

HARVEST COURT INDUSTRIES BERHAD
Company No. 36998-T
(Incorporated in Malaysia)

UNAUDITED FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2010

EXPLANATORY NOTES PURSUANT TO FRS 134

A1 Basis of Preparation

The interim financial statements have been prepared under the historical cost convention except for the revaluation of investment in subsidiary companies.

This set of interim financial report is unaudited and has been prepared in compliance with Financial Reporting Standards 134: Interim Financial Reporting and Paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad, and should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2009.

A2 Changes in Accounting Policies

The Group and the Company has adopted the following applicable Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board that are mandatory for the current financial period:

		<u>Effective date for financial periods beginning on or after</u>
FRS 8	Operating Segments	1 July 2009
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments: Disclosures	1 January 2010
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 2	Share-based Payment-Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 132	Financial Instruments: Presentation	1 January 2010
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13	Customer Loyalty Programmes	1 January 2010
IC Interpretation 14	FRS 119 – The Limit on a defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
	Amendments to FRS1, First-time Adoption Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements – Cost of an investment in a subsidiary, Jointly Controlled Entity or Associate	1 January 2010
	Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
	Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"	1 January 2010
Amendments to FRS 132	Financial Instruments: Presentation	1 March 2010

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(i) FRS 8 Operating Segments

This new standard replaces FRS 114²⁰⁰⁴ Segment Reporting and requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard only impacts the form and content of disclosures presented in the financial statements of the Group.

(ii) FRS 7 Financial Instruments: Disclosures

This new standard requires disclosures in financial statements that enable users to evaluate the significance of financial instruments for the entity’s financial position and performance, and the nature and extent of risks arising from financial instruments to which an entity is exposed and how these risks are managed. The standard requires both qualitative disclosures describing management’s objectives, policies and processes for managing those risks, and quantitative disclosures providing information about the extent to which an entity is exposed to risk, based on information provided internally to the entity’s key management personnel.

(ii) FRS101 Presentation of Financial Statements

FRS 101 requires the separation of owner and non-owner changes in equity. Therefore, the current consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity, if any, will presented as a single line labelled as total comprehensive income. Comparative information, with exception of the requirements under FRS139, has been re-presented in conformity with the relevant standard.

In addition, FRS 101 has introduced new title on the financial statements. Statement of Financial Position has replaced Balance Sheets, Statement of Comprehensive Income and Statement has replaced Income Statement and Statement of Cash Flows has replaced Cash Flow Statement. This Standard does not have any material impact on the financial position and results of the Group.

(iii) FRS 123 Borrowing Costs

The new standard removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. However, capitalisation of borrowing costs is not required for assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

(iv) FRS 139 Financial Instruments: Recognition and Measurement

This new standard establishes the principles for the recognition, derecognition and measurement of an entity’s financial instruments and for hedge accounting. The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not required to be disclosed by virtue of exemptions provided under paragraph 103 AB of FRS 139.

The Group and the Company has applied the transitional provisions in FRS 7 and FRS 139 which exempt entities from disclosing the possible impact arising from initial application of the respective standards on the financial statements of the Group and the Company.

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The Group and the Company have not early adopted the following amendments to FRSs which have been issued as at the date of authorisation of these financial statements and will be effective for the financial periods as stated below:

		<u>Effective date for financial periods beginning on or after</u>
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	1 July 2010
FRS 127	Consolidated & Separate Financial Statements	1 July 2010
Amendments to FRS 2	Share-based Payment	1 July 2010
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138	Intangible Assets	1 July 2010
IC Interpretation 12	Service Concession Arrangements	1 July 2010
IC Interpretation 15	Agreements for Construction of Real Estate	1 July 2010
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17	Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives	1 July 2010
Amendment to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Amendment to FRS 1	Additional Exemptions for First-time Adopters	1 January 2011
Amendment to FRS 2	Group Cash-settled Share-based Payment Transactions	1 January 2011
Amendment to FRS 7	Improving Disclosures about Financial Instruments	1 January 2011
IC Interpretation 4	Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18	Transfers of Assets from Customers	1 January 2011

A3 Audit Qualifications

The auditors' report on the financial statements for the year ended 31 December 2009 was not qualified.

A4 Seasonal or Cyclical Factors

The operations of the Group were not significantly affected by seasonal and cyclical factors.

A5 Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows because of their nature, size or incidence during the quarter under review.

A6 Material Changes in Estimates

There were no changes in estimates that have had a material effect in the current quarter results.

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A7 Debt and Equity Securities

Save as below, there were no issuance, cancellations, repurchases, resale and repayment of debt or equity securities for the period ended 30 June 2010.

On 15 December 2009, the Company had proposed to undertake the following:

- (a) proposed private placement of up to 10% of the issued and paid-up share capital of HCIB ("Proposed Private Placement"); and
- (b) proposed establishment of a new employees' share option scheme ("Proposed ESOS")

During the quarter ended 30 June 2010, a total of 4,543,126 new ordinary shares of RM0.25 each had been placed to specific investors via private placement pursuant to the mandate granted to the Company at the Thirty First Annual General Meeting held on 26 June 2009 which lapsed on 28 June 2010. Subsequent to the quarter ended 30 June 2010, a total of 4,000,000 new ordinary shares of RM0.25 each was issued and allotted.

The ESOS was approved and implemented on 23 March 2010. On 24 March 2010 a total of 5,879,000 options to subscribe for ordinary shares of RM0.25 each was offered to staff and directors of the Group. As at 30 June 2010, a total of 1,688,000 ordinary shares had been allotted to employees of the Group under the ESOS. The expiry date for the unexercised options is 23 March 2015. Subsequent to the quarter ended 30 June 2010, no ESOS has been exercised.

