

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

EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2019.

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 report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018.

A2 Significant Accounting Policies

The accounting policies, presentation and methods of computation adopted for the unaudited condensed interim financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2018 except for the adoption of new MFRSs, amendments to published standards and IC Interpretations for the Group for the financial year beginning 1 January 2019:

MFRS 16	Leases
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS128	Long-term Interest in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to MFRSs	Annual Improvements to MFRSs 2015-2017 Cycle

The adoption of the above MFRSs, amendments to published standards and IC Interpretations do not have any material impact on the unaudited condensed interim financial statements of the Group except for the following:

Adoption of MFRS 16: Leases

MFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. MFRS 16 supersede the MFRS 117 *Lease* and the related IC Int. The Group has adopted MFRS 16 retrospectively from 1 January 2019 using the simplified transition approach and has not restated comparatives for the 2018 reporting period as permitted under the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance of the financial position as at 1 January 2019.

The Group make use of the practical expedient available on transition to MFRS 16 not to reassess whether a contract is or contain a lease. Accordingly, the definition of a lease in accordance with MFRS 117 and IC Interpretation continue to apply to those leases entered or modified before 1 January 2019.

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The change in definition of a lease mainly relates to the concept of control. MFRS16 distinguishes between leases and service contracts on the basis of whether the use of an identified assets is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified assets; and
- The right to direct the use of that asset.

The impact of the adoption of MFRS16 on operating lease and finance lease are as follows:

Operating leases

In applying MFRS 16, the Group

- Recognize right-of-use assets and lease liabilities in the statement of financial position, initial measured at the present value of the future lease payments;
- Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- Separate the total amount of cash paid into principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows

Lease incentive (eg. Rent-free period) is recognized as part of the measurement of the right-of-use assets and lease liabilities. Right-of-use is tested for impairment in accordance with MFRS 136 *Impairment of Assets* which replace the previous requirement to recognize a provision for onerous lease contracts.

For short term lease (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furnitures), the Group opt to recognize a lease expense on straight line basis as permitted by MFRS 16.

Finance leases

The Group recognize the carrying amount of the lease assets immediately before transition as the carrying amount of the right-of-use assets on the date of initial application. Equipment previously included in property plant and equipment and leasehold land use right are presented as right-of-use and the lease liability, previously presented within borrowing and amount owing to affiliated companies, is presented in a separate line for lease liabilities. The measurement principles of MFRS 16 are then applied after that date.

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

	As at 31 Dec 2018 RM	Effects of adoption of MFRS 16 RM	As at 1 Jan 2019 RM
Group			
Non-current assets			
Property, plant and equipment	441,248,978	(24,636,943)	416,612,035
Right-of-use assets	-	56,235,694	56,235,694
Prepaid lease payment	14,687,295	(14,687,295)	-
Non-current liabilities			
Loans and borrowings	82,794,004	(22,680,148)	60,113,856
Lease liabilities	-	38,955,321	38,955,321
Current liabilities			
Loans and borrowings	56,619,350	(1,431,535)	55,187,815
Lease liabilities	-	16,020,748	16,020,748
Amount owing to affiliated companies	16,789,051	(13,952,930)	2,836,121

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

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities in the current financial period. As at 31 March 2019, the number of treasury shares held remained at 12,257,300.

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, palm oil mill, sales and purchases of FFB, sales and trading of crude palm oil (“CPO”) and palm kernel (“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 31 March 2019

	<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	24,635,640	1,130,221	-	25,765,861
Inter-segment revenue	4,434,367	-	(4,434,367)	-
Total revenue	29,070,007	1,130,221	(4,434,367)	25,765,861
Segment results	(2,002,096)	(697,598)	-	(2,699,694)
Unallocated expenses				(3,815,244)
(Loss) from operation				(6,514,938)

Assets				
Reported segment assets	428,402,994	128,745,400	-	557,148,394
Corporate assets				5,419,421
Consolidated total assets				562,567,815
Liabilities				
Segment liabilities	249,493,151	30,818,560	-	280,311,711
Corporate liabilities				6,880,694
Total consolidated liabilities				287,192,405

