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

EXPLANATORY NOTES TO THE FOURTH QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD TO 31 DECEMBER 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 fourth 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.

- 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.

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 31 December 2017.

Date	No. of shares	Amount paid (RM)
25-Oct-17	1,000,000	722,718
17-Nov-17	494,500	347,561
Total	5,218,700	3,753,596

The total shares bought-back and held as treasury shares to-date is 12,254,200.

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.

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 31 December 2017

	Plantations	Property	Corporate Head office	Eliminations	Consolidation
	RM	RM		RM	RM
External revenue	311,819,075	14,200,817	-	-	326,019,892
Inter-segment revenue	47,182,788	-	-	(47,182,788)	-
Total revenue	359,001,863	14,200,817	-	(47,182,788)	326,019,892
Segment results	37,899,155	(1,229,271)		-	36,669,884
Unallocated expenses					(14,007,330)
Profit/ (loss) from operation					22,662,554

Assets					
Reported segment assets	383,518,712	130,317,946	-	-	513,836,658
Corporate assets					36,755,172
Consolidated total assets					550,591,830
Liabilities					
Segment liabilities	194,070,827	13,347,443	-	-	207,418,270
Corporate liabilities					37,546,926
Total consolidated liabilities					244,965,196

Period ended 31 December 2016

	Plantations	Property	Corporate Head office	Eliminations	Consolidation
	RM	RM		RM	RM
External revenue	263,155,114	7,057,294			270,212,408
Inter-segment revenue	41,608,189			(41,608,189)	-
Total revenue	304,763,303	7,057,294	-	(41,608,189)	270,212,408
Segment results	25,516,420	(5,693,653)		-	19,822,767
Unallocated expenses					(12,668,672)
Profit/(Loss) from operation					7,154,095
Assets					
Reported segment assets	383,893,320	107,090,656			490,983,976
Corporate assets					6,130,144
Consolidated total assets					497,114,120
Liabilities					
Segment liabilities	150,260,094	4,729,619			154,989,713
Corporate liabilities					39,447,984
Total corporate liabilities					194,437,697

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 for the period under review.

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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 & Plantation Development Expenditures

	(RM'000)
Contracted but not provided for in the financial statements	21,519
Not contracted for and not provided for in the financial statements	37,659

A13 Related party transactions

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

Purchases and payments

Transacting parties	Relationship	Nature of transactions	For the period ended 31 December 2017 RM'000	2016 RM'000
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Rental of motor equipment	47	57
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Provision of management services	24	24
LNH Enterprise Sdn Bhd	Affiliated company	Provision of management services	36	36
Kanghui Travel Sdn Bhd	Affiliated company	Purchases of air tickets/insurance.	669	727
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	39	38
One63 Ideas Sdn Bhd	Affiliated company	Rental income	-	136
Advance Pinnacle Sdn Bhd	Affiliated company	Purchase of FFB/ seedlings	-	197
Horn Len (Merakai) Sdn Bhd	Affiliated company	Purchase of FFB	1,030	622
Horn Len (Semada) Sdn Bhd	Affiliated company	Purchase of FFB	503	357
Horn Len (Jerok) Sdn Bhd	Affiliated company	Purchase of FFB	338	-
Horn Len (Krangan) Sdn Bhd	Affiliated company	Purchase of FFB	31	-
Horn Len (Merakai) Sdn Bhd	Affiliated company	Sales of seedlings	33	232
Horn Len (Krangan) Sdn Bhd	Affiliated company	Sales of seedlings	-	3
Horn Len (Jerok) Sdn Bhd	Affiliated company	Sales of seedlings	-	11
Horn Len (Semada) Sdn Bhd	Affiliated company	Sales of seedlings	1	4

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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 12 months ended 31 December 2017, the Group generated total revenues of RM326,019,892 (2016: RM270,212,408). The plantation operations contributed RM311,819,075 or 96%, (2016: RM263,155,114 or 97%). The property divisions contributed RM14,200,817 or 4%, (2016: RM7,057294 or 3%).

Plantation operations

The following are the production and sales for the period ended 31 December 2017:

	31-Dec-17	31-Dec-16
	MT	MT
FFB produced	182,161	159,632
FFB processed	396,442	432,142
CPO produced	79,475	84,406
PK produced	17,111	17,908
CPO sold	77,940	84,632
PK sold	17,021	17,908

The average selling price of CPO was RM2,766 per m/t (2016: RM2,449 per m/t), FFB was RM500 per m/t (2016: RM489 per m/t) and for PK, it was RM2,432 per m/t (2016: RM 2,332 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 81.00 (2016: RM 76.00) and average room occupancy was 52% (2016: 59%).

