

HARN LEN CORPORATION BHD (502606-H)

Financial Year End : 31 December 2017
 Quarter : Second Quarter

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SECOND QUARTER AND YEAR-TO-DATE ENDED 30 JUNE 2017

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current quarter 30/6/2017	Preceding year corresponding quarter 30/6/2016	Current year to date 30/6/2017	Preceding year corresponding period 30/6/2016
Revenue	RM 61,506,996	53,929,195	119,169,080	97,141,112
Cost of sales	(42,235,886)	(44,731,213)	(85,035,026)	(83,658,783)
Gross profit	19,271,110	9,197,982	34,134,054	13,482,329
Other income	12,899,435	60,469	13,179,692	126,806
Distribution expenses	(4,075,129)	(3,438,371)	(8,427,479)	(6,776,160)
Administrative expenses	(20,115,934)	(7,017,351)	(27,195,845)	(13,088,346)
Depreciation and amortisation	(5,109,408)	(4,930,098)	(10,153,911)	(9,790,107)
Other expenses	319,848	-	(33,026)	-
Results from operating activities	3,189,922	(6,127,369)	1,503,485	(16,045,478)
Finance costs	(1,528,469)	(1,367,303)	(2,946,852)	(2,484,322)
Interest income	2,392	2,471	4,713	4,898
Profit /(Loss) before tax	1,663,845	(7,492,201)	(1,438,654)	(18,524,902)
Income tax expense	(1,601,691)	484,890	(1,707,691)	2,065,702
Profit/total comprehensive income/(loss) for the period	62,154	(7,007,311)	(3,146,345)	(16,459,200)
Profit/(loss) attributable to ;				
Owners of the Company	190,282	(6,425,961)	(3,421,004)	(15,001,226)
Non-controlling interests	(128,125)	(581,350)	274,659	(1,457,974)
Profit/ (loss) for the period	62,157	(7,007,311)	(3,146,345)	(16,459,200)
Total comprehensive profit/(loss) attributable to:-				
Owners of the company	190,279	(6,425,961)	(3,421,004)	(15,001,226)
Non controlling interest	(128,125)	(581,350)	274,659	(1,457,974)
Total comprehensive profit/(loss) for the period	62,154	(7,007,311)	(3,146,345)	(16,459,200)
Earnings/(loss) per share attributable to owners of the Company				
Basic earnings/(loss) per share(sen)	0.11	(3.57)	(1.90)	(8.25)
Weighted average number of shares	179,936,159	179,938,159	179,936,276	181,777,909

The condensed consolidated income statement should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements. Note: The Minority shareholders have a binding obligation to absorb the loss and have the ability to make good or absorb the losses incurred as provided in the Joint Venture Agreement.

HARN LEN CORPORATION BHD (502606-H)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	<u>As at 30/6/2017</u> (Unaudited)	<u>As at 31/12/2016</u> (Audited)
	<u>RM</u>	<u>RM</u>
Assets		
Property, plant and equipment	253,103,090	269,978,440
Biological assets	160,594,818	151,650,474
Investment property	39,183,657	39,474,264
Deferred tax assets	5,649,354	4,253,354
Goodwill	5,794,799	5,794,799
Total non-current assets	<u>464,325,718</u>	<u>471,151,331</u>
Inventories	8,200,692	7,414,030
Trade and other receivables	55,798,607	14,205,638
Prepayments and other assets	1,063,356	912,514
Cash and cash equivalents	3,368,993	3,474,684
Total current assets	<u>68,431,648</u>	<u>26,006,866</u>
Total assets	<u>532,757,366</u>	<u>497,158,197</u>
Equity		
Share capital	185,477,159	185,477,159
Share premium	6,634,854	6,634,854
Reserves	122,495,216	125,916,220
Treasury shares	(5,045,199)	(5,044,265)
Total equity attributable to owners of the company	<u>309,562,030</u>	<u>312,983,968</u>
Non-controlling interests	(10,032,886)	(10,307,545)
Total equity	<u>299,529,144</u>	<u>302,676,423</u>
Liabilities		
Long term borrowings	53,334,742	45,501,094
Hire purchase creditors	2,182,980	3,873,106
Deferred tax liabilities	21,024,000	20,854,000
Employees benefits	848,000	848,000
Deferred payables	16,926,374	17,014,998
Total non-current liabilities	<u>94,316,096</u>	<u>88,091,198</u>
Short term borrowings	49,548,912	42,901,506
Trade and other payables	84,668,394	59,889,057
Hire purchase creditors	3,461,884	3,599,376
Taxation	1,232,936	637
Dividends payable		
Total current liabilities	<u>138,912,126</u>	<u>106,390,576</u>
Total liabilities	<u>233,228,222</u>	<u>194,481,774</u>
Total equity and liabilities	<u>532,757,366</u>	<u>497,158,197</u>
Net assets per share (sen)	166.90	168.75

