

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

EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 31 DECEMBER 2013.

PART A: EXPLANATORY NOTES AS PER FRS 134

A1 Basis of preparation

The Group and the Company are Transitioning Entities and are within the exception scope of MFRS 141: Agriculture and will defer the adoption of MFRS to 1 January 2014. Accordingly, this unaudited condensed interim financial report for the first quarter for the year ending 31 December 2013 has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”), 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 2012.

A2 Significant Accounting Policies

The accounting policies adopted by Group in this interim financial statement are consistent with those adopted in the Group’s audited financial statements for the financial year ended 31 December 2012. The following FRSs’, Interpretations and Amendments are adopted where applicable for the year beginning 1 January 2013.

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012:-

Amendments to FRS 101, Presentation of Items of Other Comprehensive Income

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013:-

FRS 10, Consolidated Financial Statements

FRS 11, Joint Arrangements

FRS 12, Disclosure of Interest in Other Entities

FRS 13, Fair Value Measurement

FRS 119, Employee Benefits (2011)

FRS 127, Separate Financial Statements

FRS 128, Investment in Associates and Joint Ventures

IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine

Amendments to FRS 7, Disclosures-Offsetting Financial Assets and Financial Liabilities

Amendments to FRS 1, Government Loans

Amendments to FRS 1, Annual Improvements 2009-2011 Cycle

Amendments to FRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

Amendments to FRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)

Amendments to FRS 132, Financial Instruments: Presentation (Annual Improvements Cycle 2009-2011)

Amendments to FRS 134, Interim financial Reporting (Annual Improvement Cycle 2009-2011)

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Amendments to FRS 10, Consolidated Financial Statements: Transition Guidance
Amendments to FRS 11, Joint Arrangements: Transition Guidance
Amendments to FRS 12, Disclosure of Interests in Other Entities: Transition Guidance

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2014:-

Amendments to FRS 10, Consolidated Financial Statements: Investment Entities
Amendments to FRS 12, Disclosure of Interests in Other Entities: Investment Entities
Amendments to FRS 127, Separate Financial Statements (2011): Investment Entities
Amendments to FRS 132, Financial Instruments: Presentation-Offsetting Financial Assets and Financial Liabilities.

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2015:-

FRS 9, Financial Instruments (2009)
FRS 9, Financial Instruments (2010)
Amendments to FRS 7, Financial Instruments: Disclosures-Mandatory Effective Date of FRS 9 and Transition Disclosures,

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impacts to the current and prior period financial statements upon their first adoption. The other standards, amendments, interpretations and improvements are either not applicable or are 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 climatic factors, maturity of the trees, crop stress and the frequency of fertilizing the oil palm trees.

The hotel and property have steady business throughout the year and are not affected by seasonal or cyclical factors.

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 31 December 2013.

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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 Group did not pay any dividend for the quarter under review.

A8 Operating segments

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 results, assets and liabilities include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise interest earning assets and revenue, interest bearing loans, borrowings and expenses and corporate assets and liabilities.

Segment information

Period ended 30 June 2013

	<u>Plantations</u>	<u>Property</u>	<u>Corporate Head office</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>		<u>RM</u>	<u>RM</u>
External revenue	66,893,186	3,953,539	-	-	70,846,725
Inter-segment revenue	4,997,523		-	(4,997,523)	-
Total revenue	71,890,709	3,953,539	-	(4,997,523)	70,846,725
Segment results	857,632	(1,400,458)			(542,826)
Unallocated expenses					(6,138,949)
Profit/ (loss) from operation					(6,681,775)

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Assets					
Reported segment assets	350,838,159	91,384,868		(2,374,103)	439,848,924
Corporate assets					7,820,132
Consolidated total assets					447,669,056

Liabilities					
Segment liabilities	136,277,366	2,444,197	-		138,721,563
Corporate liabilities			-		73,317,990
Total consolidated liabilities			-		212,039,553

