

# 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 2020.

### 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 2019.

#### 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 2019 except for the adoption of new MFRSs, amendments to published standards and IC Interpretations for the Group for the financial year beginning 1 January 2020:

Amendments to MFRS 3	Definition of Business
Amendments to MFRS 101 & MFRS 108	Definition of Material
Amendments to MFRS 9, MFRS 139 & MFRS 7	Financial Instruments

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.

#### 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 other segment 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.

## **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 2020.**

#### **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.

#### **A6 Debt and equity securities**

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities in the current financial period except for the followings:

i) Treasury shares

During the period, a total of 4,633,000 treasury shares were transferred to eligible employees and directors under the Employee Share Grant Scheme for RM4,220,123 and the loss had been recorded in the retained earnings account of the Company.

As at 31 March 2020, the number of treasury shares held was 7,624,300.

ii) Warrants

On 25 September 2019, the Company has completed the listing and quotation for 51,965,924 warrants on the Main Market of Bursa Securities. The outstanding unexercised number of warrants as at 31 March 2020 was 51,965,924.

iii) Employee Share Scheme (ESS)

The shareholders of the Company had granted their approval to the Employees' Share Scheme (“ESS”) via its EGM held on August 13, 2019. The ESS will be awarded to eligible directors and employees of the Group for their contribution towards the Group.

On January 15, 2020, the Company announced that it has offered 4,943,000 options over new shares with exercise price of RM0.60 each expiring 14 January 2025 and 4,633,000 Share Grant to Employees and Directors of the Company and its subsidiaries under its ESS.

The fair value of the options at grant date under the ESS is RM0.07.

#### **A7 Dividend paid**

There was no dividend paid in the current financial period.

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**EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.**

**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 and others : Property investment and others

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 March 2020**

	<u>Plantations</u>	<u>Property &amp; Others</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
External revenue	26,821,422	878,324	-	27,699,746
Inter-segment revenue	4,242,278	225,000	(4,467,278)	-
Total revenue	31,063,700	1,103,324	(4,467,278)	27,699,746
Segment results	(2,557,122)	(1,031,216)	-	(3,588,338)
Unallocated expenses				(2,788,334)
(Loss) from operation				(6,376,672)

<b><u>Assets</u></b>				
Reported segment assets	389,922,118	110,631,281	-	500,553,399
Corporate assets				6,082,210
Consolidated total assets				506,635,609
<b><u>Liabilities</u></b>				
Segment liabilities	251,611,209	27,380,473	-	278,991,682
Corporate liabilities				9,060,212
Total consolidated liabilities				288,051,894

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## EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.

### Period ended 31 March 2019

	<u>Plantations</u>	<u>Property &amp; Others</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)

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

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

On January 15, 2020, the Company announced that it has offered 4,943,000 options over new shares with exercise price of RM0.60 each expiring 14 January 2025 and 4,633,000 Share Grant to Employees and Directors of the Company and its subsidiaries under its ESS.

On June 5, 2020, the Company announced on the proposal to undertake a Private Placement (“Proposed Private Placement”) of up to 7,000,000 shares representing approximately 4% of the total number of issued shares of the Company (excluding treasury shares) to fund its working capital requirement. The additional listing application in relation to the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad (“Bursa Securities”) for approval on June 11, 2020 and the approval was obtained on June 18, 2020.

### 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.

# 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 2020.

### 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	214
Approved but not contracted for	10,005

### 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	
			2020	2019
			<u>RM'000</u>	<u>RM'000</u>
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.	5	24
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	10	10
Advance Pinnacle Sdn Bhd	Affiliated company	Share of profit/(loss) - estate and plantation management	3	6
Horn Lern (Merakai) Sdn Bhd	Affiliated company	Share of profit/(loss) - estate and plantation management	115	(50)
Horn Lern (Semada) Sdn Bhd	Affiliated company	Share of profit/(loss) - estate and plantation management	35	(15)
Horn Lern (Jerok) Sdn Bhd	Affiliated company	Share of profit/(loss) - estate and plantation management	51	26
Horn Lern (Kragan) Sdn Bhd	Affiliated company	Share of profit/(loss) - estate and plantation management	48	(20)

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## EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.

### 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 2020, the Group generated total revenue of RM27,699,746 (2019: RM25,765,861). The plantation operations contributed RM26,821,422 or 97%, (2019: RM24,635,640 or 96%). The property & other operations contributed RM878,324 or 3%, (2019: RM1,130,221 or 4%). The operating loss was primarily due to lower CPO and PK sales volume as well as low occupancy rate of an investment property during the period.