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

HARN LEN CORPORATION BHD (502606-H)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR-TO-DATE ENDED
30 JUNE 2017

	<u>30/6/2017</u> RM	<u>30/6/2016</u> RM
<u>Cash flow from operating activities</u>		
Profit/ (loss) before tax	(1,438,654)	(18,524,902)
Adjustments for:-		
Depreciation	10,153,911	9,790,107
Finance costs	2,946,852	2,484,322
Bad debts written off	74,107	
Interest received	(4,713)	(4,898)
Gain from sale of investment	(700,990)	-
Operating profit before changes in working capital	<u>11,030,513</u>	<u>(6,255,371)</u>
<u>(Increase)/ Decrease in working capital</u>		
Change in inventories	(786,662)	51,330
Change in trade debtors and other receivables	(41,592,969)	5,582,199
Change in trade creditors and other payables	24,690,711	10,569,743
Cash(used in)/ generated from operations	<u>(6,658,407)</u>	<u>9,947,901</u>
Income tax (paid) /refund	(1,852,235)	(957,912)
Finance expenses paid	<u>(2,946,852)</u>	<u>(2,420,073)</u>
<u>Net cash(used in)/ generated from operating activities</u>	<u>(11,457,494)</u>	<u>6,569,916</u>
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(4,188,155)	(3,197,824)
Purchase of investment property	(276,000)	(16,430,575)
Purchase of biological assets	(10,459,346)	(10,850,609)
Proceeds from sale of investment	13,600,000	-
Proceeds from non-controlling interest in subsidiary company	-	25
Interest received	4,713	4,898
Increase in fixed deposit	(4,713)	(4,898)
Net cash (used in)/ generated from investing activities	<u>(1,323,501)</u>	<u>(30,478,983)</u>
<u>Financing activities</u>		
Treasury shares	(934)	(5,042,382)
Repayment of loans and borrowings	(411,679)	(163,546)
Payment of finance lease liabilities	(1,827,618)	(1,829,582)
Dividends paid to owners of Company	-	-
Drawdown of term loan	10,800,000	20,020,889
Net utilisation of bank overdraft	4,110,823	3,065,723
Net cash generated from/(used in) financing activities	<u>12,670,592</u>	<u>16,051,102</u>
Net increase/(decrease) in cash and bank balances	(110,403)	(7,857,965)
Cash and bank balances at beginning of period	3,116,168	10,101,384
Cash and bank balances at end of period	<u>3,005,765</u>	<u>2,243,419</u>

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR-TO-DATE ENDED 30 JUNE 2017