A8 Dividend Paid

There were no dividends paid for the current quarter.

A9 Segment Revenue and Results

The segmental analysis for the Group for the financial period ended 30 June 2010 is as follows:-

	Segment Revenue RM'000	Segment Results RM'000
Timber Product Manufacturing	3,202	(1,009)
Property Development/Construction	-	3
Investment Holding	-	(348)
	3,202	(1,354)
Consolidation adjustment	(127)	-
	3,075	(1,354)

A10 Valuation of Property, Plant and Equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements as the Group does not adopt a revaluation policy on its property, plant and equipment.

A11 Material Events Subsequent to the End of the Period

There were no material events subsequent to the end of the current quarter, save and except for those mentioned in Note B8.

A12 Changes in Composition of the Group

There have been no changes in the composition of the Group for the financial period ended 30 June 2010.

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A13 Changes in Contingent liabilities/Contingent assets

There were no material changes in contingent liabilities or assets since the last annual balance sheet date.

A14 Capital commitment

There were no capital commitments incurred by the Group to any parties as at 30 June 2010.

ADDITIONAL INFORMATION REQUIRED BY APPENDIX 9B OF THE BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1 Review of performance

The Group's revenue for the current quarterly financial period ended 30 June 2010 decreased to RM1,388,574 (Timber Product Manufacturing : RM1,388,574 and Property Development/ Construction : Nil) as compared with RM3,589,151 (Timber Product Manufacturing : RM1,824,151 and Property Development/ Construction : RM1,765,000) in the similar quarter of the previous financial period ended 30 June 2009. The decrease in timber product manufacturing revenue was mainly due to adverse market condition in Europe and America.

B2 Comparison with immediate preceding quarter

The Group generated a loss before tax of RM962,525 as compared to a loss before tax of RM391,752 for the immediate preceding quarter ended 31 March 2010. The increase of loss before tax in the current quarter under review was mainly due to increase in labour cost, certain overhead cost, administration cost and selling & distribution cost. The Group is taking steps to improve the performance and efficiency by phasing out old machines and replacing with new machines to improve production volume and efficiency.

B3 Prospects

The Group envisaged a steady growth in the markets mainly in Middle East, India and Bangladesh besides the traditional markets in Europe, Australia and America.

B4 Variance of Actual Profit from Forecast Profit

This note is not applicable.

B5 Taxation

There is no provision for taxation for the current quarter and financial year to date as the Group has no chargeable income.

B6 Profit/(Loss) on Sale of Unquoted Investments or Properties

There was no disposal of unquoted investments or properties for the current quarter and financial year to date.

B7 Purchase or Disposal of Quoted Securities

- (a) There was no purchase or disposal of quoted securities for the current quarter and financial period to date.
- (b) There was no investment in quoted securities as at the end of the financial period.

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B8 Status of Corporate Proposals

Save as below, there were no corporate proposals that have been announced but not yet completed during the period under review.

On 15 December 2009, the Company had proposed to undertake the following:

- (a) proposed private placement of up to 10% of the issued and paid-up share capital of HCIB ("Proposed Private Placement"); and
- (b) proposed establishment of a new employees' share option scheme ("Proposed ESOS")

During the quarter ended 30 June 2010, a total of 4,543,126 new ordinary shares of RM0.25 each had been placed to specific investors via private placement pursuant to the mandate granted to the Company at the Thirty First Annual General Meeting held on 26 June 2009 which lapsed on 28 June 2010. Subsequent to the quarter ended 30 June 2010, a total of 4,000,000 new ordinary shares of RM0.25 each was issued and allotted.

The ESOS was approved and implemented on 23 March 2010. On 24 March 2010 a total of 5,879,000 options to subscribe for ordinary shares of RM0.25 each were offered to staff and directors of the Group. As at 30 June 2010, a total of 1,688,000 ordinary shares had been allotted to employees of the Group under the ESOS. The expiry date for the unexercised options is 23 March 2015. Subsequent to the quarter ended 30 June 2010, no ESOS has been exercised.

B9 Group Borrowings and Debts Securities

Group's borrowings as at 30 June 2010 were as follows:

	RM'000
(a) Secured Borrowings	285
	<u>285</u>
(b) Short Term Borrowings	285
	<u>285</u>
(c) All In Local Currencies (RM)	285

B10 Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk at the date of this report.

B11 Changes in Material Litigation

There were no changes in material litigation, including the status of pending material litigation since the last annual balance sheet date of 31 December 2009, except as disclosed below:

A suit was filed by Kilang Papan Galas Setia (Kelantan) Sdn Bhd against the Company for the alleged sum of RM428,827 in respect of the disputed raw material sold and delivered to the Company. The Directors are of the opinion that these claims are unlikely to succeed and will not give rise to liabilities that would have material effects on the Group's financial position. No provision has been made in relation to these claims in the financial statements.

B12 Dividends - Proposed, Recommended or Declared

There were no dividends proposed, recommended or declared for the financial period ended 30 June 2010.

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B13 Loss Per Share

(a) Basic

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of ordinary shares in issue during the period.

	Current Quarter	Current Year to date
Loss attributable to ordinary equity holders of the parent (RM)	<u>(962,525)</u>	<u>(1,354,263)</u>
Weighted average number of shares	<u>165,364,406</u>	<u>165,748,191</u>
Basic loss per share (sen)	<u>(0.58)</u>	<u>(0.82)</u>

The diluted loss per share is not calculated as the average market price as at 30 June 2010 is lower than the warrant exercise price of RM0.25 each, therefore there will be no dilutive effect.