Period ended 30 June 2012

	<u>Plantations</u>	<u>Property</u>	<u>Corporate Head Office</u>	<u>Eliminations</u>	<u>Consolidation</u>
	RM	RM		RM	RM
External revenue	72,714,924	3,965,519			76,680,443
Inter-segment revenue	83,889	-		(83,889)	-
Total revenue	72,798,813	3,965,519		(83,889)	76,680,443
Segment results	5,371,638	(1,448,764)	-	-	3,922,874
Unallocated expenses				-	(5,998,818)
Loss from Operation					(2,075,944)

Assets					
Reported segment assets	351,834,317	81,057,872	-	(1,619,826)	431,272,363
Corporate assets			-		5,593,432
Total consolidated assets			-		436,865,795
Liabilities					
Segment liabilities	119,354,684	2,495,298	-		121,849,982
Corporate liabilities			-		72,768,854
Total corporate liabilities			-		194,618,839

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.

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A10 Changes in the composition of the Group

- 1 On 31 January 2013, the Board of Directors of the Company announced that the Company had entered into a Sale and Purchase Agreement (“SPA”) with Tan Sri Dato’ Low Nam Hui (“Vendor”) for the proposed acquisition of 7 pieces of land (“Property”) for a total purchase consideration of RM10,680,000 (“Purchase Consideration”) free from all charges, liens and encumbrances. The acquisition was completed on 4 March 2013.
- 2 On 20 May 2013, the Board of Directors of the Company announced that the Company had acquired 2 ordinary shares of RM1.00 each representing 100% of the total issued and paid-up capital of Success Woodlands Sdn Bhd for a total consideration of RM2.00.
- 3 On 26 July 2013, The Board of Directors of the Company announced that Masranti Plantation Sdn Bhd (“MPSB”), a wholly owned subsidiary of the Company had on 25 July 2013, acquired the entire issued and paid-up share capital of Masranti Sebangkoi Sdn Bhd (formerly known as Cosmo Benefit Sdn Bhd) (“MSSB”) comprising 2 ordinary shares of RM1.00 each for a cash consideration of RM2.00. As a result of the acquisition, MSSB has become a wholly owned subsidiary of MPSB which in turn is a wholly owned subsidiary of the Company.
- 4 On 20 August 2013, The Board of Directors of the Company announced that the Company had entered into a Share Sale Agreement with Pengangkutan Low Nam Hui Sdn Bhd for the Proposed Acquisition of the entire issued and paid up capital of Tanaim Sdn Bhd comprising 500,000 ordinary share of RM1.00 each for a total purchase consideration of RM700,000.00 only.

The sale, purchase and transfer of the sale Shares as contemplated are conditional upon the conduct of a due diligence investigation by the Purchaser into the Company and its affairs, the results of which are satisfactory to the Purchaser in its absolute discretion.

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	4,829
Not contracted for and not provided for in the financial statements	28,101

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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 June	
			<u>2013</u>	<u>2012</u>
			(RM000's)	(RM000's)
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Purchases of FFB	-	14,662
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Transport income	-	195
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Rental of motor equipment	23	-
Pengangkutan Low Nam Hui Sdn Bhd	Affiliated company	Purchase of consumable supplies	220	129
Pengangkutan Low Nam Hui Sdn Bhd	Affiliated company	Purchases of transport services	319	380
Pengangkutan Low Nam Hui Sdn Bhd	Affiliated company	Sale of consumable supplies	34	174
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Provision of management services	30	30
Kanghui Travel Sdn Bhd	Affiliated company	Purchases of air tickets/insurance/ staff trip	383	375
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	20	20
Advance Pinnacle Sdn Bhd	Affiliated company	Sales of seedlings		63
Advance Pinnacle Sdn Bhd	Affiliated company	Purchase of seedlings	52	-

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 6 months ended 30 June 2013, the Group generated revenues of RM 70,846,725 (2012-RM 76,680,443). The plantation operations contributed RM 66,893,186 or 94%, (2012-RM 72,714,924 or 95%). The property divisions contributed RM 3,953,539 or 6%, (2012-RM 3,965,519 or 5%). The loss before tax was RM 11,807,774 (2012-Loss of RM 5,768,787). The loss was due mainly to the steep fall in prices for palm oil commodities compared to the corresponding period for the preceding year even though output of FFB, CPO and PK had increased.