	<u>Share Capital</u> RM	<u>Share Premium</u> RM	<u>Capital Reserves</u> RM	<u>Retained Profit/(loss)</u> RM	<u>Treasury Shares</u> RM	<u>Total</u> RM	<u>Non-controlling interests</u> RM	<u>Total Equity</u> RM
As at 1 January 2017	185,477,159	6,634,854	6,268,000	119,648,220	(5,044,265)	312,983,968	(10,307,545)	302,676,423
Total comprehensive income/ (loss) for the period				(3,421,004)		(3,421,004)	274,659	(3,146,345)
Treasury shares					(934)			(934)
As at 30 June 2017	<u>185,477,159</u>	<u>6,634,854</u>	<u>6,268,000</u>	<u>116,227,216</u>	<u>(5,045,199)</u>	<u>309,562,030</u>	<u>(10,032,886)</u>	<u>299,529,144</u>
As at 1 January 2016	185,477,159	6,634,854	6,268,000	127,988,051	(944)	326,367,120	(13,764,989)	312,602,131
Total comprehensive income / (loss) for the period				(15,001,226)		(15,001,226)	(1,457,974)	(16,459,200)
Treasury shares					(5,042,382)			(5,042,382)
Non-controlling interest							25	25
As at 30 June 2016	<u>185,477,159</u>	<u>6,634,854</u>	<u>6,268,000</u>	<u>112,986,825</u>	<u>(5,043,326)</u>	<u>306,323,512</u>	<u>(15,222,938)</u>	<u>291,100,574</u>

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying notes attached to the interim financial statements.

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

EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

PART A: EXPLANATORY NOTES AS PER FRS 134

A1 Basis of preparation

The Group and the Company are Transitioning Entities and are within the exemption scope of MFRS 141: Agriculture and will defer the adoption of MFRS to 1 January 2018 (Note A2-Significant Accounting Policies). Accordingly, this unaudited condensed interim financial report for the second quarter for the year ending 31 December 2017 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 2016.

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 2016. The following FRSs’, Interpretations and Amendments are adopted, where applicable for the year beginning 1 January 2017.

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017.

- FRS 14, Regulatory Deferral Accounts
- Amendments to FRS 10, FRS 12 and FRS 128, Investment Entities: Applying the Consolidation Exception
- Amendments to FRS 11, Accounting for Acquisitions of Interests in Joint Operation
- Amendments to FRS 101, Disclosure Initiative
- Amendments to FRS 127, Equity Method in Separate Financial Statements
- Amendments to FRS 116 and FRS 138, Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to FRSs, Annual Improvements to FRSs 2012-2014 cycles

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2017.

- Amendments to FRS 112, Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to FRS 107, Disclosure Initiative

FRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2018.

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- FRS 9, Financial Instruments (2014)
- Amendments to FRS 2, Classification and Measurement of Share based Payment Transactions
- Amendments to FRS 4, Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to FRS 140, Transfer of Investment Property
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to FRSs, Annual Improvements to FRSs 2014-2016 Cycle

FRSs, Interpretations and Amendments effective from a date yet to be confirmed

- Amendments to FRS 10 and FRS 128, Sale of Contribution of Assets between an Investor and its Associate or Joint Venture

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations in the respective financial years when the above standards, amendments and interpretation become effective.

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.

The Group and the Company falls within the scope of MFRS 141, Agriculture. Therefore, the Group and the Company are currently exempted from adopting the Malaysian Financial Reporting Standards (“MFRS”) and is referred to as “Transitioning Entities”.

The Group and the Company are currently assessing the impact of the adoption of MFRS 141, including identification of the differences in existing accounting policies as compared to the new framework. The assessment is still on-going. Thus the impact of adopting MFRS 141 cannot be determined and estimated reliably until the process in completed.

The Group’s and the Company’s financial statements for annual period beginning on 1 January 2018 will be prepared in accordance with the MFRS issued by the MASB and the International Financial Reporting Standards (“IFRS”).

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.

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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 period 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 2017.

A6 Debt and equity securities

The Company bought-back the following shares during the period to 30 June 2017.

Date	No. of shares	Amount paid (RM)
24 February 2017	1,000	934
Total	1,000	934

The total shares bought-back and held as treasury shares to-date is 5,541,000.

