NOTES TO THE INTERIM FINANCIAL REPORT

Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in compliance with Malaysian Financial Reporting Standard (MFRS) 134 - Interim Financial Reporting and Rule 9.22 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 2011. 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 2011.

A2. 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 2011.

On 1 January 2012, the Group adopted the Malaysian Financial Reporting Standards ("MFRS") Framework issued by Malaysian Accounting Standards Board ("MASB"). This MFRS Framework was introduced by MASB in order to fully converge Malaysia's existing Financial Reporting Standards ("FRS") Framework with the International Financial Reporting Standards ("IFRS") Framework issued by the International Accounting Standards Board. There has been no significant impact on the financial statements of the Group upon the adoption of the MFRS Framework.

The Group had also adopted all MFRS and IC Interpretations that are relevant and effective for annual period beginning 1 January 2012. The adoption of these standards and interpretations has no material impact on the financial statements of the Group.

A3. 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 2011 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 2011 is as follows:

A3. Auditors' report on preceding annual financial statements (Cont'd)

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 RM513,320 during the financial year ended 31 December 2011, and as of that date, the Group is in a capital deficiency position of RM2,375,677, 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 ("Bursa Securities") for the ACE Market. The Company had proposed a regularisation plan as summarised in Note 32(a) to the financial statements, to regularise its financial position and the regularisation plan has to be submitted by the Company to Bursa Securities by 31 May 2012.

Status of the proposed regularisation plan is detailed in Note B8 of this report.

A4. Seasonal or cyclical factors

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

A5. 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 financial quarter under review.

A6. Material changes in estimates

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

A7. Debt or equity securities

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

A8. Dividends paid

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

A9. Segmental information

Financial period ended 30 June 2012	**Malaysia RM`000**	**Overseas RM`000**	**Group RM`000**
Revenue			
External revenue	366	3,208	3,574
Inter-segment revenue	-	90	90
	366	3,298	3,664
Adjustments and eliminations			(90)
Consolidated revenue			3,574
Results			
Segmental results	(193)	(51)	(244)
Amortisation of development expenditure	(166)	-	(166)
Depreciation of property and equipment	(256)	(3)	(259)
	(615)	(54)	(669)
Adjustments and eliminations			-
			(669)
Finance costs			(173)
Loss before taxation			(842)
Income tax expense			(11)
Consolidated loss after taxation			(853)

Financial period ended 30 June 2011	**Malaysia RM`000**	**Overseas RM`000**	**Group RM`000**
Revenue			
External revenue	1,387	1,845	3,232
Inter-segment revenue	-	32	32
	1,387	1,877	3,264
Adjustments and eliminations			(32)
Consolidated revenue			3,232

A9. Segmental information (Cont'd)

Financial period ended 30 June 2011 (Cont'd)	**Malaysia RM`000**	**Overseas RM`000**	**Group RM`000**
Results			
Segmental results	310	173	483
Amortisation of development expenditure	(166)	-	(166)
Depreciation of property and equipment	(253)	(99)	(352)
	(109)	74	(35)
Adjustments and eliminations			5
			(30)
Finance costs			(214)
Profit before taxation			(244)
Income tax expense			-
Consolidated profit after taxation			(244)

A10. 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 2011.

A11. 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.

A12. Changes in the composition of the group

There were no changes to the composition of the Group during the financial quarter under review except that on 14 March 2012, the Company received a license from the Industry and Commerce Administration Management Bureau of Zhongshan to incorporate a single member limited liability company in China, namely ZhongShan PuTe Electronics Technology Pte Ltd for an authorised, issued and paid-up share capital of United States Dollar 180,000 (or approximately RM551,000). This newly incorporated company is a wholly owned subsidiary of Bluechips Technology (HK) Limited, a subsidiary of the Company.

The principal activities of the new subsidiary are to design, develop, and distribute electronic and semiconductor chip products and solutions.

There were no significant financial effects arising from the incorporation of the above subsidiary. From its commencement of business in March 2012 to 30 June 2012, this subsidiary has contributed revenue and profit after taxation of RM917,000 and RM20,000 respectively to the Group.

A13. Contingent liabilities or contingent assets

At the end of the reporting period, there were no contingent liabilities or contingent assets for the Group.

A14. Capital commitments

At the end of the reporting period, there were no capital commitments for the Group.

A15. Significant related party transactions

There were no significant related party transactions during the financial quarter under review.

A16. Inventories

There were no significant write downs of inventories during the financial quarter under review.

A17. Provisions for warranties

There were no provisions for warranties during the financial quarter under review.

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

B1. Review of the performance

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

The Group's revenue for the current year-to-date of RM3.574 million was RM342,000 or 11% higher than the previous corresponding period of RM3.232 million. Despite higher revenue, the Group suffered bigger losses, ending up with a loss after taxation of RM853,000 compared with RM244,000 in the previous corresponding period.

(1) Malaysian Operations – External revenue from this segment has reduced by RM1.021 million and this was mainly attributable to the reduction in the revenue from software business. Profits from the reduced revenue were insufficient to absorb operating expenses.