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Plantation operations

Production of Fresh Fruit Bunches (‘FFB’) for the year to date was 70,730 metric tons (“m/t”) (2012-64,230 m/t). A total of 121,134 m/t of FFB (2012-67,263 m/t) were processed. This produced 23,770 m/t of Crude Palm Oil (“CPO”) (2012-13,498 m/t) and 5,343 m/t of Palm Kernels (“PK”) (2012-3,146 m/t). The average selling price of CPO was RM 2,262 per m/t (2012- RM 3,053 per m/t), FFB was RM 401 per m/t (2012- RM 607 per m/t) and for PK, it was RM 1,084 per m/t (2012- RM 1,886 per m/t).

The increase in production of CPO mentioned above includes the operation of the oil mill in Sarawak, which commence operation in May 2012.

Overall, FFB production increased by about 10 % compared to the corresponding period in the preceding year. Higher FFB crop productions were achieved by the Sarawak operations for the period under review. The increase in FFB production was 7 % in the Sarawak plantations as more trees mature. Harvesting commenced in some replanted areas in the Pahang estates. This has resulted in an increase of 20% FFB crop production from the under planted areas. Production of FFB in the Sabah estates improved by about 9% and production of FFB was not affected by the higher security level in Sabah.

Plantation operating expenses were better managed and this together with higher output of FFB has resulted in lower cost of production per metric ton of FFB produced. As the Sarawak estates are situated mostly in peat areas, maintenance cost on upkeep of roads, bridges and drains, desilting of rivers remained high.

Property and hotel operations

Overall the property operation, especially the hotel division, was lackluster for the period under review due to the low season. Its revenue remained static. The average room rate was RM 85.00 (2012-RM92.00) and average room occupancy was 76% (2012-75 %).

B2 Comparison of results against preceding quarter

		Quarter to 30/6/2013	Quarter to 31/3/2013	%
		RM	RM	
Revenue		37,205,255	33,641,470	11%
Profit/(loss) from operating activities		(2,869,378)	(3,812,397)	25%
Profit/(loss) before tax		(5,516,090)	(6,291,684)	12%

The revenue of RM 37,205,255 generated in the current quarter was 11% higher than the revenue of RM 33,641,470 achieved in the preceding quarter. The increase was mainly due to the increase in production volume in the current quarter compared to the preceding quarter due mainly to the up-turn in the FFB production cycle. As a result, sales volume of palm oil commodities improved. A total of 15,838 m/t of FFB were sold at an average selling price of RM408 per m/t, compared to 14,572 m/t at an average price of RM394 per m/t, for the preceding quarter. 2,720 m/t of

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PK was sold at an average price of RM 1,127 per m/t compared to 2,579 m/t at RM 1,040. A total of 12,565 m/t of CPO were sold at an average selling price of RM 2,262 per m/t compared to 11,048 m/t at RM 2,263 per m/t.

There was a loss from operating activities amounting to RM 2,869,378 compared to a loss of RM 3,812,397 for the preceding quarter. The decline in operating loss was due to increase in production volume of palm oil commodities amidst a stable price environment.

B3 Current year prospects

CPO prices stabilized around RM 2,200 per m/t. The stable price for CPO is due mainly to reduce CPO inventory nationwide arising from the lower FFB production cycle in the previous quarter. The new CPO export duty tariff comes into effect from 1 January 2013. This has given Malaysian producers a price advantage compared to its nearest competitor. Recently there were requests by the plantation companies in the State of Sarawak for a review of the 5% CPO sales tax which was imposed on the sales of CPO in the State. If this request is met, this operating expense will be greatly reduced. For the year to date, a subsidiary involved in the sales of CPO in the State had paid RM1.9 million in CPO sales tax. Since the subsidiary commenced its palm oil mill operation in May 2012, it paid a total amount of RM4.06 million last year, thereby increasing its operating expenses tremendously.

