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.

Changes in Accounting Policies (Cont'd)

Following the issuance of Malaysian Financial Reporting Standards ("MFRS") Framework which consists of accounting standards that are in line with the International Financial Reporting Standards ("IFRS"), by Malaysian Accounting Standards Board on 19 November 2011, the Group's and the Company's next set of financial statements, i.e. for the year ending 31 December 2012, will be prepared in accordance with MFRS Framework. The change of the financial reporting framework, from FRS Framework to MFRS Framework, is not expected to have any significant impact on the financial statements of the Group and the Company.

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 except for the disposal of two adjoining flatted factory units for a total cash consideration of approximately RM3,368,000 that resulted in a gain on disposal of approximately RM921,000.

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.

Segmental information

Financial year ended 31 December 2011	**Malaysia**	**Overseas**	**Group**
	RM`000	**RM`000**	**RM`000**
Revenue			
External revenue	1,780	3,067	4,847
Inter-segment revenue	-	236	236
	1,780	3,303	5,083
Adjustments and eliminations			(236)
Consolidated revenue			4,847
Results			
Segmental results	(127)	395	268
Gain on disposal of property and equipment	4	921	925
Amortisation of development expenditure	(332)	-	(332)
Depreciation of property and equipment	(505)	(114)	(619)
Property and equipment written off	(40)	(221)	(261)
	(1,000)	981	(19)
Adjustments and eliminations			5
			(14)
Finance costs			(410)
Loss before taxation			(424)
Income tax expense			(62)
Consolidated loss after taxation			(486)

Segmental information (Cont'd)

Financial year ended 31 December 2010	**Malaysia RM`000**	**Overseas RM`000**	**Group RM`000**
Revenue			
External revenue	1,179	2,883	4,062
Inter-segment revenue	350	384	734
	1,529	3,267	4,796
Adjustments and eliminations			(734)
Consolidated revenue			4,062
Results			
Segmental results	(666)	(1,022)	(1,688)
Amortisation of development expenditure	(724)	(52)	(776)
Depreciation of property and equipment	(1,165)	(210)	(1,375)
Impairment loss on development expenditure	(391)	(839)	(1,230)
Impairment loss on property and equipment	(4,313)	-	(4,313)
	(7,259)	(2,123)	(9,382)
Adjustments and eliminations			(5)
			(9,387)
Finance costs			(274)
Loss before taxation			(9,661)
Income tax expense			-
Consolidated loss after taxation			(9,661)

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 subsequent to the end of the current interim period that have not been reflected in the financial statements for the financial quarter under review.

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.

Explanatory Notes Pursuant to Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad

Review of the performance

(a) Current Year-to-date vs. Previous Year-to-date

The Group's revenue for the year ended 31 December 2011 of RM4.847 million was RM785,000 or 19% higher than the previous corresponding year of RM4.062 million. Loss after taxation for the current year has decreased to RM486,000 compared with RM9.661 million in the previous year.

The improved results for the current year were mainly due to the following:

(1) Malaysian Operations – External revenue from this segment has increased by RM601,000 and this was mainly attributable to the increase in the revenue from software business. Despite the increase in revenue, Malaysian Operations still incurred losses as the margins were insufficient to absorb operating expenses. However, operating expenses have decreased as follows:

(i) reduction in staff costs of RM278,000;

(ii) reduction in amortisation and depreciation charges of RM1.052 million; and

(iii) reduction in impairment loss on development expenditure and property and equipment of RM4.704 million.

(2) Overseas Operations – External revenue from this segment has increased by RM184,000 and this was mainly due to the following:

- increase in revenue from LED display and trading business of RM1.0 million;

- increase in revenue from semi-conductor chips business of RM745,000; and

- decrease in revenue from software business of RM1.687 million.

Operating results (before finance costs) have improved from a loss of RM2.123 million in previous year to a profit of RM981,000 in the current year and this can be attributed to:

(i) improved overall gross profit margins from 40% in the previous year to 57% in the current year;

(ii) reduction in staff costs of RM414,000;

(iii) reduction in amortisation and depreciation charges of RM148,000;

(iv) reduction in impairment loss on development expenditure of RM839,000;

(v) increase in gain on disposal of property of RM921,000; and

(vi) increase in property and equipment written off of RM221,000.

Review of the performance (Cont'd)

(b) Current Quarter vs. Previous Year Corresponding Quarter

For the 4th Quarter ended 31 December 2011, the Group recorded revenue of RM461,000 compared to RM969,000 for the same quarter last year and incurred a loss before tax of RM120,000 compared to RM6.635 million in the previous quarter.