Period ended 31 March 2018

	<u>Plantations</u>	<u>Property</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>(Restated)</u> <u>RM</u>
External revenue	44,545,154	1,985,027	-	46,530,181
Inter-segment revenue	9,338,578	-	(9,338,578)	-
Total revenue	53,883,732	1,985,027	(9,338,578)	46,530,181
Segment results	(2,678,143)	(1,105,919)	-	(3,784,062)
Unallocated expenses				(3,636,467)
Profit from operation				(7,420,529)

Assets				
Reported segment assets	386,820,923	114,320,085	-	501,141,008
Corporate assets				36,926,666
Consolidated total assets				538,067,674
Liabilities				
Segment liabilities	188,166,426	13,571,073	-	201,737,499
Corporate liabilities				37,096,899
Total consolidated liabilities				238,834,398

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

- i) 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 and it was completed on 31 January 2019.
- ii) On 28 February 2019, the Company ceased its loss-making hotel operations and is negotiating with third party to lease out the hotel building.
- iii) On 29 April 2019, the Company entered into a Sales and Purchase Agreement with Far East Holdings Berhad to dispose of part of the estate located in the state of Pahang, Malaysia together with an oil mill for a total consideration of approximately RM183,000,000. As at the date of this report, the disposal has yet to be completed.

A10 Changes in the composition of the Group

There were no material 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.

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	9,048
Approved but not contracted for in the financial statements	36,394

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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 31 March	
			2019	2018
			<u>RM'000</u>	<u>RM'000</u>
Seri Cemerlang Plantation (Pahang) Sdn Bhd	Affiliated company	Rental of motor equipment	-	9
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Provision of management services	6	6
LNH Enterprise Sdn Bhd	Affiliated company	Provision of management services	9	9
Kanghui Travel Sdn Bhd	Affiliated company	Purchases of air tickets/insurance.	24	95
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	10	10
Horn Len (Merakai) Sdn Bhd	Affiliated company	Purchase of FFB	-	240
Horn Len (Semada) Sdn Bhd	Affiliated company	Purchase of FFB	-	106
Horn Len (Jerok) Sdn Bhd	Affiliated company	Purchase of FFB	-	87
Horn Len (Kragan) Sdn Bhd	Affiliated company	Purchase of FFB	-	65
Horn Len (Merakai) Sdn Bhd	Affiliated company	Sales of seedlings	-	63
Advance Pinnacle Sdn Bhd	Affiliated company	Share of loss/(profit) - estate and plantation management	6	118
Horn Len (Merakai) Sdn Bhd	Affiliated company	Share of loss/(profit) - estate and plantation management	(50)	-
Horn Len (Semada) Sdn Bhd	Affiliated company	Share of loss/(profit) - estate and plantation management	(15)	-
Horn Len (Jerok) Sdn Bhd	Affiliated company	Share of loss/(profit) - estate and plantation management	26	-
Horn Len (Kragan) Sdn Bhd	Affiliated company	Share of loss/(profit) - estate and plantation management	(20)	-

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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 3 months ended 31 March 2019, the Group generated total revenue of RM25,765,861 (2017: RM46,530,181). The plantation operations contributed RM24,635,640 or 96%, (2017: RM44,545,154 or 96%). The property divisions contributed RM1,130,221 or 4%, (2017: RM1,985,027 or 4%). The operating loss was primarily due to lower CPO and PK price coupled with lower sales volume of CPO and PK during the period.

Plantation operations

The following are the production and sales for the period ended 31 March 2019:

	31-Mar-19	31-Mar-18
	<u>MT</u>	<u>MT</u>
FFB produced	37,040	34,725
FFB processed	51,231	71,043
CPO produced	11,473	14,173
PK produced	2,258	3,217
CPO sold	11,410	15,695
PK sold	2,374	3,054

The average selling price of CPO was RM1,889 per m/t (2017: RM2,390 per m/t), FFB was RM323 per m/t (2017: RM436 per m/t) and for PK, it was RM1,207 per m/t (2017: RM 2,236 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 Malaysia zone for business and leisure purpose.

The Company has ceased its loss-making hotel operations on 28 February 2019 and is currently negotiating with third party to lease out the hotel building.