The property operations especially the hotel division, continue to face difficult times with stiff competition and new entrants eating into margins.

B4 Profit forecast

The Group did not issue any profit forecast for the year ending 31 December 2013.

B5 Taxation

The taxation for the current quarter is as follows:-

	Current quarter ended 30 June 2013	Preceding quarter ended 30 June 2012	Current year to date ended 31 December 2013	Preceding year to date ended 31 December 2012
Malaysian income tax				
Current year	375,000	650,000	750,000	1,250,000
Under/(over) provision in prior years	(25,920)	(471,718)	(25,920)	(471,718)
Deferred tax	(882,774)	770,629	(1,854,100)	1,185,362
(Over)/Under-provision in prior years	(1,984)	233,869	(1,984)	233,869
Total	(535,678)	1,182,780	(1,132,004)	2,197,513

Certain companies in the Group have deferred tax assets arising from operating losses. These losses were taken into account as there is a high probability of future profits.

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B6 Notes to the Statement of Comprehensive Income

	Current quarter ended 30 June 2013	Preceding quarter ended 30 June 2012	Current year to date ended 31 December 2013	Preceding year to date ended 31 December 2012
	<u>RM000's</u>	<u>RM000's</u>	<u>RM000's</u>	<u>RM000's</u>
Depreciation	(4,649)	(3,874)	(9,200)	(7,251)
Interest expense	(2,649)	(1,792)	(5,130)	(3,693)
Audit fees	(65)	(36)	(104)	(74)
Rental paid	(10)	(4)	(14)	(7)
Interest received	2	-	4	-
Impairment of receivables		(28)		(28)

B7 Status of Corporate proposals

On 31 January 2013, the Board of Directors announced that the Company had entered into a Sale and Purchase Agreement with Tan Sri Dato' Low Nam Hui for a proposed acquisition of 7 pieces of land for a total purchase consideration of RM10,680,000 free from all charges, liens and encumbrances. The proposed acquisition was completed on 4 March 2013.

On 30 April 2012, the Board of Directors of the Company announced that its wholly owned subsidiary, Zhangxern Corporation Sdn Bhd had on 18 April 2012 incorporated a new 100% owned subsidiary company in Hong Kong, namely Harn Len Chang Zheng (Hong Kong) Limited (“Harn Len Chang Zheng”) with a paid up capital of HKD100 which is approximately RM39.00.

The intended principal activity of Harn Len Chang Zheng is investment holding. The subsidiary is being de-registered.

On 20 May 2013, the Board of Directors of the Company announced that the Company had acquired 2 ordinary shares of RM1.00 each representing 100% of the total issued and paid-up capital of Success Woodlands Sdn Bhd for a total consideration of RM2.00.

On 26 July 2013, The Board of Directors of the Company announced that Masranti Plantation Sdn Bhd (“MPSB”), a wholly owned subsidiary of the Company had on 25 July 2013, acquired the entire issued and paid-up share capital of Masranti Sebangkoi Sdn Bhd (formerly known as Cosmo Benefit Sdn Bhd) (“MSSB”) comprising 2 ordinary shares of RM1.00 each for a cash consideration of RM2.00. As a result of the acquisition, MSSB has become a wholly owned subsidiary of MPSB which in turn is a wholly owned subsidiary of the Company.

On 20 August 2013, The Board of Directors of the Company announced that the Company had entered into a Share Sale Agreement with Pengangkutan Low Nam Hui Sdn Bhd for the Proposed Acquisition of the entire issued and paid up capital of Tanaim Sdn Bhd comprising 500,000 ordinary share of RM1.00 each for a total purchase consideration of RM700,000.00 only.

