

**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 2018.**

**PART A: EXPLANATORY NOTES AS PER MFRS 134**

**A1 Basis of preparation**

The unaudited condensed interim financial statements have been prepared in accordance with the requirements of Malaysia Financial Reporting Standard (“MFRS”) 134, Interim Financial Reporting and the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017.

**A2 Significant Accounting Policies**

The financial statements of the Group for the financial period ended 30 June 2018 are the first set of financial statements prepared in accordance with the MFRS Framework. The date of transition to the MFRS Framework was on 1 January 2017.

The Group has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2017 and throughout all comparable interim periods presented, as if these policies had always been in effect. Comparative information in these unaudited condensed interim financial statements have been restated to give effect to these changes and the financial impact on transition from FRS in Malaysia to MFRS as follows.

*Adoption of amendments to MFRS 116 Property, Plant and Equipment and MFRS 141 Agriculture: Bearer Plants*

The Group has changed its accounting policy for bearer plants to be in accordance with the accounting requirements of MFRS 116 “Property, Plant and Equipment”. A bearer plant is a living plant that is used in the production and supply of agricultural produce, is expected to bear produce for more than one period, and has remote likelihood of being sold as agriculture produce. Bearer plants are accounted for under MFRS 116 as an item of property, plant and equipment. Agricultural produce growing on bearer plants continue to be measured at fair value less costs to sell under MFRS 141 “Agriculture: Bearer Plants”, with fair value changes recognized in profit or loss as the produce grows.

The Group’s bearer plants consist of oil palm trees which the cost includes development expenditure and the plantation infrastructure from land clearing to the point of harvesting. Any replanting costs incurred are capitalized. These costs are currently in plantation development expenditure accounts and are measured at cost less accumulated depreciation based on estimated annual yield over 25 years. Upon adoption of MFRS framework, the net carrying amount of the plantation development expenditure accounts will be reclassified to bearer plants as part of the Group's property, plant and equipment.

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Produce growing on bearer plants of the Group comprise of fresh fruit bunches ("FFB") prior to harvest. The valuation to be adopted by the Group considers the present value of the net cash flows expected to be generated from the sale of FFB. To arrive at the fair value of FFB, the management has considered the oil content of the unripe FFB and derived the assumption that the net cash flow to be generated from FFB prior to more than 15 days to harvest to be negligible, therefore quantity of unripe FFB on bearer plant of up to 15 days prior to harvest was used for valuation purpose. Costs to sell, which include harvesting and transport cost, are deducted in arriving at the net cash flow to be generated.

The effects of the change in accounting policy on the comparatives are as follows:

	As previously reported RM	Reclassifications RM	Adjustments RM	Restated RM
<b>Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>				
<b><u>Quarter ended 30 June 2017</u></b>				
Other income	12,899,435	319,848	700,056	13,919,339
Other expenses	319,848	(319,848)		-
Profit before taxation	1,663,845	-	700,056	2,363,901
Profit for the financial period	62,154	-	700,056	762,210
Profit/(loss) attributable to:				
Equity holders of the Company	190,279	-	629,578	819,857
Non-controlling interests	(128,125)	-	70,478	(57,647)
Profit per share:				
- Basic (sen)	0.11	-	0.35	0.46
	As previously reported RM	Reclassifications RM	Adjustments RM	Restated RM
<b>Condensed Consolidated Statement of Financial Position</b>				
<b><u>As at 31 December 2017</u></b>				
<b>Non-current assets</b>				
Property, plant & equipment	256,105,224	-	170,205,396	426,310,620
Biological assets	170,205,396	-	(170,205,396)	-
<b>Current assets</b>				
Biological assets	-	-	1,440,393	1,440,393
<b>Equity</b>				
Reserves	116,950,175	-	1,341,542	118,291,717
Non-controlling interests	(9,703,554)	-	98,851	(9,604,703)
Net assets per share (sen)	170.01	-	2.29	172.30

