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

UNAUDITED FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 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 but has undergone the limited review by the external auditor 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:

		Effective date for financial periods beginning on or after
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
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	1 July 2010
FRS 127	Consolidated & Separate	1 July 2010

	Financial Statements	
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 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

(i) 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) 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.

(iii) 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.

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:

		Effective date for financial periods beginning on or after
Amendment to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	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

Amendments to FRSs contained in the documents entitled "Improvements to FRSs (2010)"		1 January 2011
IC Interpretation 19	Extinguishing Financial Liabilities With Equity Instruments	1 July 2011
Amendments to IC Interpretation 14	Prepayment of a Minimum Funding Requirement	1 July 2011
IC Interpretation 15	Agreements for Construction of Real Estate	1 January 2012
FRS 124	Related Party Disclosures	1 January 2012

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 for the financial year under review.

A6 Material Changes in Estimates

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

A7 Debt and Equity Securities

Save as below, there were no issuance, cancellations, repurchases, resale and repayment of debt or equity securities for the year ended 31 December 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")

As at 31 December 2010, a total of 8,543,126 new ordinary shares of RM0.25 each pursuant to the private placement were issued and allotted. Subsequent to the quarter ended 31 December 2010, no ne w shares were issued. The extension of time until 29 January 2011 to complete the implementation of the private placement has expired. Therefore, the private placement is deemed completed with the issuance of 8,543,126 new HCIB shares to the respective placees.

As at 31 December 2010, a total of 1,688,000 ordinary shares had been allotted to employees of the Group under the ESOS. Subsequent to the quarter ended 31 December 2010, no ESOS have 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 year ended 31 December 2010 is as follows:-

	Segment Revenue RM'000	Segment Results RM'000
Timber Product Manufacturing	6,645	(2,235)
Property Development/Construction	-	23
Investment Holding	-	(607)
	6645	(2,819)
Consolidation adjustment	(220)	-
	6,425	(2,819)

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 below and in Note B8.

On 31 December 2010, Harvest Court Marketing Sdn Bhd ("HCM"), a wholly owned subsidiary of HCIB had entered into an agreement with a third party to purchase machineries at cost of RM646,278 by way of transfer 1,200,000 ordinary shares of RM1.00 each in HCM. The share transfer was completed on 11 January 2011. Consequently, HCIB's shareholding in HCM has decreased from 100% to 60%.

A12 Changes in Composition of the Group

There have been no changes in the composition of the Group for the financial year ended 31 December 2010.

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 31 December 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 year ended 31 December 2010 increased to RM1,743,280 as compared with RM1,556,019 in the similar quarter of the previous financial period ended 31 December 2009. The increase in timber product manufacturing revenue was mainly due to higher value in sales to India and Dubai.

B2 Comparison with immediate preceding quarter

The Group generated a loss before tax of RM858,423 as compared to a loss before tax of RM605,161 for the immediate preceding quarter ended 30 September 2010. The increase of loss before tax of 41.85% in the current quarter under review was mainly due to increase in the cost of raw materials .

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

There is a deviation of more than 10% between unaudited loss of –RM2.82 million and projected profit of RM4.37 million contained in the prospectus dated 26 October 2009 in conjunction with Rights Issue together with Free Warrants.

The major contributing factors for the variance include:

1) Lower sales volume due to inefficiency of new workers and new designs requested by customers.
2) Lower demand from Europe market.
3) HCIB has not commenced with the JV Concession with Messrs. Laing Huan & Rakan which has the following impact:
   i) Lower revenue by RM16.33 million
   ii) Lower gross profit by RM7.69 million
   Iii) Resulted in a lower profit before tax of RM4.75 million

   Management is currently reviewing the JV viability in view of the prevailing market situation.

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 year to date.
(b) There was no investment in quoted securities as at the end of the financial year.

B8 Status of Corporate Proposals

Save as below, there were no corporate proposals that have been announced but not yet completed during the year ended 31 December 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”)

As at 31 December 2010, a total of 8,543,126 new ordinary shares of RM0.25 each pursuant to the private placement were issued and allotted. Subsequent to the quarter ended 31 December 2010, no new shares were issued. The extension of time until 29 January 2011 to complete the implementation of the private placement has expired. Therefore, the private placement is deemed completed with the issuance of 8,543,126 new HCIB shares to the respective placees.

As at 31 December 2010, a total of 1,688,000 ordinary shares had been allotted to employees of the Group under the ESOS. Subsequent to the quarter ended 31 December 2010, no ESOS have been exercised.

B9 Group Borrowings and Debts Securities

Group's borrowings as at 31 December 2010 were as follows:

		RM'000
(a)	Secured Borrowings	255
		255
(b)	Short Term Borrowings	255
		255
(c)	All In Local Currencies (RM)	255

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 year ended 31 December 2010.

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)	(858,423)	(2,819,327)
Weighted average number of shares	171,922,373	167,600,246
Basic loss per share (sen)	(0.50)	(1.68)

The diluted loss per share is not calculated as the average market price as at 31 December 2010 is lower than the warrant exercise price of RM0.25 each, therefore there will be no dilutive effect.

B14 Disclosure of realized and unrealized profits/losses

	As at 31 Dec 2010	As at 31 Dec 2009
	RM'000	RM'000
Total retained profits / (accumulated losses) of the group		
- Realised	(18,994)	(16,243)
- Unrealised	(135)	(67)
	(19,129)	(16,310)