#### Plantation operations

The following are the production and sales for the period ended 31 March 2020:

	31-Mar-20	31-Mar-19
	<u>MT</u>	<u>MT</u>
FFB produced	24,472	37,040
FFB processed	37,109	51,231
CPO produced	7,926	11,473
PK produced	1,697	2,258
CPO sold	8,274	11,410
PK sold	1,698	2,374

The average selling price of CPO was RM2,690 per m/t (2019: RM1,889 per m/t), FFB was RM474 per m/t (2019: RM323 per m/t) and for PK, it was RM1,566 per m/t (2019: RM1,207 per m/t).

#### Property and other operations

The property and other operations comprise of property investment and food & beverage business which rental income derived from investment properties being the main source of income. The operating loss during the period was mainly due to low occupancy rate of a commercial building comprise of offices, hotel, and shops.

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### B2 Comparison of results against preceding quarter

	Quarter to 31-Mar-2020 RM	Quarter to 31-Dec-2019 RM	% change
Revenue	27,699,746	43,059,025	-36%
Profit (loss) from operating activities	(6,376,672)	(1,496,418)	326%

	Quarter to 31-Mar-2020 MT	Quarter to 31-Dec-2019 MT	% change
FFB processed	37,109	69,403	-47%
CPO produced	7,926	14,750	-46%
PK produced	1,697	2,897	-41%
CPO sold (m/t)	8,274	15,189	-46%
PK sold (m/t)	1,698	3,280	-48%
<i>Average selling price:</i>	RM/mt	RM/mt	
CPO	2,690	2,248	20%
PK	1,566	1,177	33%

The revenue generated in the current quarter was 36% lower than revenue achieved in the preceding quarter mainly due to lower production and sales volume of FFB, CPO and PK despite improvement in average selling price. Loss from operations was mainly due to lower production and sales volume to breakeven despite significant improvement in average selling price of CPO and PK.

### B3 Current year prospects

The Coronavirus Disease 2019 (“COVID-19”) pandemic has impacted the global economy as well as the local market, where the Group and the Company operate. The travel and business restrictions in many countries have resulted in economy uncertainties and also disruption to the global supply chain. In Malaysia, government has imposed Movement Control Order (“MCO”) effective from March 18, 2020 to May 12, 2020, followed by Conditional Movement Control Order (“CMCO”) from May 13, 2020 until June 9, 2020 and Recovery Movement Control Order (“RMCO”) from 10 June, 2020 to 31 August, 2020. The Company core business continues to operate with limited operation during MCO period and has resumed normal operation moving into CMCO period. Disruption of operation during MCO and CMCO period have impacted the level of revenue and profitability of the Group. The Group is actively monitoring the COVID-19 situation as it is still evolving and operations are adjusted from time to time in minimising unfavourable business impact.

CPO price is currently hovering between RM2,300 to RM2,400 per m/t. It is expected to hold moving into Q3 2020 with the possible support from weak ringgit versus US dollar and

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replenishment of stock post COVID-19. CPO price is forecasted to an average between RM2,300 to RM2,400 per m/t for year 2020. The Group strongly believe that year 2020 CPO price will be above 2019 average of RM2,119 per m/t.

### B4 Profit forecast

The Group did not issue any profit forecast for the year ending 31 December 2020.

### B5 Taxation

The taxation for the current financial period is as follows:

	<u>Current quarter ended</u> 31 Mar 2020	<u>Preceding quarter ended</u> 31 Mar 2019	<u>Current year to date ended</u> 31 Mar 2020	<u>Preceding year to date ended</u> 31 Mar 2019
<b><u>Income tax</u></b>				
Current year	(1,072,344)	(39,622)	(1,072,344)	(39,622)
<b><u>Deferred tax</u></b>				
Current year	399,000	283,000	399,000	283,000
<b>Real Property Gain Tax ("RPGT")</b>	-	(119,017)	-	(119,017)
<b>Total</b>	<u>(673,344)</u>	<u>124,361</u>	<u>(673,344)</u>	<u>124,361</u>

### B6 Notes to the Statement of Comprehensive Income

		<u>Current quarter ended</u> 31 Mar 2020	<u>Preceding quarter ended</u> 31 Mar 2019	<u>Cumulative year to date</u> 31 Mar 2020	<u>Cumulative preceding</u> <u>year to date</u> 31 Mar 2019
Net profit (loss) for the period	RM	(8,663,030)	(8,645,694)	(8,663,030)	(8,645,694)
Basic weighted average number of shares		173,219,859	173,219,859	173,219,859	173,219,859
Basic earnings per share	Sen	(5.00)	(4.99)	(5.00)	(4.99)
Diluted earnings per share	Sen	n/a	n.a.	n/a	n.a.