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	As previously reported RM	Reclassifications RM	Adjustments RM	Restated RM
<b><u>As at 1 January 2017</u></b>				
<b>Non-current assets</b>				
Property, plant & equipment	265,894,088	-	155,855,902	421,749,990
Biological assets	155,855,902	-	(155,855,902)	-
<b>Current assets</b>				
Biological assets	-	-	2,818,050	2,818,050
<b>Equity</b>				
Reserves	127,506,809	-	2,393,480	129,900,289
Non-controlling interests	(10,307,545)	-	424,570	(9,882,975)
Net assets per share (sen)	166.51	-	1.55	168.06

	As previously reported RM	Reclassifications RM	Adjustments RM	Restated RM
<b>Condensed Consolidated Statement of Cash Flows</b>				
<b><u>Quarter ended 30 June 2017</u></b>				
Cash flows from operating activities				
Loss before taxation	(1,438,654)	-	22,625	(1,416,029)
Gain on fair value of biological assets	-	-	(22,625)	(22,625)
Cash flows from investing activities				
Purchase of property, plant and equipment	(4,188,155)	-	(10,459,346)	(14,647,501)
Purchase of biological assets	(10,459,346)	-	10,459,346	-

*Adoption of MFRS 9 Financial Instruments*

MFRS 9 replaces the guidance in FRS 139 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

There are no material financial impacts on the financial statements for the current financial period and past years upon initial application of MFRS 9.

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#### *Adoption of MFRS 15 Revenue from Contracts with Customers and Clarifications to MFRS 15 Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue and the related interpretations when it becomes effective.

There are no material financial impacts on the financial statements for the current financial period and past years upon initial application of MFRS 15.

#### MFRS, IC Interpretations and Amendments to IC Interpretations were issued but not yet effective and have not been applied by the Group:

- MFRS 16 Leases
- IC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRS Standards 2015 – 2017 Cycle)
- Amendments to MFRS 9 Financial Instruments (2014) – Prepayment Features with Negative Compensation
- Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRS Standards 2015 – 2017 Cycle)
- Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRS Standards 2015 – 2017 Cycle)
- Amendments to MFRS 128 Investment in Associates and Joint Ventures - Long-term Interest in Associates and Joint Ventures
- Amendments to MFRS 11 Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 119 (Plan Amendment, Curtailment or Settlement)
- Amendments to MFRS 3 Business Combinations
- Amendments to MFRS 2 Share-based Payment
- Amendments to MFRS 14 Regulatory Deferral Accounts
- Amendments to MFRS 101 Presentation of Financial Statements
- Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendment to MFRS 134 Interim Financial Reporting
- Amendment to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets
- Amendment to MFRS 138 Intangible Assets
- IC Interpretation 132 Amendments to IC Interpretation 132 Intangible Assets – Web Site Costs

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The Group plans to apply the abovementioned standards, amendments and interpretations in the respective financial years when the above standards, amendments and interpretation become effective. Material impacts of the initial application of the abovementioned accounting standards, amendments or interpretations, which are or likely to be applicable to the Group, are discussed below:

#### *MFRS 16 Leases*

MFRS 16 replaces the guidance in MFRS 117 Lease and the related interpretations when it becomes effective.

The Group is currently assessing the impact on adoption of MFRS 16 on the amounts reported and disclosures in the financial statements.

#### **A3 Seasonal or cyclical factors**

The Group 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. FFB production can also be affected by climatic factors, maturity of the trees, crop stress and the frequency of fertilizing the oil palm trees.

The property and hotel 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 during the current financial period.

#### **A5 Material changes in estimates**

There were no material changes in the estimates of amount reported in the prior financial year and in the preceding interim periods, which have a material effect in the current financial period.

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**A6 Debt and equity securities**

The Company bought-back the following shares during the current financial period.

