

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 2022.

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 2021.

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 2021 except for the adoption of new MFRSs, amendments to published standards and IC Interpretations for the Group for the financial year beginning 1 January 2022:

(a) Effective for financial period beginning on or after 1 January 2022

- Amendments to MFRS 3 Business Combinations - *Reference to the Conceptual Framework*
- Amendments to MFRS 116 Property, Plant and Equipment - *Proceeds before Intended Use*
- Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets - *Onerous Contract-Cost of Fulfilling a Contract*
- Annual Improvements to MFRS Standards 2018-2020

(b) Effective for financial period beginning on or after 1 January 2023

- MFRS 17 Insurance Contracts*
- Amendments to MFRS 4 Insurance Contracts – *Extension of the Temporary Exemption from Applying MFRS 9**
- Amendments to MFRS 17 Insurance Contracts*
- Amendments to MFRS 17 – Initial Application of MFRS 17 and MFRS 9 – Comparative Information*
- Amendments to MFRS 101 Presentation of Financial Statements - *Classification of Liabilities as Current or Non-Current*
- Amendments to MFRS 101 Presentation of Financial Statements – *Disclosure of Accounting Policies*
- Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors - *Definition of Accounting Estimates*
- Amendments to MFRS 112 Income Taxes – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

(c) Deferred to a date to be determined by the MASB

- Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

*Not applicable to the Group’s operations

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A2 Significant Accounting Policies (cont’d)

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.

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

As at 31 March 2022, the number of treasury shares held was 7,704,800 and outstanding unexercised number of warrants was 36,457,555.

A7 Dividend paid

There were no dividend paid in the current financial period.

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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 dividend, interest income and expenses on corporate investment, directors’ remuneration as well as corporate assets and liabilities.

Segment information

Period ended 31 March 2022

	<u>Plantations</u>	<u>Property & Others</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
External revenue	37,318,134	808,418	-	38,126,552
Inter-segment revenue	5,620,015	235,787	(5,855,802)	-
Total revenue	42,938,149	1,044,205	(5,855,802)	38,126,552
Segment results	961,326	(1,428,489)	-	(467,163)
Unallocated expenses				(901,469)
Loss before tax				(1,368,632)

<u>Assets</u>				
Reported segment assets	314,542,349	109,965,804	-	424,508,153
Corporate assets				8,705,142
Consolidated total assets				433,213,295
<u>Liabilities</u>				
Segment liabilities	106,154,003	20,039,092	-	126,193,095
Corporate liabilities				9,696,570
Total consolidated liabilities				135,889,665

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Period ended 31 March 2021

	<u>Plantations</u>	<u>Property & Others</u>	<u>Eliminations</u>	<u>Consolidation</u>
	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
External revenue	34,713,567	772,599	-	35,486,166
Inter-segment revenue	4,483,185	247,218	(4,730,403)	-
Total revenue	39,196,752	1,019,817	(4,730,403)	35,486,166
Segment results	(3,716,492)	(1,331,043)	-	(5,047,535)
Unallocated expenses				(467,009)
Loss before tax				(5,514,544)

<u>Assets</u>				
Reported segment assets	341,416,491	109,663,074	-	451,079,565
Corporate assets				16,001,744
Consolidated total assets				467,081,309
<u>Liabilities</u>				
Segment liabilities	129,064,699	24,007,575	-	153,072,274
Corporate liabilities				7,660,356
Total consolidated liabilities				160,732,630

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

There were no material events subsequent to the end of the current financial period that have not been reflected in the financial statements of the current financial period.

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:

	<u>(RM'000)</u>
Contracted but not provided for	1,735
Approved but not contracted for	3,303

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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	
			2022	2021
			<u>RM'000</u>	<u>RM'000</u>
Low Nam Hui and Sons Sdn Bhd	Affiliated company	Provision of management services	-	6
LNH Enterprise Sdn Bhd	Affiliated company	Provision of management services	-	9
Kanghui Travel Sdn Bhd	Affiliated company	Rental income	-	7
Advance Pinnacle Sdn Bhd	Affiliated company	Variable lease payment	73	(15)
Horn Lern (Merakai) Sdn Bhd	Affiliated company	Variable lease payment	161	114
Horn Lern (Semada) Sdn Bhd	Affiliated company	Variable lease payment	132	58
Horn Lern (Jerok) Sdn Bhd	Affiliated company	Variable lease payment	171	151
Horn Lern (Kragan) Sdn Bhd	Affiliated company	Variable lease payment	81	85

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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 2022, the Group generated total revenue of RM38,126,552 (2021: RM35,486,166). The plantation operations contributed RM37,318,134 or 98%, (2021: RM34,713,567 or 98%). The property & other operations contributed RM808,418 or 2%, (2021: RM772,599 or 2%).