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B2 Comparison of results against preceding quarter

	Quarter to 31-Mar-2019 RM	Quarter to 31-Dec-2018 RM	% change
Revenue	25,765,861	51,837,953	-50%
Profit (loss) from operating activities	(6,514,938)	2,925,962	-323%

	Quarter to 31-Mar-2019 MT	Quarter to 31-Dec-2018 MT	% change
FFB processed	51,231	94,099	-46%
CPO produced	11,473	19,935	-42%
PK produced	2,258	4,194	-46%
CPO sold (m/t)	11,410	20,433	-44%
PK sold (m/t)	2,374	4,579	-48%

<i>Average selling price:</i>	RM/mt	RM/mt	
CPO	1,889	2,129	-11%
PK	1,207	1,418	-15%

The revenue generated in the current quarter was 50% lower than revenue achieved in the preceding quarter mainly due to lower production and sales volume of FFB, CPO and PK coupled with lower commodity price which resulted in loss from operation. 51,231 m/t of FFB was processed compared to 94,099 m/t for the preceding quarter. 11,473 m/t of CPO and 2,258 m/t of PK were produced, compared to 19,935 m/t of CPO and 4,194 m/t of PK respectively in the preceding quarter. A total of 11,410 m/t of CPO were sold at an average selling price of RM1,889 per m/t compared to 20,433 m/t at RM 2,129 per m/t. A total of 2,374 m/t of PK were sold at an average selling price of RM1,207 per m/t compared to 4,579 m/t at RM1,418 per m/t.

B3 Current year prospects

CPO price is currently trading at around RM1,900 per m/t. It is expected to hold with marginal increase moving to Q3 2019 should the inventory level reduce further. CPO price is forecasted to an average between RM2,100 to RM2,200 per m/t for 2019. Weaker global demand coupled with uncertainties on the outcome of US-China trade war resulted in greater challenge to the Group performance.

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.

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The property operations, especially the hotel division, continue to face difficult times. The Company has ceased its loss-making hotel operations on 28 February 2019 and is currently negotiating with third party to lease out the hotel building. Efforts are continuing in disposing off non-core assets to interested parties.

B4 Profit forecast

The Group did not issue any profit forecast for the year ending 31 December 2019.

B5 Taxation

The taxation for the current financial period is as follows:

	<u>Current quarter ended</u> 31 Mar 2019	<u>Preceding quarter ended</u> 31 Mar 2018	<u>Current year to date ended</u> 31 Mar 2019	<u>Preceding year to date ended</u> 31 Mar 2018
<u>Income tax</u>				
Current year	(39,662)	(134,327)	(39,662)	(134,327)
<u>Deferred tax</u>				
Current year	283,000	1,407,400	283,000	1,407,400
Real Property Gain Tax ("RPGT")	(119,017)	-	(119,017)	-
Total	<u>124,321</u>	<u>1,273,073</u>	<u>124,321</u>	<u>1,273,073</u>

B6 Notes to the Statement of Comprehensive Income

	<u>Current quarter ended</u> 31 Mar 2019	<u>Preceding quarter ended</u> 31 Mar 2018	<u>Current year to date ended</u> 31 Mar 2019	<u>Preceding year to date ended</u> 31 Mar 2018
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Depreciation & amortization	(5,775)	(5,634)	(5,775)	(5,634)
Interest expense	(2,815)	(1,688)	(2,815)	(1,688)
Audit fees	(48)	(47)	(48)	(47)
Interest received	3	2	3	2

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B7 Status of Corporate proposals

On 29 April 2019, the Company entered into a Sales and Purchase Agreement with Far East Holdings Berhad to dispose of part of the estate located in the state of Pahang, Malaysia together with an oil mill for a total consideration of approximately RM183,000,000.

As at the date of this report, the disposal has yet to be completed.

