

HARN LEN CORPORATION BHD (“Harn Len” or “the Company”) (502606-H)

EXPLANATORY NOTES TO THE THIRD QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 31 DECEMBER 2009.

PART A: EXPLANATORY NOTES AS PER FRS 134

A1 Basis of preparation

This unaudited condensed interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad, including compliance with Financial Reporting Standard (FRS) 134, Interim Financial Reporting, issued by the Malaysian Accounting Standards Board (MASB).

The unaudited condensed interim financial report has been prepared in accordance with the same accounting policies adopted in the audited financial statements for the year ended 31 December 2008.

A2 Statement of compliance

The Group and the Company have not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

<u>FRSs/Interpretations</u>	<u>Effective dates</u>
FRS 4, Insurance Contracts	1 January 2010
FRS 7, Financial Instruments: Disclosures	1 January 2010
FRS 8, Operating Segment	1 July 2009
FRS 139, Financial Instruments: Recognition and Measurement	1 January 2010
IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10, Interim Financial Reporting and Impairment	1 January 2010

The Group and the Company plan to apply the abovementioned FRSs/ Interpretations from the annual period beginning 1 January 2010.

FRS 4 is not applicable to the Group and the Company. The impact of applying FRS 7, and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the above standards (and its consequential amendments) and interpretations is not expected to have any material impact on the financial statements of the Group and the Company.

A3 Seasonal or cyclical factors

Harn Len is principally involved in the oil palm plantation business. The production of Fresh Fruit Bunches (“FFB”) from its oil palm estates is seasonal in nature, with production being low at the beginning of the year and picking up thereafter and tapering off towards the year end.

The production of FFB can also be affected by a number of climatic factors such as rainfall, maturity of the trees, hazy conditions caused by smoke from peat fires shielding sunlight, crop stress and the frequency of fertilizing the oil palm trees.

A4 Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting the assets, liabilities, equities, net income or cash flows for the quarter under review.

A5 Material changes in estimates

There were no material changes in estimates in the prior financial year which have a material effect in the financial period to 30 September 2009.

A6 Debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current period under review.

A7 Dividend paid

The Single Tier dividend of 2% declared on 27 November 2008, for the year ended December 2008, was paid on 19 January 2009.

A8 Segment information

Segmental information is presented in respect of the Group’s business segments. The Group operates solely in Malaysia and accordingly, information on geographical location of the Group’s operation is not presented.

Business segments.

Segment activities are as follows:-

Plantations : The operation of oil palm estates, oil palm mill, sales and purchases of FFB, sales of CPO and PK and the provision of transport services to related parties and external customers.

Property/Hotel : Property investment and hotel operation.

Segmental information is presented in respect of the Group's business segments. Inter-segment and inter-company transactions within the Group has been eliminated

Segment information**Period ended 30 September 2009**

Business segment	<u>Plantations and Transport</u>		<u>Property and Hotel</u>		<u>Consolidated</u>	
	2009	2008	2009	2008	2009	2008
Period ended 30 September						
	RM	RM	RM	RM	RM	RM
Revenue	66,957,931	110,044,348	5,309,725	6,043,800	72,267,656	116,088,148
Results	14,946,635	33,228,449	(1,755,648)	(798,890)	13,190,987	32,429,559
Unallocated expenses					(6,532,732)	(6,021,232)
Profit from operations					6,658,255	26,408,327

A9 Significant material events during the period/ post balance sheet events

There were no material events subsequent to the end of the current interim financial period that have not been reflected in the financial statements of the period under review.

A10 Changes in the composition of the Group

There were no changes in the composition of the Group for the period under review.

A11 Contingent liabilities and contingent assets

There were no material contingent liabilities and contingent assets for the Group as at date of this financial period.

A12 Capital commitments

The following are the material capital commitments to be incurred by the Group as at date of this report:-

Property, plant and equipment

	<u>(RM000's)</u>
Contracted but not provided for in the financial statements	7,283
Note:	
Estimated amount for plantation development expenditure, not contracted for and not provided for in the financial statements	9,024
Estimated amount for construction of oil mill, not contracted for and not provided for in the Financial statements	37,799
Estimated amount for building upgrading not contracted for and not provided for in the financial statements	423

Investment

Contracted but not provided for	14,400
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A13 Related party transactions

Significant related party transactions for the period under review are as follows