The operating loss is primarily due to lower CPO and PK sales volume despite better average selling price of CPO and PK. In additions, losses incurred from property operation continue largely due to low occupancy rate of investment properties.

Plantation operations

The following are the production and sales for the period ended 31 March 2022:

	31-Mar-22	31-Mar-21
	<u>MT</u>	<u>MT</u>
FFB produced	17,023	18,066
FFB processed	24,858	38,795
CPO produced	4,906	7,644
PK produced	1,117	1,647
CPO sold	4,893	7,686
PK sold	1,093	1,666

The average selling price of CPO was RM4,939 per m/t (2021: RM3,559 per m/t), FFB was RM1,261 per m/t (2021: RM726 per m/t) and for PK, it was RM4,129 per m/t (2021: RM2,225 per m/t).

Property and other operations

The property and other operations comprise of property investment and food & beverage business with 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 comprising of offices, hotel, and shops.

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B2 Comparison of results against preceding quarter

	Quarter to 31-Mar-2022	Quarter to 31-Dec-2021	% change
	RM	RM	
Revenue	38,126,552	58,688,553	-35%
Loss from operating activities	(278,774)	(14,001,056)	98%

	Quarter to 31-Mar-2022	Quarter to 31-Dec-2021	% change
	MT	MT	
FFB processed	24,858	46,019	-46%
CPO produced	4,906	9,165	-46%
PK produced	1,117	2,044	-45%
CPO sold (m/t)	4,893	9,179	-47%
PK sold (m/t)	1,093	2,177	-50%

<i>Average selling price:</i>	RM/mt	RM/mt	
CPO	4,939	4,529	9%
PK	4,129	3,110	33%

Revenue generated in the current quarter was 35% lower than revenue in the preceding quarter mainly due to lower sales volume moving into low crop season. Loss from operations was mainly due to lower production and sales volume of CPO and PK despite better average selling price achieved.

B3 Prospects

Malaysia’s economy is set to a gradual recovery moving into 2022 with 5.75% GDP growth projected. However, the recovery is likely to be slower and dependant on the implication of the COVID-19 pandemic recovery effort.

The Group will remain cautious and continue to chart out various strategies, which include efforts to increase efficiency and cost rationalization, to counter any negative impact to its business operations.

CPO price is currently hovering between RM6,300 to RM6,700 per m/t largely due to concern on the edible oil shortage globally. In additions, the labour shortage issue which lead to crop and quality losses further support the current CPO price. CPO price is forecasted to an average selling price above RM4,500 for the year.

B4 Profit forecast

The Group did not issue any profit forecast for the year ending 31 December 2022.

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B5 Taxation

The taxation for the current financial period is as follows:

	<u>Current quarter ended</u> <u>31 Mar 2022</u>	<u>Preceding quarter ended</u> <u>31 Mar 2021</u>	<u>Current year to date ended</u> <u>31 Mar 2022</u>	<u>Preceding year to date ended</u> <u>31 Mar 2021</u>
<u>Income tax</u>				
Current year	(27,461)	7,391	(27,461)	7,391
<u>Deferred tax</u>				
Current year	469,993	287,604	469,993	287,604
Total	442,532	294,995	442,532	294,995

The Group's effective tax rate for the financial period was lower than the statutory tax rate mainly due to the utilization of tax allowance available for offset against taxable profit.