B2 Comparison of results against preceding quarter

	Quarter to 31/12/2017 RM	Quarter to 30/9/2017 RM	% change
Revenue	101,955,048	104,855,764	-3%
Profit /(loss) from operating activities	11,902,410	9,256,659	29%

	Quarter to 31/12/2017 MT	Quarter to 30/9/2017 MT	% change
FFB processed	116,625	128,132	-9%
CPO produced	23,292	25,572	-9%
PK produced	5,327	5,424	-2%
CPO sold (m/t)	22,007	25,562	-14%
PK sold (m/t)	5,298	5,394	-2%

Average selling price:	RM/mt	RM/mt	% change
CPO	2,684	2,603	3%
PK	2,532	2,007	26%

The revenue generated in the current quarter was 3% lower than the revenue achieved in the preceding quarter. The lower revenue generated was mainly due to the lower production and sales volume of FFB, CPO and PK in the current quarter compared to the preceding quarter despite higher commodity prices in the current quarter. An amount of 116,625 m/t of FFB was processed compared to 128,132 m/t for the preceding quarter. 23,292 m/t of CPO and 5,327 m/t of PK were produced, compared to 25,572 m/t of CPO and 5,424 m/t of PK respectively in the preceding quarter. A total of 22,007 m/t of CPO were sold at an average selling price of RM2,684 per m/t compared to 25,562 m/t at RM 2,,603 per m/t. A total of 5,298 m/t of PK was sold at an average selling price of RM2,532 per m/t compared to 5,394 m/t at RM2,007 per m/t.

Despite lower FFB, CPO and PK production, the group has achieved significant improvement in operating profit largely due to better commodity price.

B3 Current year prospects

CPO price is currently trading around RM 2,450 per m/t which fell to their lowest in 3 months largely due to stronger Ringgit and a two-year high stockpile. FFB production is expected to be flat while inventory remained high in Q1 2018. CPO is forecasted to average RM2,500 per m/t for 2018.

The plantation operations are still facing man-power problem due to shortage of workers. Continuous recruitment activities are ongoing despite the worker shortage issue remain the key challenge for the industry. On the other hand, corrective actions have also been under-taken to improve crop yield from the fields and crop quality in order to improve CPO and PK extraction rates.

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 impact on the hotel business from Tourism Tax effective September 2017 is negligible. Occupancy rate is not expected to improve significantly till the end of year.

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.

B5 Taxation

The taxation for the current quarter is as follows:

	Current quarter ended 31 December 2017	Preceding quarter ended 31 December 2016	Current year to date ended 31 December 2017	Preceding year to date ended 31 December 2016
Malaysian income tax				
Current year	(1,097,859)	(1,057,219)	(5,248,692)	(1,663,920)
Over/ (Under) provision in prior years	-	-	600,308	8,034
Deferred tax				
Current year	(2,911,604)	(211,700)	(1,914,236)	(979,464)
Over/(Under) provision in prior years	(1,491,077)	(4,216,000)	(1,491,077)	(4,216,000)
Total	(5,500,540)	(5,484,919)	(8,053,697)	(6,851,350)

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 31 December 2017	Preceding quarter ended 31 December 2016	Current year to date ended 31 December 2017	Preceding year to date ended 31 December 2016
	RM'000	RM'000	RM'000	RM'000
Depreciation	(5,493)	(5,319)	(20,853)	(20,030)
Interest expense	(2,095)	(1,346)	(6,843)	(5,195)
Audit fees	(84)	(18)	(210)	(184)
Interest received	2	2	10	10

B7 Status of Corporate proposals

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.

