

BCT TECHNOLOGY BERHAD (668945-P)
(Incorporated in Malaysia)

Unaudited Interim Financial Report for the first quarter ended 31 March 2011

NOTES TO THE INTERIM FINANCIAL REPORT

Explanatory Notes Pursuant to Financial Reporting Standard 134 Interim Financial Reporting

Basis of preparation

The interim financial statements are unaudited and have been prepared in compliance with Financial Reporting Standard (FRS) 134 - Interim Financial Reporting and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2010. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2010.

Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2010 except for the adoption of the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board effective for the financial periods beginning 1 July 2010 and 1 January 2011:

FRS 3 (Revised)	Business Combinations
FRS 127 (Revised)	Consolidated and Separate Financial Statements
Amendments to FRS 2	Scope of FRS 2 and FRS 3 (Revised)
Amendments to FRS 2	Group Cash-settled Share-Based Payment Transactions
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Amendments to FRS 138	Consequential Amendments Arising from FRS 3 (Revised)
Amendments to IC Interpretation 9	Scope of IC Interpretation 9 and FRS 3 (Revised)
Annual Improvements to FRSs (2010)	

As disclosed in the audited 2010 financial statements, the adoption of the above accounting standards, amendments and interpretations have no material impact on the financial statements of the Group except as follows:

- (i) FRS 3 (Revised) introduces significant changes to the accounting for business combinations, both at the acquisition date and post acquisition, and requires greater use of fair values. In addition, all transaction costs, other than share and debt issue costs, will be expensed as incurred. This revised standard will be applied prospectively.
- (ii) FRS 127 (Revised) requires accounting for changes in ownership interests by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority interest to be absorbed by the minority interest instead of by the parent. The Group will apply the major changes of FRS 127 (Revised) prospectively.

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Auditors' report on preceding annual financial statements

The auditors' report on the Company's audited consolidated financial statements for the financial year ended 31 December 2010 was not subject to any qualification but was modified to include an emphasis of matter on going concern. Extract of the auditors' report for the financial year ended 31 December 2010 is as follows:

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3(b) to the financial statements which disclosed the premise upon which the Company has prepared its financial statements by applying the going concern assumption, notwithstanding that the Group incurred a net loss of RM9,660,935 during the financial year ended 31 December 2010, and as of that date, the Group is in a capital deficiency position of RM1,802,920, thereby indicating the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

On 28 February 2011 and subsequently amended on 1 March 2011, the Company announced that it became an Affected Listed Company pursuant to Guidance Note No. 3 of the Listing Requirements of Bursa Malaysia Securities Berhad for the ACE Market.

Seasonal or cyclical factors

The Group's operations were not materially affected by seasonal or cyclical factors during the financial quarter under review.

Items affecting assets, liabilities, equity, net income or cash flows

There were no significant items affecting assets, liabilities, equity, net income or cash flows for the quarter under review.

Material changes in estimates

There were no changes in estimates of amounts which give a material effect for the financial quarter under review.

Debt or equity securities

There were no issuances, cancellations, repurchases, resale or repayments of debt or equity securities during the financial quarter under review.

Dividends paid

There were no dividends paid during the financial quarter under review.

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Segmental information

<u>Financial period ended 31 March 2011</u>	Malaysia	Overseas	Group
	RM'000	RM'000	RM'000
<u>Revenue</u>			
External revenue	1,270	417	1,687
Inter-segment revenue	-	14	14
	1,270	431	1,701
Adjustments and eliminations			(14)
Consolidated revenue			<u>1,687</u>
<u>Results</u>			
Segmental results	474	(99)	375
Amortisation of development expenditure	(83)	-	(83)
Depreciation of property and equipment	(127)	(50)	(177)
	264	(149)	115
Adjustments and eliminations			5
			120
Finance costs			(107)
Loss before taxation			13
Income tax expense			-
Consolidated loss after taxation			<u>13</u>

Financial period ended 31 March 2010

<u>Revenue</u>			
External revenue	2	1,295	1,297
Inter-segment revenue	-	2	2
	2	1,297	1,299
Adjustments and eliminations			(2)
Consolidated revenue			<u>1,297</u>

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Segmental information (Cont'd)

<u>Financial period ended 31 March 2010</u>	Malaysia	Overseas	Group
	RM'000	RM'000	RM'000
<u>Results</u>			
Segmental results	(247)	(158)	(405)
Amortisation of development expenditure	-	-	-
Depreciation of property and equipment	(289)	(59)	(348)
	(536)	(217)	(753)
Adjustments and eliminations			-
			(753)
Finance costs			(14)
Loss before taxation			(767)
Income tax expense			-
Consolidated loss after taxation			(767)

Valuation of property, plant and equipment

Property, plant and equipment have been brought forward, without amendment from the audited financial statements for the year ended 31 December 2010.

Material events subsequent to the end of the quarter

There were no material events since 31 March 2011 until the date of this report except as follows:

- (a) On 4 April 2011, the financial institution approved and restructured the project financing term loan of the Company as follows:
 - (i) the facility tenure of 31 December 2012 was extended to 31 December 2014; and
 - (ii) the staggered payment amounts of RM50,000 - RM240,000 per month were revised to RM87,000 - RM98,000 per month with an additional payment of RM1,000,000 on September 2011.
- (b) On 29 April 2011, the Board of Directors announced that the auditors, Messrs. Crowe Horwath have expressed a modified opinion with emphasis on the Company's going concern in the Company's audited financial statements for the year ended 31 December 2010 and the shareholders' equity of the Company is 50% or less of the issued and paid-up capital of the Company. Hence, the Company has triggered another prescribed criterion of Guidance Note 3 ("GN 3") 2.1(g) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad.