Despite lower revenue and gross profit achieved, the Group's results improved significantly and this was mainly due to the following:

(1) Malaysian Operations:

(i) reduction in staff costs of RM84,000;

(ii) reduction in amortisation and depreciation charges of RM268,000; and

(iii) reduction in impairment loss on development expenditure and property and equipment of RM4.704 million.

(2) Overseas Operations:

(i) reduction in staff costs of RM252,000;

(ii) reduction in amortisation and depreciation charges of RM95,000;

(iii) reduction in impairment loss on development expenditure of RM839,000;

(iv) increase in gain on disposal of property of RM921,000; and

(v) increase in property and equipment written off of RM221,000.

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

The Group posted revenue and loss before tax of RM461,000 and RM120,000, respectively, for the current quarter ended 31 December 2011 compared to revenue and loss before tax of RM1.154 million and RM60,000 respectively for the quarter ended 30 September 2011. Revenue has decreased by 60% compared to the immediate preceding quarter and this was mainly attributable to lower revenue from semi-conductor chips business. The gain on sale of factory units in Singapore of RM921,000 in the current quarter has enabled the Group to cushion the adverse impact from the lower revenue and sales margins achieved as well as the write-off of property and equipment of RM221,000.

Business prospects

As part of the regularization plan, the Company is currently exploring new business opportunities in China and developing new chip products into the market. Together with a prudent management system in place and continuous cost cutting measures, the Board expects that the effort will have a positive impact on the financial position of the Company.

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.

Variance of actual profit from forecast profit

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

Loss before taxation

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 31/12/2011 RM'000	Preceding Year Corresponding Quarter Ended 31/12/2010 RM'000	Current Year To Date 31/12/2011 RM'000	Preceding Year Corresponding Period 31/12/2010 RM'000
This has been arrived at after charging/(crediting):				
Interest income	-	-	-	(1)
Other income including investment income	-	-	-	-
Interest expense	101	86	410	254
Amortisation of development expenditure	83	233	332	776
Depreciation of property and equipment	132	345	619	1,375
Development expenditure written off	-	-	-	17
Bad debts written off	-	29	-	29
Bad debts recovered	(45)	-	(45)	(77)
Inventories written off	-	53	-	53
(Gain)/loss on disposal of quoted or unquoted investments	-	-	-	-
(Gain)/loss on disposal of properties and equipment	(921)	-	(925)	-
Impairment loss on property and equipment	-	4,313	-	4,313
Impairment loss on development expenditure	-	1,230	-	1,230
Property and equipment written off	221	-	261	-
(Gain)/loss on foreign exchange				
- realised	9	68	(76)	(53)
- unrealised	24	86	10	3
(Gain)/loss on derivatives	-	-	-	-

Income tax

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 31/12/2011 RM'000	Preceding Year Corresponding Quarter Ended 31/12/2010 RM'000	Current Year To Date 31/12/2011 RM'000	Preceding Year Corresponding Period 31/12/2010 RM'000
Tax expense for the period				
Malaysian income tax	-	-	-	-
Deferred taxation	62	-	62	-
	62	-	62	-

Despite suffering losses during the year, the Group still incurred tax expenses as the unutilised tax losses and unabsorbed capital allowances of the Company were not eligible to be utilised by a subsidiary.

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.

Corporate proposals announced but not completed

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 Guidance Note No. 3 ("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.

The Company made an announcement on 21 February 2012 that it had submitted an application to Bursa Malaysia Securities Berhad to extend the Submission Timeframe to 31 May 2012.

Status of utilisation of proceeds

The proposed disposal of two adjoining flatted factory units announced during the year was completed on 4 November 2011 and the proceeds from this disposal have been utilised to repay bank borrowings and for working capital and payment of expenses in relation to this disposal.

Group borrowings and debt securities

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

	Short Term	Long Term	Total
Secured	RM'000	RM'000	RM'000
Term Loan	2,190	2,099	4,289

The above term loan is denominated in Ringgit Malaysia.

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 loss per share is arrived at by dividing the Group's loss attributable to shareholders of RM486,000 (31.12.2010: RM9,661,000) by the number of ordinary shares in issue during the financial year of 134,156,000 (31.12.2010: 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 31/12/2011 RM'000	**As At 31/12/2010 RM'000**
Accumulated losses of the Group		
- Realised losses	(31,161)	(30,744)
- Unrealised gain/(loss)		
- unrealised gain/(loss) on foreign exchange	(10)	(3)
- in respect of deferred tax recognised	(62)	-
	(31,233)	(30,747)

Authorisation for issue

The Interim Financial Statements and the accompanying notes were authorised for issue by the Board of Directors on 22 February 2012.

BY ORDER OF THE BOARD
BCT TECHNOLOGY BERHAD