B8 Group borrowings

The borrowings by the Group as at 31 March 2019 are as follows:

	<u>As at 31 Mar 2019</u>	<u>As at 31 Dec 2018</u>
Term loans payable:	RM	RM
Within 12 months	9,098,222	9,501,952
More than 12 months	52,975,114	60,113,856
Total	<u>62,073,336</u>	<u>69,615,808</u>
Bank overdrafts	44,882,152	45,685,863
Total	<u>106,955,488</u>	<u>115,301,671</u>
Lease liabilities:		
Within 12 months	16,394,642	1,431,535
More than 12 months	38,967,666	22,680,148
Total	<u>55,362,308</u>	<u>24,111,683</u>
Total borrowings	<u>162,317,796</u>	<u>139,413,354</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 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.

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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. 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 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.

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 and subsequently rescheduled to 25 June 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 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, 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.

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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 1st 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.

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.

The case was further rescheduled for ruling no 29 November 2018 and subsequently rescheduled further to 10 December 2018.

On 10 December 2018, the Plaintiff's claim for the above action against the Defendant have been dismissed by the Court with cost of RM15,000. The Plaintiff have the right of Appeal by filing notice of appeal within one month from the date of the ruling. The Defendant Counsel is proceeding to seal the Judgement of the Court by the said ruling.

On 14 January 2019, the Plaintiff have lodged an appeal to the Court of Appeal against the decision of the High Court which was delivered on 10 December 2018.

The Plaintiff have failed to file and serve the Record of Appeal with the Memorandum of Appeal within the deadline. However, the Plaintiff have filed an application to the Court of Appeal for extension of time to file and serve their Record of Appeal by way of a Notice of Motion which was dated 26 February 2019. The said motion of Plaintiffs is scheduled to be heard by the Court of Appeal in Kuching on 24 April 2019.

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

B10 Dividend payable

No dividend was announced for the current financial period.

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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>31 Mar 2019</u>	<u>31 Mar 2018</u>	<u>31 Mar 2019</u>	<u>year to date</u>
					<u>31 Mar 2018</u>
Net profit (loss) for the period	RM	(8,645,694)	(7,341,390)	(8,645,694)	(7,341,390)
Basic weighted average number of shares		173,219,859	173,222,666	173,219,859	173,222,666
Basic earnings per share	Sen	(4.99)	(4.24)	(4.99)	(4.24)
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 31 December 2018, HLPB has planted 6,324 ha of the Land with oil palm trees, of which 3,781 ha are considered matured. Crop production for the year to date was 9,213 m/t of FFB (2017: 13,185 m/t).

The development expenditure and other assets and liabilities as at 31 March 2019 were as follows:

	<u>31 March 2019</u>	<u>31 December 2018</u>
	RM'000	RM'000
Plantation development expenditure	79,420	79,628
Property, plant and equipment	12,890	13,272
Inventory and other assets	<u>932</u>	<u>902</u>
Total cost	<u>93,242</u>	<u>93,802</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 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.

The trial on 9th and 10th April 2018 have been vacated by the court. Trial for the above continued on 17th, 18th and 20th April 2018 with the calling of Tr. Manggal Anak Jalang as the 1st defendant witness on 17th April 2018. As Tr. Manggal Anak Jalang was not feeling well on 18th April 2018 for his further cross examination, the Defendant counsel proceed to call Ipang Anak Banau as the Defendant 2nd 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 20th 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 14th to 17th May, 2018 and 11th to 14th 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.

The case was further rescheduled for ruling no 29 November 2018 and subsequently rescheduled further to 10 December 2018.

On 10 December 2018, the Plaintiff’s claim for the above action against the Defendant have been dismissed by the Court with cost of RM15,000. The Plaintiff have the right of Appeal by filing notice of appeal within one month from the date of the ruling. The Defendant Counsel is proceeding to seal the Judgement of the Court by the said ruling.

On 14 January 2019, the Plaintiff have lodged an appeal to the Court of Appeal against the decision of the High Court which was delivered on 10 December 2018.

The Plaintiff have failed to file and serve the Record of Appeal with the Memorandum of Appeal within the deadline. However, the Plaintiff have filed an application to the Court of Appeal for extension of time

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to file and serve their Record of Appeal by way of a Notice of Motion which was dated 26 February 2019. The said motion of Plaintiffs is scheduled to be heard by the Court of Appeal in Kuching on 24 April 2019.

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 1,136 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 RM480 per ha shall be paid to the NCR Owners when their lots have been and certified.