Other than the aforementioned, there were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the period under review.

A7 Dividend paid

The Company did not pay any dividend for the period 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 and trading of CPO and PK and the provision of plantation development contract services to related parties and external customers.

Property/Hotel : Property investment and hotel operation.

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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 2017

	<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	115,633,972	3,535,108			119,169,080
Inter-segment revenue	19,797,538			-19,797,538	-
Total revenue	135,431,510	3,535,108		-19,797,538	119,169,080
Segment results	10,582,022	-2,397,690		-	8,134,332
Unallocated expenses					-6,680,847
Profit/ (loss) from operation					1,503,485

Assets					
Reported segment assets	370,521,967	105,776,577			476,298,544
Corporate assets					56,458,822
Consolidated total assets					532,757,366

Liabilities					
Segment liabilities	174,988,834	5,142,771			180,131,605
Corporate liabilities					53,096,617
Total consolidated liabilities					233,228,222

Period ended 30 June 2016

	<u>Plantations</u>	<u>Property</u>	<u>Head Office</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>		<u>RM</u>	<u>RM</u>
External revenue	93,661,276	3,479,836			97,141,112
Inter-segment revenue	16,378,604			-16,378,604	-
Total revenue	110,039,880	3,479,836		-16,378,604	97,141,112
Segment results	-6,869,739	-2,405,339		-	-9,275,078
Unallocated expenses					-6,770,400
Profit/(Loss) from Operation					-16,045,478

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Assets					
Reported segment assets	357,329,979	107,806,573			465,136,552
Corporate assets					8,319,665
Consolidated total assets					473,456,217
Liabilities					
Segment liabilities	138,622,949	4,320,812			142,943,761
Corporate liabilities					39,411,882
Total corporate liabilities					182,355,643

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

A10(i) On 29 May 2017, the Company announced that it had entered into a Share Sale Agreement (‘SSA’) with Dato Azizi Bin Yom Ahmad, Dato Abd. Gani BinYusof and Piagam Wira Sdn Bhd (Company No. 981030-H) (‘Collectively, the Vendors’) to acquire the entire issued and paid up share capital comprising 5,000,000 ordinary shares of Midwest Equity Sdn Bhd (Company No. 961977-W) (‘MESB’) for a total consideration of RM28,000,000 only. (‘Proposed Acquisition’).

Upon completion of the Proposed Acquisition, MESB will be consolidated as a wholly-owned subsidiary of Harn Len.

Information on MESB

MESB is a company incorporated in Malaysia and having its registered office at Suite 9, Direct Biz Avenue, No. 38B-2, Jalan Radin Anum, Bandar Baru Seri Petaling, 57000 Kuala Lumpur. It has an authorized share capital of RM5,000,000 made up of 5,000,000 ordinary shares of RM1.00 each, all of which are duly issued and paid up.

The principal activity of MESB is in property development and investment in real properties.

The directors of MESB are as follows:-

- a) Dato’ Azizi Bin Yom Ahmad
- b) Dato’ Abd Gani Bin Yusof
- c) Mazrul Haizad Bin Marof

The Vendors are the shareholders of MESB. The proportionate shareholding of MESB is as follows:-

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Shareholders Name	Shareholdings	Percentage
Dato’ Azizi Bin Yom Ahmad	1,750,000	35%
Dato’ Abd Gani Bin Yusof	1,750,000	35%
Piagam Qira Sdn Bhd	1,500,000	30%
Total	5,000,000	100%

MESB is the registered owner of all that piece of land held under H.S. (D) 554637 PTD 24284, Bandar Johore Bahru, Daerah Johor Bahru, Negeri Johor (‘the Land’) which is currently charged to Malaysia Building Society Berhad (‘MBSB’) for MBSB loan.