<u>Date</u>	<u>No. of shares</u>	<u>Amount paid (RM)</u>
4-Apr-18	2,100	1,389
Total	<u>2,100</u>	<u>1,389</u>

The total shares bought-back and held as treasury shares to-date is 12,257,300.

Other than the aforementioned, there were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities in the current financial period.

**A7 Dividend paid**

There was no dividend paid in the current financial period.

**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.

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**Segment information**

**Period ended 30 June 2018**

	<u>Plantations</u>	<u>Property</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
External revenue	78,105,102	3,786,634	-	81,891,736
Inter-segment revenue	1,124,457	-	(1,124,457)	-
Total revenue	79,229,559	3,786,634	(1,124,457)	81,891,736
Segment results	(9,403,659)	(4,315,175)	-	(13,718,834)
Unallocated expenses				(3,204,877)
(Loss) from operation				(16,923,711)

<b><u>Assets</u></b>				
Reported segment assets	385,233,075	116,813,333	-	502,046,408
Corporate assets				36,216,435
Consolidated total assets				538,262,843
<b><u>Liabilities</u></b>				
Segment liabilities	194,478,342	26,484,679	-	220,963,021
Corporate liabilities				28,205,053
Total consolidated liabilities				249,168,074

**Period ended 30 June 2017**

	<u>Plantations</u>	<u>Property</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	10,604,647	(2,397,690)	-	8,206,957
Unallocated expenses				(6,680,847)
Profit from operation				1,526,110

<b><u>Assets</u></b>				
Reported segment assets	370,521,967	105,776,577	-	476,298,544
Corporate assets				56,458,822
Consolidated total assets				532,757,366
<b><u>Liabilities</u></b>				
Segment liabilities	174,988,834	5,142,771	-	180,131,605
Corporate liabilities				53,096,617
Total corporate liabilities				233,228,222

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

- i) On 27 March 2018, the Company entered into Management Agreements with five plantation companies to develop and manage their biological assets. The Proposed Arrangement involves the appointment of the Company as the exclusive contractor to develop and manage the biological assets (Exclusive Appointment”). In consideration of the Exclusive Appointment, the Company shall assume a total estimated cost of approximately RM46,000,000 in return for a share of the Fresh Fruit Bunches (“FFB”) production for a period of 25 years and upon expiry of the Initial Term, the Management Agreements shall automatically continue for a further period of 25 years, subject to such revised terms and conditions as may be necessary for the continuance of the Management Agreements.

As consideration for the Exclusive Appointment, the Company agrees to bear 42% of the total cost incurred equivalent to RM19,000,000 of which RM3,000,000 and RM11,000,000 shall be paid upon execution of Management Agreements and the effective date to begin development and management of the biological assets respectively. The remaining RM5,000,000 shall be paid upon first anniversary of the effective date. The Company shall be entitled to 42% of the net plantation profit until the estimated cost of RM46,000,000 is covered. Thereafter, the Company shall be entitled to 90% of the sales proceeds from the sale of FFB until the expiry of the Management Agreements.

The Proposed Arrangement was approved in the Extraordinary General meeting held on 27 June 2018 and pending for the fulfilment of the conditions precedent in the salient terms of the Management Agreements and Supplemental Agreements.

- ii) On 8 August 2018, the Company entered into a Sale and Purchase Agreement with Jotech Metal Fabrication Industries Sdn Bhd for the disposal of 3 pieces of land together with factory buildings for a total sales consideration of RM19,000,000.

#### **A10 Changes in the composition of the Group**

There were no changes in the composition of the Group for the current financial period.

#### **A11 Contingent liabilities and contingent assets**

There were no material contingent liabilities and contingent assets for the current financial period.