B8 Group borrowings

The borrowings by the Group as at 31 December 2017 are as follows:

	As at 31 December 2017	As at 31 December 2016
Term loans payable:	RM	RM
Within 12 months	5,814,078	1,809,069
More than 12 months	50,593,463	45,501,094
Total	56,407,541	47,310,163
Bank overdrafts	45,162,229	41,092,435
Total	101,569,770	88,402,598
Hire purchase payable:		
Within 12 months	2,923,643	3,599,376
More than 12 months	1,454,975	3,873,106
Total	4,378,618	7,472,482
Total borrowings	105,948,388	95,875,080

B9 Material litigations

(a) On 14 November 2017, the Board of Harn Len Corporation Bhd announced that Masranti, a 100% owned subsidiary company of Harn Len has been served with an Amended Writ together with the Amended Statement of Claim dated 1 November 2017 by the High Court of Sabah and Sarawak at Kuching upon the inclusion of Masranti as the 4th Defendant by the Plaintiffs namely Jalin Anak Mangi (WNKP 561231-13-7777), Tupek Anak Rengi (WNKP 430627-13-5380), Jata Anak Adeh (F) (WNKP 640426-13-5240), Sinda Anak Tanggi (WNKP 630208-13-5454) and Nawai Anak Sigai (F) (WNKP 671212-13-5546) ("Plaintiffs") [Representing on behalf of themselves and their own family members who are owners, occupiers and/or proprietors of Native Customary Rights (NCR) Land situated at Kampung Semada Mawang, Simunjan, Kota Samarahan] for trespassing upon the Plaintiffs' said NCR land.

The said Amended Writ and Amended Statement of Claim were received on 25 October 2017

On 7 November 2017, the Notice of Application to set aside the Amended Statement of Claims has been filed and the hearing of Notice of Application is fixed for hearing by the Court on 11 December 2017 at 9:00am at Kuching High Court.

On 11 December 2017, the hearing declared that Masranti shall not be bound by any decision of the Court in the above action. Mssranti legal counsel has made submission and tendered to the Court on the company's behalf for the application. The Court directed that Plaintiffs' counsel to file their submission as soon as possible and ruling of the application is scheduled for delivery by court on 12 January 2018 together with the delivery ruling for the substantial action tried.

On 12 January 2018, the court has dismissed the Plaintiffs claim against Masranti in view of the Court's finding that the Plaintiffs have failed to prove by evidence their NCR claims and also in view that, Masranti was deprived of the right to be heard due to the late joinder as the 4th Defendant. The Plaintiffs have lodged an appeal to the Court of Appeal against the decision of the High Court delivered on the 12 January 2018.

Further development of the above matter will be announced in due course.

(b) On 15 November 2017, the Board of Harn Len Corporation Bhd announced that Sri Aman High Court suit no: SRA-21NCvC-3/9-2016 (HC) which was announced on 30 September 2016 and 9 May 2017 is now fixed for trial on 15th to 19th January 2018 and 1st and 2nd February 2018 commencing at 9:00am each day.

The trial above commenced on 15 January 2018 until 16 January 2018 and was adjourned thereafter due to the fact that the Judge has to take part in Legal Year Ceremony which took place in Miri. Thereafter, the trial could not continue on 29 January 2018 and 30 January 2018 as there was no Iban Court Interpreter available. The trial thus continued on 31 January 2018 and 1 February 2018 and was adjourned to continue on 9th, 10th, 17th, 18th and 20th April 2018.

Further development of the above matter will be announced in due course.

B10 Dividend payable

No dividend was announced for the current period under review

B11 Earnings per share

		Current quarter ended 31 December 2017	Cumulative year to date 31 December 2017	Quarter ended 31 December 2016	Cumulative year to date 31 December 2016
Net profit/(loss) for the period	RM	4,309,207	7,775,021	7,227,536	(4,882,387)
Basic weighted average number of shares		173,774,079	178,215,700	179,937,159	181,777,576
Basic earnings per share	Sen	2.81	4.02	1.94	(4.59)
Diluted earnings per share	Sen	n/a	n/a	n.a.	n.a.

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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 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:-

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

As at 31 December 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 66,157 m/t of FFB (2016: 50,272 m/t).

The development expenditure and other assets and liabilities incurred up to 31 December 2017 were as follows:

		31 December 2017	31 December 2016
		RM'000	RM000's
Plantation development expenditure		73,300	67,318
Property, plant and equipment		8,157	7,846
Inventory and other assets		870	2,972
Total cost		82,327	78,136

Material Litigations:

On 15 November 2017, the Board of Harn Len Corporation Bhd announced that Sri Aman High Court suit no: SRA-21NCvC-3/9-2016 (HC) which was announced on 30 September 2016 and 9 May 2017 is now fixed for trial on 15th to 19th January 2018 and 1st and 2nd February 2018 commencing at 9:00am each day.

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Further development of the above matter will be announced in due course.

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.