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The sale, purchase and transfer of the sale Shares as contemplated are conditional upon the conduct of a due diligence investigation by the Purchaser into the Company and its affairs, the results of which are satisfactory to the Purchaser in its absolute discretion.

B8 Group borrowings

The borrowings by the Group as at 30 June 2013 are as follows:-

		As at 30 June <u>2013</u>		As at 31 December <u>2012</u>
Term loans payable		RM		RM
Within 12 months		28,904,163		40,433,433
More than 12 months		<u>88,639,757</u>		<u>84,170,770</u>
Total		117,543,920		124,604,203
Bank overdraft		<u>32,119,923</u>		<u>18,063,900</u>
Total		149,663,843		142,668,103

Hire purchase payable				
Within 12 months	RM	1,405,599		1,153,989
More than 12 months		<u>2,095,932</u>		<u>1,436,482</u>
Total	RM	3,501,531		2,590,471

Total borrowings RM 153,165,374 145,258,574

B9 Material litigations

1. On 11 July 2011 the Board of Directors of Harn Len Corporation Bhd (“HLCB”) announced that Harn Len Pelita Bungalow Sdn Bhd, (“the Defendant”), a subsidiary company of HLCB had been served with the following Writs of Summons and Statement of Claims by the High Court of Sabah and Sarawak at Kuching:-
2. Court of Sabah and Sarawak at Kuching:-
 - a) Writ of Summons (23 June 2011) and Statement of Claims (17 June 2011) by Plaintiffs namely, Iran Anak Gemong (WNKP. 480304-13-5293), Juntik Anak Jampong (WNKP. 550717-13-5399) and Bangsa Anak Regih (WNKP. 460925-13-5167), representing themselves and other owners, occupiers, licensees and / or proprietors of Native Customary Rights (NCR) land from Rumah Iran, Sungei Besai, Pantu, 95000 Sri Aman; Rumah Juntik, Sungei Asal Baru, Pantu, 95000 Sri Aman; and Rumah Bangsa, Sungei Labi, Selanjan, Pantu, 95000 Sri Aman, Sarawak for trespassed upon the Plaintiffs’ said NCR land.

The Trial for the above has been rescheduled for hearing from 16 to 18 October 2013.

- b) Writ of Summons (In the High Court in Sabah and Sarawak at Sri Aman, Suit No: SRA-2-1/2-2012 was served on Harn Len Pelita Bungalow Sdn Bhd (“Harn Len Pelita”)(“Defendant”), a subsidiary company of Harn Len Corporation Bhd, on 21 February 2012 by the Plaintiffs namely Augustine Gawan Anak James Evin (No. Tentara: 6053472) and Sili Anak Jampong (WNKP: 330613-13-5074) who are both Iban by race and are natives of Sarawak for the following orders:

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- a. A Declaration order that the Defendant is trespassing upon the Plaintiff’s Land described as Simanggang Occupation Ticket No. 4480 located at Munggu Gua, Simanggang containing an area of 1.2141 hectares more or less (“the said Land or NCR Land”);
- b. A prohibitory injunction restraining the Defendant and/ or their employees, servants and/ or agents from trespassing, clearing, using or occupying the Plaintiffs’ said NCR Land;
- c. A mandatory injunction against Harn Len Pelita and/ or its employees, servants and/ or agents to cease operations and remove all structures and their equipment or machineries from the Plaintiffs’ said NCR Land forthwith;
- d. Damages to be assessed by the Registrar;
- e. Costs of this action; and
- f. Any further order or relief deems fit and proper by this Honourable Court.
- g. Amount claimed was not mentioned in the summons.

In connection with the above Writ of Summons No SRA-22-1/2-2012, the Trial has been rescheduled for further mention on 26 August 2013 in the High Court at Kucing.

B10 Dividend payable

The Board of Directors has not recommended any dividend for the period under review.