B6 Notes to the Statement of Comprehensive Income

Loss before tax has been arrived at after charging and crediting the following:

	<u>Current quarter ended</u> <u>31 Mar 2022</u> <u>RM'000</u>	<u>Preceding quarter ended</u> <u>31 Mar 2021</u> <u>RM'000</u>	<u>Current year to date ended</u> <u>31 Mar 2022</u> <u>RM'000</u>	<u>Preceding year to date ended</u> <u>31 Mar 2021</u> <u>RM'000</u>
Charges:				
Depreciation & amortization	(4,968)	(5,109)	(4,968)	(5,109)
Interest expense	(1,131)	(1,492)	(1,131)	(1,492)
Property, plant and equipment written off	(30)	(6)	(30)	(6)
Loss on fair value of biological assets	-	(930)	-	(930)
Allowance for expected credit losses	(150)	-	(150)	-
Credits:				
Interest received	41	101	41	101
Net investment income	148	488	148	488
Gain on disposal of property, plant and equipment	-	13	-	13
Gain on fair value of biological assets	485	-	485	-
Reversal of impairment loss on inventories	101	-	101	-

Other than above, there were no foreign exchange gain or loss for the current financial period.

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B7 Status of Corporate proposals

There were no corporate proposals being announced but not completed as at the date of this report.

B8 Group borrowings

The borrowings by the Group as at 31 March 2022 are as follows:

		<u>As at 31 Mar 2022</u>	<u>As at 31 Dec 2021</u>
		RM	RM
Term loans payable:			
Within 12 months	-secured	11,504,544	12,382,194
More than 12 months	-secured	<u>24,440,873</u>	<u>25,659,581</u>
Total		35,945,417	38,041,775
Bank overdrafts	-secured	18,558,529	18,896,058
Share margin financing	-secured	5,726,355	4,812,429
Total borrowings		<u>60,230,301</u>	<u>61,750,262</u>

B9 Lease liabilities

		<u>As at 31 Mar 2022</u>	<u>As at 31 Dec 2021</u>
		RM	RM
Lease liabilities:			
Within 12 months	-secured	329,721	381,210
More than 12 months	-secured	727,599	799,337
	-unsecured	17,973,222	17,715,780
Total lease liabilities		<u>19,030,542</u>	<u>18,896,327</u>

B10 Material litigations

- (a) 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.

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B10 Material litigations (cont’d)

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 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 on 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.

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B10 Material litigations (cont’d)

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.

On 5 August 2020, the hearing was rescheduled to 24 March 2021 and subsequently rescheduled further to 27 August 2021. On 2 August 2021, the hearing was further rescheduled to 27 September 2021 by way of zoom. The decision of the hearing had been fixed on 24 November 2021.

A new case management has been fixed on 14 December 2021. Pre-Trial Case Management (by way of e-review) has been fixed on 11 February 2022 and the Trial has been tentatively fixed on 23 May 2022 and 24 May 2022. However, the trial court has been vacated and a new trial date were fixed on 8 August 2022 to 11 August 2022.

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

B11 Dividends

No dividend has been proposed or declared for the current financial period.

B12 Earnings per share

		<u>Current quarter ended</u> <u>31 Mar 2022</u>	<u>Preceding quarter ended</u> <u>31 Mar 2021</u>	<u>Cumulative year to date</u> <u>31 Mar 2022</u>	<u>Cumulative preceding year to date</u> <u>31 Mar 2021</u>
Loss attributable to the owners of the company	RM	(828,983)	(4,793,748)	(828,983)	(4,793,748)
Basic weighted average number of shares		207,117,728	190,205,359	207,117,728	190,205,359
Basic loss per share	Sen	(0.40)	(2.52)	(0.40)	(2.52)
Diluted loss per share	Sen	(0.40)	(2.52)	(0.40)	(2.52)

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Additional Information required by Bursa Malaysia’s Listing Requirements Paragraph 10 Part B.

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 2022, HLPB has planted 6,130 ha of the Land with all oil palm trees matured. Crop production for the year to date was 2,903 m/t of FFB (2021: 4,732 m/t).

The development expenditure and other assets and liabilities as at 31 March 2022 were as follows:

	<u>31 Mar 2022</u>	<u>31 Dec 2021</u>
	RM'000	RM'000
Property, plant and equipment	77,284	78,491
Right-of-use assets	2,008	2,018
Inventory and other assets	<u>1,096</u>	<u>761</u>
Total cost	<u>80,388</u>	<u>81,270</u>

Material Litigations:

Refer to Part B10 of the explanatory notes.