Salient points of the SSA

- a) The total consideration payable by the Company for the purchase of the Sales Shares and the sale of the Sales Shares by the Vendors shall be RM28,000,000.00
- b) Settlement of the Purchase consideration shall be as follows:-
 - i) The sum of RM560,000.00 only (‘Earnest Deposit’) paid by the Purchaser to the Vendors’ Solicitors as stakeholders and the Vendors’ Solicitors are authorized to release the Earnest Deposit to the Vendors upon the execution of the SSA.
 - ii) The sum of RM2,800,000.00 only shall be paid by the Purchaser to the Vendors’ Solicitors upon execution of the SSA.
 - iii) The sum of RM2,800,000.00 only shall be paid by the Purchaser to the Vendors’ Solicitors on or before 30 May 2017.
 - iv) The sum of RM8,540,000.00 only shall be paid by the Purchaser to the Vendors Solicitors by way of 6 equal monthly instalments of RM1,423,333.33 only each (‘Monthly instalment’) commencing from 30 June 2017 until 30 November 2017. The Monthly Instalment shall be paid by the Purchaser to the Vendors’ Solicitors within 14 days from the 15th day of each calendar month, failing which the Purchaser shall be liable to pay to the Vendors interest at the rate of 8.00% per annum calculated on a daily basis on the outstanding sum from the date of expiry of the said 14 days until the date of full payment thereof, such interest (if any) shall be paid to the Vendors Solicitors and
 - v) The balance of the Purchase Consideration of RM 13,300,000.00 shall be dealt with in the following manner:-
 - a) In the event that MBSB Consent is obtained, the Balance Purchase Consideration shall be utilized towards repayment of the MBSB Loan in full from the date the MBSB Consent is obtained; or
 - b) In the event that MBSB Consent is not obtained or MBSB has refused or has failed to grant MBSB Consent within 2 months from the date of the SSA or such extended period mutually agreed upon between the parties (‘MBSB Expiry Date’) then the following consequence shall ensue:-

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- i) The MBSB Expiry Date or the date MBSB refuses to grant MBSB consent whichever is earlier shall be referred to as the New Payment Date: and
- ii) The Balance Purchase Consideration shall be utilized to repay the MBSB Loan within 3 months from the New Payment Date (‘Payment Period’), failing which the Vendors shall grant to the Purchaser and extension of one (1) month commencing from the date of expiry of the said 3 months (‘Extended Payment Period’) to pay the Balance Purchase Consideration or such part thereof.

c) Source of funds

The Purchase Consideration will be funded through cash and the MBSB loan.

d) Liabilities to be assumed

The Company is not expected to assume any liabilities arising from the Proposed Acquisition.

e) Rationale and prospect for the Proposed Acquisition

Harn Len intends to invest in the land for its appreciation in value. The Land is located in the heart of Johor Bahru City Centre and approximately within the state most strategic development area which comprise of six towers - a hotel, a hotel with residences, an office, high rise medical suites, two serviced apartment towers and a mall.

A10(ii) On 6 January 2017, the Company entered into a Share Sale Agreement with several third party individuals, for the sale of the entire share capital of a subsidiary, Gemilang Bumimas Sdn Bhd for a total consideration of RM13,600,000.

The disposal was completed on 22 February 2017 and RM3,471,593 of the total consideration was settled by way of cash. The balance sum of RM10,128,407 of the total consideration will be settled by way of cash within one year from the date of the agreement.

The disposal of Gemilang Bumimas Sdn Bhd resulted in a gain of RM700,990 for the Group.

	Disposal of Gemilang Bumimas Sdn Bhd
	RM
Disposal price	13,600,000
Post-acquisition loss	<u>5,043,671</u>
Net disposal	18,643,671
Impairment	<u>-17,942,681</u>
Gain from disposal	<u>700,990</u>

A11 Contingent liabilities and contingent assets

There were no material contingent liabilities and contingent assets for the Group for the period under review.