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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:

	<u>(RM'000)</u>
Contracted but not provided for in the financial statements	8,095
Approved but not contracted for in the financial statements	28,851

#### A13 Related party transactions

Significant related party transactions for the current financial period are as follows:

<u>Transacting parties</u>	<u>Relationship</u>	<u>Nature of transactions</u>	For the period ended 30 June	
			2018 <u>RM'000</u>	2017 <u>RM'000</u>
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Rental of motor equipment	18	29
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.	273	297
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	20	20
Horn Len (Merakai) Sdn Bhd	Affiliated company	Purchase of FFB	603	358
Horn Len (Semada) Sdn Bhd	Affiliated company	Purchase of FFB	231	201
Horn Len (Jerok) Sdn Bhd	Affiliated company	Purchase of FFB	168	-
Horn Len (Krangan) Sdn Bhd	Affiliated company	Purchase of FFB	151	-
Horn Len (Merakai) Sdn Bhd	Affiliated company	Sales of seedlings	69	33
Advance Pinnacle Sdn Bhd	Affiliated company	Share of loss - estate and plantation management	118	2

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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 6 months ended 30 June 2018, the Group generated total revenue of RM81,891,736 (2017: RM119,169,080). The plantation operations contributed RM78,105,102 or 95%, (2017: RM115,633,972 or 97%). The property divisions contributed RM3,786,634 or 5%, (2017: RM3,535,108 or 3%). The operating loss was primarily due to lower CPO and PK price coupled with lower sales volume of CPO and PK during the period.

The Group has changed its accounting policy for biological assets to be in accordance with accounting requirements of MFRS 141. Accordingly, the Group recognized biological assets of RM1,762,289 as at 30 June 2018 compared to RM1,861,094 as at 31 March 2018, resulted in a loss arising from changes in fair value of biological assets of RM98,805 recorded in the current financial period. For the corresponding financial period of the preceding year, gain arising from the changes in fair values of biological assets of RM700,056 was recorded as a result of higher fair value of biological assets of RM2,840,675 as at 30 June 2017 compared to RM2,140,619 as at 31 March 2017.

##### Plantation operations

The following are the production and sales for the period ended 30 June 2018:

	30-Jun-18	30-Jun-17
	<u>MT</u>	<u>MT</u>
FFB produced	71,982	69,130
FFB processed	130,451	151,686
CPO produced	26,467	30,611
PK produced	5,894	6,360
CPO sold	27,934	30,371
PK sold	5,754	6,329

The average selling price of CPO was RM2,381 per m/t (2017: RM2,964 per m/t), FFB was RM420 per m/t (2017: RM535 per m/t) and for PK, it was RM1,963 per m/t (2017: RM 2,710 per m/t).

##### Property and hotel operations

The property operation, especially the hotel division, remained lackluster for the period to date due to intense competition created by the numerous new boutique hotels that charge very competitive rates within the city area and increasing preference of traveler choosing hotels in area near Iskandar

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Malaysia zone for business and leisure purpose. The average room rate was RM 84.00 (2017: RM 78.00) and average room occupancy was 40% (2017: 51%).

#### B2 Comparison of results against preceding quarter

	Quarter to 30/6/2018 RM	Quarter to 31/3/2018 RM	% change
Revenue	35,361,555	46,530,181	-24%
Profit /(loss) from operating activities	(9,503,182)	(7,420,529)	28%

  

	Quarter to 30/6/2018 MT	Quarter to 31/3/2018 MT	% change
FFB processed	59,409	71,043	-16%
CPO produced	12,294	14,173	-13%
PK produced	2,678	3,217	-17%
CPO sold (m/t)	12,239	15,695	-22%
PK sold (m/t)	2,700	3,054	-12%

  

<i>Average selling price:</i>	RM/mt	RM/mt	
CPO	2,370	2,390	-1%
PK	1,655	2,236	-26%

The revenue generated in the current quarter was 24% lower than the revenue achieved in the preceding quarter. The lower revenue generated was mainly due to the lower sales volume of CPO and PK in the current quarter compared to the preceding quarter coupled with lower commodity prices in the current quarter. An amount of 59,409 m/t of FFB was processed compared to 71,043 m/t for the preceding quarter. 12,294 m/t of CPO and 2,678 m/t of PK were produced, compared to 14,173 m/t of CPO and 3,217 m/t of PK respectively in the preceding quarter. A total of 12,239 m/t of CPO were sold at an average selling price of RM2,370 per m/t compared to 15,695 m/t at RM 2,390 per m/t. A total of 2,700 m/t of PK was sold at an average selling price of RM1,655 per m/t compared to 3,054 m/t at RM2,236 per m/t.