B11 Earnings per share

			Current quarter ended 30 June 2013	Cumulative year to date 31 December 2013	Quarter ended 30 June 2012	Cumulative year to date 31 December 2012
	Earnings					
	Net profit/(loss) for the period	RM	(4,567,501)	(9,767,744)	(2,186,316)	(5,582,317)
a)	Basic weighted average number of shares		185,477,159	185,477,159	185,477,159	185,477,159
c)	Basic earnings per share (sen)		(2.46)	(5.27)	(1.18)	(3.01)
d)	Diluted earnings per share (sen)		n/a	n/a	n.a.	n.a.

B12 Realised and unrealised profits

The breakdown of retained profits of the Group as at 30 June 2013, into realized and unrealized profits, pursuant to the directive issued by Bursa Malaysia is as follows:-

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		<u>Group</u>	
Retained profits		<u>30 June 2013</u>	<u>31 December 2012</u>
		RM000's	RM000's
Realised profit/(loss)		8,299	20,238
Unrealised in respect of deferred tax recognized in income statement		(7,115)	(8,952)
Total		1,184	11,286
Add Consolidation adjustments		44,521	44,187
Total Group retained profits		45,705	55,473

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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 Bungalow 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 Bungalow, 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.

The authorized capital of the joint-venture company (“JVC”) was increased to RM10,000,000 made up of 10,000,000 ordinary shares of RM 1.00 per ordinary share. The paid up capital is RM4,756,805. The authorized capital of the JVC will be increased to RM24,000,000 made up of 24,000,000 shares of RM1.00 per ordinary share when the entire plantable Land has been developed.

The parties to the joint-venture company are:-

	<u>% shareholdings</u>
i) Premium Dragon Sdn Bhd	60
ii) PHSB as Trustees for NCR Owners	30
iii) Pelita Holdings Sdn Bhd	<u>10</u>
Total	<u>100</u>

On 23 August 2010, the Board of Directors of HLPB approved the issue of a total of 4,756,800 new ordinary shares of RM1.00 each in the share capital of HLPB credited as fully paid-up and the shares were allotted to the following allottees:-

i) Premium Dragon Sdn Bhd	RM2,854,080
ii) PHSB as Trustees for NCR Landowners	RM1,427,040
iii) Pelita Holdings Sdn Bhd	<u>RM 475,680</u>
Total	<u>RM4,756,800</u>

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The Board of Directors of HLPB had determined that 1,982 ha. of land had been surveyed as being developed. Based on the agreed valuation of RM1,200 per ha. the leasehold land was valued at RM2,378,400. An amount of RM1,427,040 was credited as fully paid-up shares and the shares were issued to PHSB as Trustees for the NCR Landowners. The balance of RM951,360 were paid to the NCR Landowners.

As at 30 June 2013, HLPB has planted 3,752 ha of the Land with oil palm trees, of which 3,223 ha are matured. Crop production for the year to date was 12,447 m/t of FFB (2012-8,000 m/t).

HLPB has to-date employed 225 staff and contract workers in the plantation. In addition the sub-contractors employed 142 workers to work in the plantation. With more hectares ready for harvesting, no efforts are being spared to recruit additional workers.

The development expenditure and other assets and liabilities incurred up to 31 March 2013 were as follows:-

	<u>30 June 2012</u>	<u>31 December 2012</u>
	<u>RM000's</u>	<u>RM000's</u>
Plantation development expenditure	39,325	39,906
Property, plant and equipment	10,208	10,114
Inventory and other assets	754	420
Total cost	50,287	50,440

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

	<u>RM (000's)</u>	<u>RM000's</u>
From Harn Len	60,933	61,455
Finance lease liabilities	432	225
Suppliers and contractors' credit	9,971	7,630
Total	71,336	69,310

Material Litigations:-

On 11 July 2011 the Board of Directors of Harn Len Corporation Bhd announced Harn Len Pelita Bengunan Sdn Bhd (“the Defendant”), had been served with the following Writs of Summons and Statements of Claims by the High Court of Sabah and Sarawak at Kuching:-

- a) Writ of Summons (23 June 2011) and Statement of Claims (17 June 2011) by Plaintiffs namely, Iran Anak Gemong, Juntik Anak Jampong and Bangsa Anak Regih representing themselves and other owners, occupiers, licensees and/ or proprietors of Native Customary Rights (NCR) land for trespass upon the Plaintiffs' NCR land.