Purchases and payments

<u>Transacting parties</u>	<u>Relationship</u>	<u>Nature of transactions</u>	For the period ended 30 September	
			<u>2009</u>	<u>2008</u>
			(RM000's)	(RM000's)
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Purchases of FFB	14,956	25,904
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Transport income	316	390
Pengangkutan Low Nam Hui Sdn Bhd	Affiliated company	Purchase of consumable supplies	233	406
Pengangkutan Low Nam Hui Sdn Bhd	Affiliated company	Purchases of transport services	1,004	1,187
Pengangkutan Low Nam Hui Sdn Bhd	Affiliated company	Sale of consumable supplies	215	463
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Rental	9	9
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Provision of management services	28	27
Comet Travels Sdn Bhd	Affiliated company	Purchases of air tickets/insurance	239	433
Comet Travels Sdn Bhd	Affiliated company	Rental income	29	28
Green Recycle Biotech Enterprise	Affiliated company	Purchase of fertilizers	226	-

HARN LEN CORPORATION BHD (“Harn Len or the Company”)

Part B: Additional Information Required Pursuant to Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

B1 Review of performance

For the Third Quarter ended 30 September 2009, the Group generated a total revenue of RM 26,062,031 (2008-RM36,326,799). Out of this, the plantation operations contributed RM24,348,357 or 93.42%, (2008-RM34,455,513 or 94.85%). The property divisions contributed RM1,713,674 or 6.58%, (2008-RM1,871,286 or 5.15%).

Total Fresh Fruit Bunches (“FFB”) production for the Third Quarter ended 30 September 2009 was 45,100 metric tons (“m/t”) (2008-45,132 m/t). A total of 28,070 m/t of FFB (2008-34,392 m/t) were processed. This produced 5,415 m/t of Crude Palm Oil (“CPO”) (2008-6,855 m/t) and 1,572 m/t of Palm Kernels (“PK”) (2008-1,952 m/t). The average selling price of CPO was RM2,230 per m/t (2008-RM2,992 per m/t), FFB was RM380 per m/t (2008 RM490 per m/t) and for PK, it was RM1,115 per m/t (2008-RM1,645 per m/t)

Production of FFB was about the same level compared to the same quarter in the preceding year. Whilst the East Malaysian plantation FFB production increased by 17%, the Pahang plantations production of FFB declined by about 17 % compared to the corresponding quarter for the previous year. Under replanting continues on a sustainable scale in some selected areas in the Pahang plantations, resulting in a loss of contribution.

The property operation remained unimpressive for the period under review.

B2 Comparison of results against preceding quarter

	Quarter to 30/9/2009	Quarter to 30/6/09	%
	RM	RM	
Revenue	26,062,031	25,430,263	2.5
Profit/(loss) from operation	5,954,402	2,419,603	246
Profit/(loss) before tax	4,434,328	988,153	449
Profit/(loss) after tax	3,043,484	513,551	592

The revenue of RM26,062,031 generated in the current quarter was 2.5% higher than the revenue of RM25,430,263 achieved in the preceding quarter. The increase was mainly a result of higher volume of FFB sold even though prices trended erratically during the quarter just ended. A total of 27,472 m/t of FFB were sold at an average selling price of RM380 per m/t, compared to 19,271 m/t at an average price of RM431 per m/t, for the preceding quarter. Similarly, 1,517 m/t of PK were sold at an average price of RM1,115 per m/t compared to 1,626 m/t at RM1,207. A total of 5,420 m/t of CPO were sold at an average selling price of RM2,230 per m/t compared to 5,984 m/t at RM2,201 per m/t.

The profit from operation was at RM5,954,402 compared to the profit of RM2,419,603 for the preceding quarter. The increase of 246% was due to tighter cost controls during the quarter and a scaling down of fertilizer applications.

B3 Current year prospects

CPO prices have stabilized and continue to trend sideways since the beginning of the year. This has been a result of the erratic demands from consuming countries.

Whilst CPO price is expected to hover around RM2,200 per m/t, cost increases for fuel, electricity, transport and fertilizers, and labour shortage, may have an adverse impact on the profits of the Group for the coming year.

The property operations continue to face stiff competition due to the slowdown and a decline in tourist and business travels over worries about the H1N1 pandemic.

B4 Profit forecast

The Group did not issue any profit forecast for the year ending 31 December 2009.

B5 Taxation

The taxation for the current quarter is as follows:-

	Current quarter 30 September 2009	Preceding year corresponding quarter 30 September 2008
	RM	RM
Malaysian income tax		
Current year	2,137,655	3,051,322
Under/(over) provision in prior years	(91,111)	38,497
Deferred tax	(663,267)	(174,959)
Under-provision in prior years	<u>7,567</u>	<u>(60,481)</u>
Total	1,390,844	2,854,379

The effective tax rate is higher than the statutory tax rate. Certain expenses were disallowed and certain capital allowances were unavailable for deduction against taxable income.