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Operating costs remained high coupled with unfavorable CPO and PK production as well as weak commodity price, the group incurred an operating loss of RM9,503,182 compared to an operating loss of RM7,420,529 in the preceding quarter.

#### **B3 Current year prospects**

CPO price is currently trading around RM2,200 per m/t which fell below the forecasted 2018 average of RM2,500 per m/t. Future CPO production is expected to increase in Q3 of 2018 resulting in further pressure on CPO price which it may fall below RM2,200 per m/t. However, Malaysian export grew 7% month over month in July 2018 mainly due to stronger demand from EU and other countries taking into consideration of the weaker demand from China and India which support the CPO price. The coming months CPO price is largely dependent on several key factors which include the China soy bean demand following the 25% import duty imposed on edible oil from US, the effect on the El Nino conditions and the development of Indonesia’s decision to raise the biodiesel mandate to 20%.

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. 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 2018.

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#### B5 Taxation

The taxation for the current financial period is as follows:

	<u>Current quarter ended</u> <u>30 June 2018</u>	<u>Preceding quarter ended</u> <u>30 June 2017</u>	<u>Current year to date ended</u> <u>30 June 2018</u>	<u>Preceding year to date ended</u> <u>30 June 2017</u>
<b><u>Income tax</u></b>				
Current year	(11,000)	(2,133,691)	(25,000)	(2,933,691)
<b><u>Deferred tax</u></b>				
Current year	618,718	532,000	1,905,791	1,226,000
Prior year	19,000	-	19,000	-
<b>Total</b>	<b>626,718</b>	<b>(1,601,691)</b>	<b>1,899,791</b>	<b>(1,707,691)</b>

#### B6 Notes to the Statement of Comprehensive Income

	<u>Current quarter ended</u> <u>30 June 2018</u> <u>RM'000</u>	<u>Preceding quarter ended</u> <u>30 June 2017</u> <u>RM'000</u>	<u>Current year to date ended</u> <u>30 June 2018</u> <u>RM'000</u>	<u>Preceding year to date ended</u> <u>30 June 2017</u> <u>RM'000</u>
Depreciation	(5,612)	(5,109)	(11,076)	(10,154)
Interest expense	(1,830)	(1,528)	(3,518)	(2,947)
Audit fees	(52)	(48)	(99)	(84)
Interest received	3	2	5	5

#### B7 Status of Corporate proposals

On 29 May 2017, the Company had entered into a Share Sale Agreement with 3 parties to acquire the entire issued and paid up share capital comprising 5,000,000 ordinary shares of Midwest Equity Sdn Bhd (“target company”) for a total purchase consideration of RM28,000,000.00. Upon completion of the proposed acquisition, the target company will be consolidated as a wholly-owned subsidiary of the Company.

Subsequent to the period end, the share transfer had been completed pending the fulfilment of several conditions precedent in the Share Sales Agreement.

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#### B8 Group borrowings

The borrowings by the Group as at 30 June 2018 are as follows:

	<u>As at 30 June 2018</u>	<u>As at 31 December 2017</u>
Term loans payable:	RM	RM
Within 12 months	7,252,549	5,814,076
More than 12 months	53,412,935	50,593,431
Total	<u>60,665,484</u>	<u>56,407,507</u>
Bank overdrafts	46,761,784	45,162,229
Total	<u>107,427,268</u>	<u>101,569,736</u>
Finance lease payable:		
Within 12 months	2,332,819	2,923,644
More than 12 months	19,457,345	19,155,976
Total	<u>21,790,164</u>	<u>22,079,620</u>
Total borrowings	<u>129,217,432</u>	<u>123,649,356</u>

#### B9 Material litigations

- (a) On 14 November 2017, the Board of Harn Len Corporation Bhd announced that Masranti Plantation Sdn Bhd, 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 4<sup>th</sup> 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.