The Trial for the above litigation scheduled from 6 May 2013 to 17 May 2013 for Trial was rescheduled to 16 October to 18 October 2013.

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

EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 31 DECEMBER 2013.

- b) Writ of Summons (In the High Court in Sabah and Sarawak at Sri Aman, Suit No: SRA-22-1/2-2012) was served on Harn Len Pelita Bengunan Sdn Bhd, a subsidiary company of Harn Len Corporation Bhd, on 21 February 2012 by the Plaintiffs namely Augustine Gawan Anak James Evin (No. Tentara: 6053472) and Sili Anak Jampong (WNKP: 330613-13-5074) who are both Iban by race and are natives of Sarawak for trespass upon the Plaintiffs’ NCR land.

The Trial has been rescheduled for mention on 23 August 2013.

Additional details of the Writs of Summons and Statement of Claims by the Plaintiffs, as well as the latest up-dates of the Court hearings, are shown at Notes B9-Material litigations, attached to this Interim Financial Report.

Supplemental Agreement:-

On 29 March 2010, a Supplemental Agreement (“SA”) to the Joint Venture Agreement was signed between Pelita Holdings Sdn Bhd and Premium Dragon Sdn Bhd to vary certain terms relating to the issuance of share capital in Harn Len Pelita Bengunan Sdn Bhd.

The salient points of the SA are :-

- i) The JVC shall issue 4,800,000 shares or any agreed quantum to the respective parties to the JVC in accordance to the respective ratios agreed upon by the parties to the JVC upon the land with native customary rights having being surrendered by the NCR owners to the JVC and developed by the JVC.
- ii) Thereafter, upon the JVC reaching every additional 500 hectares of planting, a further 1,200,000 shares shall be issued to the parties to the JVC in accordance to their respective ratios.

To date the JVC is still in the process of individual lot surveys, identifying the rightful NCR Owners and getting the rightful NCR Owners in relation to such lots to be duly certified by the relevant Tuai Rumah or Area Development Committees and approved by the Board of the JVC.

On 17 May 2010, another Supplemental Agreement (“SA II”) to the Joint Venture Agreement was signed between Pelita Holdings Sdn Bhd and Premium Dragon Sdn Bhd. The SA II relates to the increase in the area to be developed into oil palm plantation with the addition of an additional area described as Semada Block, Simunjan, Sarawak containing an aggregate area of 1136 ha to be known as “the Second Land”.

The parties to the SA II shall procure from the Sarawak Government the alienation of the Second Land to the JVC for a period of sixty (60) years and shall fix a value at RM1,500.00 (Ringgit Malaysia One thousand five hundred only) per ha. which shall be paid as follows:

- i) Upon each increase of the plantable area in the Second Land, 100% of the value of such increase (calculated on the basis of RM1,500.00 per ha.) shall be capitalized in favour of the relevant NCR owners, as the subscription amounts for the relevant number of fully-paid shares to be issued in due course to the JVC to PHSB as trustee for the relevant participating NCR Owners, at the times and in the manner specified, such that the NCR portion shall at all times represent 30% of the issued and paid-up shares in the JVC.

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

EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 31 DECEMBER 2013.

- ii) RM480.00 (Ringgit Malaysia Four hundred and eighty only) per ha. shall be paid in cash by the JVC to PHSB as trustee for the relevant participating NCR Owners as upfront and land banking cost in respect of those plantable area of the Second Land in respect of which an individual lot survey has been completed and the rightful NCR Owner in relations to such lots have been duly identified and certified by the relevant Tuai Rumah or Area development Committees and approved by the Board of the JVC.

The total land area is now increased to 24,636 ha and the estimated plantable area will be 14,781.60 ha.