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EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

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

	(RM000's)
Contracted but not provided for in the financial statements	25,223
Not contracted for and not provided for in the financial statements	31,152

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>2017</u>	<u>2016</u>
			(RM000's)	(RM000's)
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Rental of motor equipment	29	39
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Provision of management services	12	12
LNH Enterprise Sdn Bhd	Affiliated company	Provision of management services	18	18
Kanghui Travel Sdn Bhd	Affiliated company	Purchases of air tickets/insurance.	297	426
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	20	19
One63 Ideas Sdn Bhd	Affiliated company	Rental income	-	68
Advance Pinnacle Sdn Bhd	Affiliated company	Purchase of FFB/seedlings	-	197
Horn Len (Merakai) Sdn Bhd	Affiliated company	Purchase of FFB	358	201
Horn Len (Semada) Sdn Bhd	Affiliated company	Purchase of FFB	201	144
Horn Len (Merakai) Sdn Bhd	Affiliated company	Sales of seedlings	33	149
Horn Len (Krangan) Sdn Bhd	Affiliated company	Sales of seedlings	-	3
Horn Len (Jerok) Sdn Bhd	Affiliated company	Sales of seedlings	-	11

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

EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

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 2017, the Group generated total revenues of RM119,169,080 (2016-RM97,141,112). The plantation operations contributed RM115,633,972 or 97%, (2016-RM 93,661,276 or 96%). The property divisions contributed RM3,535,108 or 3%, (2016-RM3,479,836 or 4%).

Plantation operations

The following are the production and sales for the period ended 30 June 2017:-

	<u>30 June 2017</u>	<u>30 June 2016</u>
FFB produced (m/t)	69,130	54,904
FFB processed (m/t)	151,686	163,375
CPO produced (m/t)	30,611	31,597
PK produced (m/t)	6,360	6,840
CPO sold (m/t)	30,371	31,599
PK sold (m/t)	6,329	6,885

The average selling price of CPO was RM3,151 per m/t (2016-RM2,435per m/t), FFB was RM535 per m/t (2016-RM 444 per m/t) and for PK, it was RM2,710 per m/t (2016- RM 2,011 per m/t).

Property and hotel operations

The property operation, especially the hotel division, remained lackluster for the year to date due to intense competition from newer hotels and less visitor arrivals. The average room rate was RM 78.00 (2016-RM 75.00) and average room occupancy was 51% (2016-61%).

B2 Comparison of results against preceding quarter

	Quarter to 30/6/2017	Quarter to 31/3/2017	%
	<u>RM</u>	<u>RM</u>	
Revenue	61,506,996	57,662,084	7
Profit/(loss) from operating activities	3,189,922	-1,686,437	>100

	Quarter to 30/6/2017	Quarter to 31/3/2016	%
FFB processed (mt)	76,737	74,949	2
CPO produced (mt)	15,519	15,092	3
PK produced (mt)	3,255	3,105	5
CPO sold (m/t)	15,272	15,100	1

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EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

PK sold (m/t)	3,245	3,084	5
Average selling prices	<u>RM/mt</u>	<u>RM/mt</u>	
CPO	3,313	2,988	11
PK	2,363	3,075	-23

The revenue generated in the current quarter was 7% higher than the revenue achieved in the preceding quarter. The higher revenue generated was mainly due to the higher production and sales volume of FFB, CPO and PK in the current quarter compared to the preceding quarter with commodity prices trending upwards in the current quarter. An amount of 76,737 m/t of FFB was processed compared to 74,949 m/t for the preceding quarter. 15,519 m/t of CPO and 3,255 m/t of PK were produced, compared to 15,092 m/t of CPO and 3,105 m/t of PK respectively in the preceding quarter. A total of 15,272 m/t of CPO were sold at an average selling price of RM3,313 per m/t compared to 15,100 m/t at RM 2,988 per m/t. a total of 3,245 m/t of PK was sold at an average selling price of RM2,363 per m/t compared to 3,084 m/t at RM3,075 per m/t.