## **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 2018.**

On 11 December 2017, the hearing declared that Masranti shall not be bound by any decision of the Court in the above action. Masranti legal counsel has made submission and tendered to the Court on Masranti’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 4<sup>th</sup> 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.

Masranti have received notice vide email from the Court of Appeal that the above case has been fixed for Pre-Trial Case Management by the Court of Appeal on 11 July 2018 in Kuching. It was then rescheduled to 23 April 2019.

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

- (b) On 30 September 2016, the Board of Directors of Harn Len Corporation Bhd announced that Harn Len Pelita Bungalow Sdn. Bhd, a subsidiary company of Harn Len Corporation Bhd has been served with a Writ and Statement of Claim both dated 7 September 2016 by the High Court of Sabah and Sarawak at Sri Aman as the first Defendant by the Plaintiffs namely Ismawi Ak Isa (WNKP. 541128-13-5521), Kruka AK Sampar (WNKP. 650930-13-5257), Mambang Ak Sebai (WNKP. 520915-13-5579) and Tindi AK Engkapan (WNKP. 510604-13-5281) [Representing on behalf of themselves and 32 other proprietors, occupiers, holders and claimants of Native Customary Rights (NCR) Land situated at Kampung Bait Ulu, Sri Aman, Simanggang, Sarawak] for trespassing upon the Plaintiffs’ said NCR land.

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 15 to 19 January 2018 and 1 and 2 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 9, 10, 17, 18 and 20 April 2018.

The trial on 9 and 10 April 2018 have been vacated by the court. Trial for the above continued on 17, 18 and 20 April 2018 with the calling of Tr. Manggal Anak Jalang as the 1<sup>st</sup> defendant witness on 17 April 2018. As Tr. Manggal Anak Jalang was not feeling well on 18 April 2018 for his further cross examination, the Defendant counsel proceed to call Ipang Anak Banau as the Defendant 2 witness and for Tr. Mangal Anak Jalang to be recalled for further cross examination and re-examination. Ipang Anak Banau was cross examined and his cross-examination was concluded on 20 April 2018.

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The case is further rescheduled for re-examination of Ipang Anak Banau, cross-examination and re-examination of Tr. Manggal Anak Jalang and further calling of the Defendant witness for the trial on 14 to 17 May, 2018 and 11 to 14 June 2018 at 9:00am each day.

The case was called up for mention by Court upon short notice on 27 June 2018 and the continuation of the trial has been fixed by the Court on 9 to 10 August 2018 and 20 to 23 August 2018 at 9:30am each day.

The trial of the above case has continued on 9th, 10th, 20th and 21st of August 2018 with the calling of all witnesses and with the close of Defendant defence on 21st August 2018.

The Court has directed that the parties shall file and exchange written submission on or before 28 September 2018 and thereafter, to file and serve any submission in reply on or before 12th October 2018. The Court will deliver ruling on 16th November 2018.

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

#### **B10 Dividend payable**

No dividend was announced for the current financial period.

#### **B11 Earnings per share**

		<u>Current quarter ended</u>	<u>Preceding quarter ended</u>	<u>Cumulative year to date</u>	<u>Cumulative preceding</u>
		<u>30 June 2018</u>	<u>30 June 2017</u>	<u>30 June 2018</u>	<u>year to date</u>
			(Restated)		<u>30 June 2017</u>
					(Restated)
Net profit/(loss) for the period	RM	(10,704,118)	762,210	(18,537,206)	(3,123,720)
Basic weighted average number of shares		173,219,928	179,936,159	173,221,286	179,936,276
Basic earnings per share	Sen	(5.95)	0.46	(10.19)	(1.88)
Diluted earnings per share	Sen	n/a	n.a.	n/a	n.a.