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Changes in the composition of the group

There were no significant changes to the composition of the Group during the financial quarter under review.

Contingent liabilities or contingent assets

At the date of this report, there were no contingent liabilities or contingent assets for the Group.

Capital commitments

There were no capital commitments for the Group.

Significant related party transactions

There were no significant related party transactions in the current financial year.

Inventories

There were no significant write downs of inventories during the current financial year to date.

Provisions for warranties

There were no provisions for warranties for the current financial year to date.

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Review of the performance

The Group recorded revenue of RM1.687 million for the first quarter of 2011 compared to RM1.297 million for the same quarter last year and a profit after taxation of RM13,000 compared to a loss of RM767,000, respectively. Profit achieved in this current quarter ended 31 March 2011 was mainly due to the following:

- (a) higher gross profit margins were achieved on the back of higher revenue in this quarter;
- (b) reduction in staff costs of RM270,000;
- (c) net reduction in amortisation and depreciation charges of RM88,000; and
- (d) increase in finance costs of RM93,000.

Material changes in the quarterly results compared to the results of the immediate preceding quarter

The Group posted revenue and profit before tax of RM1.687 million and RM13,000, respectively, for the current quarter ended 31 March 2011 compared to revenue and loss before tax of RM1.020 million and RM6.638 million respectively for the quarter ended 31 December 2010. Higher losses incurred in the immediate preceding quarter were mainly due to the following:

- (a) lower revenue achieved in the preceding quarter;
- (b) additional staff costs and amortisation and depreciation charges of RM365,000 and RM318,000 were incurred respectively; and
- (c) impairment losses on equipment and development expenditure of RM4.313 million and RM1.229 million respectively were recognised in the preceding quarter.

Business prospects

Despite the modest improvement in Revenue, the prospect for the remaining quarters of financial year 2011 remains challenging for the Group.

Statement of revenue or profit estimate, forecast, projection or internal targets previously announced or disclosed in a public document

There were no estimates, forecasts, projections or internal targets previously disclosed in a public document.

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Variance of actual profit from forecast profit

There was no forecast for the year which was disclosed in a public document.

Income tax

The Company was granted Multimedia Super Corridor Status which qualified the Company for Pioneer Status incentive under the Promotion of Investments Act, 1986 for the period from 30 September 2005 to 29 September 2010 whereby the statutory Income from Pioneer activities was exempted from tax. The Company has submitted an application for an extension of the Multimedia Super Corridor Status, the outcome of which is still pending.

Sale of unquoted investments and/or properties

There was no disposal of unquoted investments and/or properties during the financial quarter under review and financial period-to-date.

Purchase or disposal of quoted securities

There were no purchases or disposal of quoted securities for the financial quarter under review and financial period-to-date.

Corporate proposals

There were no corporate proposals announced other than the announcement made on 28 February 2011 that the Company became an affected listed company pursuant to GN3 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad and the subsequent announcements made in connection with GN3.

The Company is in the midst of evaluating various options in its endeavour to formulate a regularisation plan for the Company and appropriate announcements will be made by the Company in due course.

Status of utilisation of proceeds

There were no corporate proposals announced during the quarter under review.

Group borrowings and debt securities

The Group's borrowings as at 31 March 2011 are as follows:

	Short Term	Long Term	Total
<u>Secured</u>	RM'000	RM'000	RM'000
Term Loans	2,898	3,364	6,262

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Group borrowings and debt securities (Cont'd)

The foreign currency exposure profile of the Group's borrowing as at 31 March 2011 is as follows:

	Short Term RM'000	Long Term RM'000	Total RM'000
<u>Singapore dollars</u>			
Term Loans	144	1,018	1,162

Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of the issue of this report.

Material litigations

There were no material litigations or pending material litigations involving the Group as at the date of issue of this report.

Dividends payable

No dividend has been declared or recommended in respect of the financial quarter under review.

Earnings/(loss) per share

The basic earnings/(loss) per share is arrived at by dividing the Group's profit attributable to shareholders of RM13,000 (31.03.2010: Loss attributable to shareholders of RM767,000) by the number of ordinary shares in issue during the financial period of 134,156,000 (31.03.2010: 134,156,000).

The fully diluted earnings per share for the Group in the current financial year were not presented as the assumed conversion from the exercise of the share options, under ESOS would be anti-dilutive.

Realised and unrealised profits/losses disclosure

	As At 31/03/2011 RM'000	As At 31/12/2010 RM'000
Accumulated losses of the Group		
- Realised losses	(30,718)	(30,744)
- Unrealised loss*	(16)	(3)
	<u>(30,734)</u>	<u>(30,747)</u>

* This is in respect of unrealised loss on foreign exchange

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Authorisation for issue

The Interim Financial Statements and the accompanying notes were authorised for issue by the Board of Directors on 19 May 2011.

BY ORDER OF THE BOARD
BCT TECHNOLOGY BERHAD