In view of the better CPO price the group achieved an operating profit of RM1,503,485 compared to an operating loss of RM 1,686,437 in the preceding quarter.

B3 Current year prospects

CPO price is currently trading around RM 2,700 per m/t. The price of CPO is expected to be range-bound in the near future due to anticipated higher CPO inventory and competition from other edible oils.

The property operations especially the hotel division, continue to face difficult times with stiff competition from newer budget hotels and the decline in arrivals. The austerity measures undertaken by the Government will affect the business of the hotel. The Tourism Tax that will come into effect from 1 September will have negligible impact on the hotel business.

The plantation operations faces a man-power problem due to shortage of workers. Furthermore, strict enforcement against illegal workers will cause the problem to exacerbate as workers are worried about the penalties that are imposed. Although measures have been taken to recruit more workers to harvest crops in the fields problems remains. Steps have also been under-taken to improve crop yields from the fields and crop quality in order to improve CPO and PK extraction rates.

The Company continues to seek out parties for the leasing out of the hotel operations in order to reduce losses. Efforts are continuing to dispose on non-core assets to interested parties.

B4 Profit forecast

The Group did not issue any profit forecast for the year ending 31 December 2017.

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EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

B5 Taxation

The taxation for the current quarter is as follows:-

	Current quarter ended 30 June 2017	Preceding quarter ended 30 June 2016	Current year to date ended 30 June 2017	Preceding year to date ended 30 June 2016
Malaysian income tax				
Current year	-2,130,000	-213,400	-2,930,000	-508,800
Over/ -under provision in prior years	-3,691	8,567	-3,691	8,567
Deferred tax	532,000	689,723	1,226,000	2,565,935
Over/-Under provision in prior years				
Total	-1,601,691	484,890	-1,707,691	2,065,702

Deferred tax assets were provided for companies that had adjusted losses. The losses were taken into account as there is a high probability of future profits.

B6 Notes to the Statement of Comprehensive Income

	Current quarter ended 30 June 2017	Preceding quarter ended 30 June 2016	Current year to date ended 30 June 2017	Preceding year to date ended 30 June 2016
	RM000's	RM000's	RM000's	RM000's
Depreciation	-5,109	-4,930	-10,154	-9,790
Interest expense	-1,528	-1,367	-2,947	-2,484
Audit fees	-48	-68	-84	-115
Rental paid	-8	-8	-22	-18
Interest received	2	2	5	5

B7 Status of Corporate proposals

- a) On 29 May 2017, the Company entered into a Share Sale Agreement with 3 parties for the Proposed Acquisition to acquire the entire issued and paid capital comprising 5,000,000 ordinary shares of Midwest Equity Sdn Bhd for a total purchase consideration of RM28,000,000.00.

At date of this report, the acquisition is not yet completed.

- b) On 6 January 2017, the Company entered into a Share Sale Agreement with several third party individuals, for the sale of the entire share capital of a subsidiary, Gemilang Bumimas Sdn Bhd for a total consideration of RM13,600,000.

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The disposal was completed on 22 February 2017 and RM3,471,593 of the total consideration was settled by way of cash. The balance sum of RM10,128,407 of the total consideration will be settled by way of cash within one year from the date of the agreement.

- c) The Acquisition of three pieces of land together with factory buildings from Jotech Metal Fabrication Industries Bhd for RM18,000,000 was completed when the balance payment of RM10,800,000 was released on 12 May 2017.