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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 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: -

	<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>

As at 30 June 2018, HLPB has planted 6,168 ha of the Land with oil palm trees, of which 3,781 ha are considered matured. Crop production for the year to date was 27,970 m/t of FFB (2017: 27,457 m/t).

The development expenditure and other assets and liabilities incurred up to 30 June 2018 were as follows:

	<u>30 June 2018</u>	<u>31 December 2017</u>
	RM'000	RM'000
Plantation development expenditure	75,026	73,300
Property, plant and equipment	9,564	8,157
Inventory and other assets	<u>994</u>	<u>870</u>
Total cost	<u>85,584</u>	<u>82,327</u>

##### Material Litigations:

On 30 September 2016, the Board of Directors of Harn Len Corporation Bhd announced that Harn Len Pelita Bengunan Sdn. Bhd, a subsidiary company of Harn Len Corporation Bhd has been served with a Writ and Statement of Claim both dated 7 September 2016 by the High Court of Sabah and Sarawak at Sri Aman as the first Defendant by the Plaintiffs namely Ismawi Ak Isa (WNKP. 541128-13-5521), Kruka AK Sampar (WNKP. 650930-13-5257), Mambang Ak Sebai (WNKP. 520915-13-5579) and Tindi AK Engkapan (WNKP. 510604-13-5281) [Representing on behalf of themselves and 32 other proprietors,

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occupiers, holders and claimants of Native Customary Rights (NCR) Land situated at Kampung Bait Ulu, Sri Aman, Simanggang, Sarawak] for trespassing upon the Plaintiffs’ said NCR land.

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 15<sup>th</sup> to 19<sup>th</sup> January 2018 and 1<sup>st</sup> and 2<sup>nd</sup> 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 9<sup>th</sup>, 10<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup> and 20<sup>th</sup> April 2018.

The trial on 9<sup>th</sup> and 10<sup>th</sup> April 2018 have been vacated by the court. Trial for the above continued on 17<sup>th</sup>, 18<sup>th</sup> and 20<sup>th</sup> April 2018 with the calling of Tr. Manggal Anak Jalang as the 1<sup>st</sup> defendant witness on 17<sup>th</sup> April 2018. As Tr. Manggal Anak Jalang was not feeling well on 18<sup>th</sup> April 2018 for his further cross examination, the Defendant counsel proceed to call Ipang Anak Banau as the Defendant 2<sup>nd</sup> witness and for Tr. Mangal Anak Jalang to be recalled for further cross examination and re-examination. Ipang Anak Banau was cross examined and his cross-examination was concluded on 20<sup>th</sup> April 2018.

The case is further rescheduled for re-examination of Ipang Anak Banau, cross-examination and re-examination of Tr. Manggal Anak Jalang and further calling of the Defendant witness for the trial on 14<sup>th</sup> to 17<sup>th</sup> May, 2018 and 11<sup>th</sup> to 14<sup>th</sup> June 2018 at 9:00am each day.

The case was called up for mention by Court upon short notice on 27 June 2018 and the continuation of the trial has been fixed by the Court on 9 to 10 August 2018 and 20 to 23 August 2018 at 9:30am each day.

The trial of the above case has continued on 9<sup>th</sup>, 10<sup>th</sup>, 20<sup>th</sup> and 21<sup>st</sup> of August 2018 with the calling of all witnesses and with the close of Defendant defence on 21<sup>st</sup> August 2018.

The Court has directed that the parties shall file and exchange written submission on or before 28 September 2018 and thereafter, to file and serve any submission in reply on or before 12<sup>th</sup> October 2018. The Court will deliver ruling on 16<sup>th</sup> November 2018.

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 Bungalow 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

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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.