B6 Sale of unquoted investments or properties

There was no sale of unquoted investments or properties in the quarter under review and financial period to date.

B7 Purchase or disposals of quoted securities

There was no purchase or disposal of quoted securities in the current quarter and financial period to date.

B8 Status of Corporate proposals

There was no corporate proposal announced for the current period.

B9 Group borrowings

The borrowings by the Group as at 30 September 2009 are as follows:-

		As at 30 September 2009		As at 31 December 2008
		RM		RM
Term loan payable:				
Within 12 months		23,628,000		21,628,000
More than 12 months		<u>44,878,000</u>		<u>57,099,000</u>
Total		68,506,000		78,727,000
Bank overdraft		<u>19,299,572</u>		<u>2,730,829</u>
Total		87,805,572		81,457,829

Hire purchase payable				
Within 12 months	RM	1,831,934		1,599,630
More than 12 months		<u>2,061,755</u>		<u>2,096,453</u>
Total	RM	3,893,689		3,696,083

B10 Off balance sheet financial instruments

The Group did not enter into any CPO swaps contract for the quarter under review.

The CPO swap for 2009 was terminated on 23 October 2008, which resulted in a gain of RM3,348,000. This sum was included in the financial year ended 31 December 2008. This amount was received on 15 July 2009.

B11 Material litigation

There was no pending material litigation as at date of this report.

B12 Dividend payable

No dividend were declared for the period ended 30 September 2009.

B13 Earnings per share

			Current quarter 30 September 2009	Current year to date 31 December 2009
	Earnings			
	Net profit/(loss) for the period	RM	3,435,564	1,008,642
a)	Basic weighted average number of shares		185,477,159	185,477,159
b)	Diluted weighted average number of shares		185,477,159	185,477,159
				-
	Total		185,477,159	185,477,159
c)	Basic earnings per share (sen)		1.85	0.54
d)	Diluted earnings per share (sen)		n/a	n/a

HARN LEN CORPORATION BHD (“Harn Len” or “the Company”)**Additional Information required by Bursa Malaysia’s Listing Requirements Paragraph 2.19.****Status of Progress of Joint Venture**

The Company through its wholly-owned subsidiary, Premium Dragon Sdn Bhd (“PDSB”) had signed a Joint Venture Agreement (“the Agreement”) on 3 September 2004 with Pelita Holdings Sdn Bhd (“PHSB”). Harn Len Pelita Bengunan Sdn Bhd (“HLPB”), the joint-venture company which is 60% owned by PDSB, was set up for the purpose of undertaking development of several parcels of land known as Kara Ranga Engkaramut NCR Land Development Area, Bukit Bengunan, Sri Aman Division, Sarawak, comprising a gross area of approximately 23,500 hectares (“Land”) which is occupied by natives of Sarawak who have Native Customary Rights over the said Land (“NCR Owners) into oil palm plantations. The plantable area of the said Land is estimated at 10,000 hectares.

As at 30 September 2009, HLPB has planted 3,081 ha of the Land with oil palm trees, of which 1,783 ha are matured. FFB crop had commenced in mid 2007. Crop production was 2,540 m/t of FFB for the quarter to 30 September 2009. Production of FFB for year to date is 5,508 m/t.

HLPB has to-date employed 257 staff and contract workers in the plantation. The plantation faces a severe shortage of workers.

The development expenditure incurred up to 30 September 2009 is as follows:-

		RM (000’s)
Plantation development expenditure		30,036
Roads and bridges		5,471
Buildings, equipment machinery		2,465
Inventory		<u>285</u>
		<u>38,257</u>
Total cost		

The financing of the development were from the following sources:-

		RM (000's)
From Harn Len		36,620
Suppliers and contractors' credit		8,123
Total		<u>44,743</u>

The Joint-Venture parties had valued the Land at RM1,200 per hectare based on the provisional land area of 10,000 hectares. The NCR Owners will be allotted ordinary shares equivalent to sixty percent (60) of the value of the net area of the Land or equivalent to RM7,200,000. The balance forty percent (40) will be paid to the NCR Owners only in respect of those lots where individual lots survey has been completed and the rightful claimants of such lots have been identified. To date an amount of RM828,360 has been paid to NCR Owners. It is anticipated that the entire oil palm development and planting project will be completed by 2010.