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## EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.

### 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. The proposed disposal had been approved by shareholders on 13 August 2019.

On 29 January 2020, the Company and Far East Holdings Berhad had agreed to extend the conditional period to fulfil the Conditions Precedent from 29 January 2020 to 29 April 2020 in relation to the proposed disposal. The conditional period was further extended to 28 June, 2020 on 20 April 2020 due to MCO lock down.

On May 27, 2020, the Company announced on Bursa Malaysia that the Conditions Precedent pursuant to the SPA has been fulfilled and the Unconditional Date has been set at May 22, 2020. As at the date of the report, the balance of the purchase consideration is yet to be fully paid by Far East Holdings Berhad to the Company.

On June 5, 2020, the Company announced on the proposal to undertake a Private Placement (“Proposed Private Placement”) of up to 7,000,000 shares representing approximately 4% of the total number of issued shares of the Company (excluding treasury shares) to fund its working capital requirement. The additional listing application in relation to the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad (“Bursa Securities”) for approval on June 11, 2020 and the approval was obtained on June 18, 2020.

### B8 Group borrowings

The borrowings by the Group as at 31 March 2020 are as follows:

	<u>As at 31 Mar 2019</u>	<u>As at 31 Dec 2019</u>
Term loans payable:	RM	RM
Within 12 months	45,566,955	47,046,452
More than 12 months	<u>8,140,160</u>	<u>8,332,744</u>
Total	53,707,115	55,379,196
Bank overdrafts	28,466,709	40,543,128
Total	<u>82,173,824</u>	<u>95,922,324</u>
Lease liabilities:		
Within 12 months	745,198	762,144
More than 12 months	<u>22,216,257</u>	<u>22,322,184</u>
Total	<u>22,961,455</u>	<u>23,084,328</u>
Total borrowings	<u>105,135,279</u>	<u>119,006,652</u>

## **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 2020.**

#### **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.

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 and subsequently rescheduled to 25 June 2019.

On 25 June 2019, the above case was further rescheduled to 22 October 2019 due to the Advocate of the 1<sup>st</sup> Respondent failed to attend the hearing of the appeal.

On 22 October 2019, the Court of Appeal has unanimously dismissed the Appellants’ appeal.

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

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### **EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.**

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.

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

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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. The Plaintiffs 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 has been allowed by the Court of Appeal. The Plaintiff has been given until 23 May 2019 to file and serve their Record of Appeal. Further thereon, the Plaintiffs have filed and serve their Record of Appeal dated 23 May 2019 by way of service to the Defendant’s Solicitors. The hearing of the appeal was scheduled on 30 August 2019 and subsequently on 20 February 2020 by the Court of Appeal. The hearing fixed on 20 February 2020 had been vacated and rescheduled to 17 July 2020 and subsequently rescheduled further to 5 August 2020.

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>year to date</u>
		<u>31 Mar 2020</u>	<u>31 Mar 2019</u>	<u>31 Mar 2020</u>	<u>31 Mar 2019</u>
Net profit (loss) for the period	RM	(8,663,030)	(8,645,694)	(8,663,030)	(8,645,694)
Basic weighted average number of shares		177,140,090	173,219,859	177,140,090	173,219,859
Basic earnings per share	Sen	(5.00)	(4.99)	(5.00)	(4.99)
Diluted earnings per share	Sen	n/a	n.a.	n/a	n.a.

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## EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.

### 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 March 2020, HLPB has planted 6,224 ha of the Land with oil palm trees, of which 6,194 ha are considered matured. Crop production for the year to date was 6,728 m/t of FFB (2019: 9,213 m/t).

The development expenditure and other assets and liabilities as at 31 March 2020 were as follows:

	<u>31 Mar 2020</u>	<u>31 Dec 2019</u>
	RM'000	RM'000
Plantation development expenditure	77,314	78,085
Property, plant and equipment	9,396	11,816
Inventory and other assets	<u>1,063</u>	<u>1,065</u>
Total cost	<u>87,773</u>	<u>90,966</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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### **EXPLANATORY NOTES TO THE FIRST QUARTER INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2020.**

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 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. The Plaintiffs 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 has been allowed by the Court of Appeal. The Plaintiff has been given until 23 May 2019 to file and serve their Record of Appeal. Further thereon, the Plaintiffs have filed and serve their Record of Appeal dated 23 May 2019 by way of service to the Defendant’s Solicitors. The hearing of the appeal was scheduled on 30 August 2019 and subsequently on 20 February 2020 by the Court of Appeal. The hearing fixed on 20 February 2020 had been vacated and rescheduled to 17 July 2020 and subsequently rescheduled further to 5 August 2020.

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.