*.

The Appellants' appealed against the High Court's decisions.

On 5 January 2012, the Court of Appeal dismissed the Appellants' appeals with costs, and affirmed the decisions of the High Court Judge.

The Appellants have filed a Motion at the Federal Court for leave to appeal against the said decision of the Court of Appeal. A hearing date has yet been fixed for the Motion.

## B11. Proposed dividend

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

## B12. Earnings per share

### (a) Basic

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

	Individual Quarter		Cumulative Quarter	
	Current quarter ended 31.12.2011 RM'000	Corresponding quarter ended 31.12.2010 RM'000	Current period ended 31.12.2011 RM'000	Corresponding period ended 31.12.2010 RM'000
Profit attributable to ordinary shareholders	6,927	10,022	14,403	44,716
Weighted average number of ordinary shares in issue (excluding treasury shares)	183,422	188,225	185,197	188,401
Basic earnings per ordinary share (sen)	3.78	5.32	7.78	23.73

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## B12. Earnings per share (Cont'd)

(b) Diluted (Cont'd)

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 31.12.2011 RM'000	Corresponding quarter ended 31.12.2010 RM'000	Current period ended 31.12.2011 RM'000	Corresponding period ended 31.12.2010 RM'000
Profit attributable to ordinary shareholders	7,115	10,742	14,791	46,156
Adjusted weighted average number of ordinary shares in issue (excluding treasury shares)	194,843	202,947	196,939	200,109
Diluted earnings per ordinary share (sen)	3.65	5.29	7.51	23.07

## B13. Profit for the period

	Individual Quarter		Cumulative Quarter	
	Current Quarter ended 31.12.2011 RM'000	Corresponding Quarter ended 31.12.2010 RM'000	Current Period to date ended 31.12.2011 RM'000	Corresponding Period to date ended 31.12.2010 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	658	262	1,273	484
Property, plant and equipment written off	-	10	14	22
Impairment loss on financial assets	-	-	-	623
Interest expenses	264	53	551	273
Net foreign exchange loss	-	-	-	-
Receivables written off	-	-	-	-
Write-down of inventories	-	-	-	-
and after crediting:				
Fair value gain on investment properties	-	-	-	22,719
Gain on disposal of financial assets	-	-	4	-
Gain on disposal of property, plant and equipment	-	6	34	6
Interest income	456	191	1,006	378

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## B14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Current Quarter ended 31.12.2011 RM'000	Preceding Year Corresponding Quarter ended 31.12.2010 RM'000
Cash and bank balances	13,168	30,323
Deposits with licensed banks	61,017	14,510
Bank overdrafts	(4,675)	(1,552)
	<hr/> 69,510	<hr/> 43,281
Less : Deposit pledged	(110)	(975)
Sinking fund and service charges deposit placed on behalf of housebuyers	(2,348)	(2,289)
	<hr/> <hr/> 67,052	<hr/> <hr/> 40,035

## B15. Derivative financial instruments

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

## B16. Gains or Losses arising from fair value changes of financial liabilities

There were no gains or losses resulting from fair valuing of financial liabilities for the financial period under review.

By Order of the Board  
**Hunza Properties Berhad**

GUNN CHIT GEOK  
CHEW SIEW CHENG  
Secretaries

Penang

22 February 2012