B8 Group borrowings

The borrowings by the Group as at 30 June 2017 are as follows:-

		As at 30 June 2017		As at 31 December 2016
Term loans payable		RM		RM
Within 12 months		4,345,655		1,809,071
More than 12 months		<u>53,334,742</u>		<u>45,501,094</u>
Total		57,680,397		47,310,165
Bank overdrafts		<u>45,203,257</u>		<u>41,092,435</u>
Total		<u>102,883,654</u>		<u>88,402,600</u>

Hire purchase payable				
Within 12 months	RM	3,461,884		3,599,376
More than 12 months		<u>2,182,980</u>		<u>3,873,106</u>
Total	RM	<u>5,644,864</u>		<u>7,472,482</u>

Total borrowings RM 108,528,518 95,875,082

B9 Material litigations

There was no material litigation against the company or its subsidiaries as at date of this report.

B10 Dividend payable

No dividend was announced for the current period under review

B11 Earnings per share

			Current quarter ended 30 June 2017	Cumulative year to date 30 June 2017	Quarter ended 30 June 2016	Cumulative year to date 30 June 2016
	Earnings					
	Net profit/(loss) for the period	RM	190,282	-3,241,004	-6,425,961	-15,001,226
a)	Basic weighted average number of shares		179,936,159	179,936,276	179,938,159	181,777,909
c)	Basic earnings/ share	Sen	0.11	-1.90	-3.57	-8.25
d)	Diluted earnings/ share	Sen	n/a	n/a	n.a.	n.a.

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EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

B12 Realised and unrealised profits

The breakdown of retained profits of the Group as at 30 June 2017, into realized and unrealized profits, pursuant to the directive issued by Bursa Malaysia is as follows:-

	Group	
	30 June 2017	31 December 2016
Retained profits		
	RM000's	RM000's
Realised profit/(loss)	44,094	46,970
Unrealised in respect of deferred tax recognized in income statement	-15,375	-16,601
Total	28,719	30,369
Add consolidation adjustments	87,508	89,279
Total Group retained profits	116,227	119,648

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 Bungan 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 Bungan, Sri Aman Division, Sarawak, comprising a gross area of approximately 24,636 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 10,681 hectares.

The authorized capital of the joint-venture company (“JVC”) is RM 10,000,000 made up of 10,000,000 ordinary shares of RM 1.00 per ordinary share. The paid up capital is RM 4,756,805. The authorized capital of the JVC will be increased to RM 24,000,000 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	10
Total	<u>100</u>

As at 30 June 2017, HLPB has planted 5,573 ha of the Land with oil palm trees, of which 3,781 ha are considered matured. Crop production for the year to date was 27,457 m/t of FFB (2016-16,130 m/t).

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EXPLANATORY NOTES TO THE SECOND QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 30 JUNE 2017.

The development expenditure and other assets and liabilities incurred up to 30 June 2017 were as follows:-

	<u>30 June 2017</u>	<u>31 December 2016</u>
	<u>RM000's</u>	<u>RM000's</u>
Plantation development expenditure	70,097	67,318
Property, plant and equipment	8,028	7,846
Inventory and other assets	<u>2,939</u>	<u>2,972</u>
Total cost	<u>81,064</u>	<u>78,136</u>

Material Litigations:-

There was no material litigation against the company as at date of this report.

Supplemental Agreements:-

On 29 March 2010, a Supplemental Agreement (“SA”) to the Joint Venture Agreement was signed between the parties relating to the issuance of shares in Harn Len Pelita Bengunan Sdn Bhd. 4,800,000 shares or any quantum agreed upon by the parties to the JVC shall be issued, when the NCR owners surrendered their land to the JVC that had been developed by the JVC and thereafter, for every 500 ha developed, a further 1,200,000 shares shall be issued to the parties in the JVC.

On 17 May 2010, another Supplemental Agreement (“SA II”) to the Joint Venture Agreement was signed between the parties. 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 RM 1,500.00 (Ringgit Malaysia One thousand five hundred only) per ha. Upon each increase in planting area in the Second Land, the value of such increase calculated on the basis of RM1,500 per ha shall be capitalized as issued and paid up shares in the JVC and RM 480 per ha shall be paid to the NCR Owners when their lots have been and certified.