(2) Overseas Operations – External revenue from this segment has increased by RM1,363,000 and this was mainly due to the following:

- increase in revenue from LED display and trading business of RM946,000;
- maiden revenue from chips business contributed by the Group's China subsidiary of RM917,000 which compensated for the decrease in contribution from the Singapore subsidiary of RM164,000; and
- decrease in revenue from software business of RM336,000.

Despite an increase in revenue, overall gross profit margin from this segment dropped from 48% to 24% and this was mainly due to lower margins achieved from chips business. Being a new player in the MCU chip sector offering compatible products, we were sacrificing margins for market share initially. This is to enable us to win the initial orders from customers and to allow us to prove our quality to become a long term supplier. Once we are established, we believe that our margins will improve.

Operating results (before finance costs) have eroded from a profit of RM74,000 in the previous year-to-date to a loss of RM54,000 in the current year-to-date and this can be attributed to:

(i) reduction in overall gross profit of RM198,000;

(ii) increase in general and administrative expenses of RM148,000;

(iii) reduction in staff costs of RM47,000;

(iv) reduction in amortisation and depreciation charges of RM49,000; and

(v) increase in other income of RM105,000, mainly from over-recognition of purchases in previous years.

(b) Current Quarter vs. Previous Year Corresponding Quarter

For the 2nd Quarter ended 30 June 2012, the Group recorded revenue of RM2.079 million compared to RM1.545 million for the same quarter last year and incurred a loss after tax of RM612,000 compared to RM257,000 in the previous year's quarter.

Despite higher revenue, overall gross profit margin achieved was lower than the previous year's corresponding quarter and recorded at 22% compared to 44%.

(1) Malaysian Operations:

Malaysian operations remained relatively the same in the 2nd Quarter for both years. Loss after taxation has reduced from RM443,000 to RM399,000 in the current quarter and this was mainly due to lower overheads incurred.

(2) Overseas Operations:

This segment saw revenue improved from RM1.428 million in previous year's quarter to RM1.970 million in the current quarter. However, Overseas operations recorded a loss after taxation of RM211,000 in the current quarter compared to a profit after tax of RM187,000 last year's corresponding quarter and this can be mainly attributed to the following:

(i) reduction in gross profit contribution of RM237,000; and

(ii) increase in general and administrative expenses of RM142,000;

B2. Material changes in the quarterly results compared to the results of the immediate preceding quarter

The Group posted revenue and loss after tax of RM2.079 million and RM612,000, respectively, for the current quarter ended 30 June 2012 compared to revenue and loss after tax of RM1.495 million and RM241,000 respectively for the quarter ended 31 March 2012. Revenue has increased by 39% and this was mainly attributable to the increase in revenue from chips business contributed by China subsidiary of RM917,000 which offset the impact from the decrease in revenue from other products.

Compared with the 1st Quarter ended 31 March 2012, loss after tax for the 2nd Quarter ended 30 June 2012 has increased and this was due to:

(i) lower overall gross profit margin of 22% compared with 37.4%;

(ii) lower other income of RM12,000 compared with RM117,000; and

(iii) increase in staff costs and general and administrative expenses by RM64,000 and RM116,000 respectively, mainly due to set-up costs incurred by the Group's China subsidiary.

B3. Business prospects

Due to the prolonged global market uncertainties arising from the European debt crisis, the Board expects the remaining quarters of financial year 2012 to remain challenging. With the commencement of business by the Group's China subsidiary in March 2012 together with the continuous cost cutting and monitoring exercise undertaken by the Group, the Board expects both the Malaysian and Overseas Operations to record improved revenue and results moving forward.

B4. 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.

B5. Variance of actual profit from forecast profit

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

B6. (Loss)/profit before taxation

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 30/06/2012 RM'000	Preceding Year Corresponding Quarter Ended 30/06/2011 RM'000	Current Year To Date 30/06/2012 RM'000	Preceding Year Corresponding Period Ended 30/06/2011 RM'000
This has been arrived at after charging/(crediting):				
Interest income	-	-	-	-
Other income including investment income	(12)	(12)	(129)	(25)
Interest expense	75	107	151	214
Amortisation of development expenditure	83	83	166	166
Depreciation of property and equipment	130	174	259	351
Development expenditure written off	-	-	-	-
Bad debts written off	-	-	-	-
Bad debts recovered	-	-	-	-
Inventories written off	-	-	-	-
(Gain)/loss on disposal of quoted or unquoted investments	-	-	-	-
(Gain)/loss on disposal of properties and equipment	-	37	-	37

B6. (Loss)/profit before taxation (Cont'd)

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 30/06/2012 RM'000	Preceding Year Corresponding Quarter Ended 30/06/2011 RM'000	Current Year To Date 30/06/2012 RM'000	Preceding Year Corresponding Period Ended 30/06/2011 RM'000
Impairment loss on property and equipment	-	-	-	-
Impairment loss on development expenditure	-	-	-	-
Property and equipment written off	-	-	-	-
(Gain)/loss on foreign Exchange				
- realised	46	(46)	90	(63)
- unrealised	13	(33)	23	(17)
(Gain)/loss on derivatives	-	-	-	-

B7. Income tax

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 30/06/2012 RM'000	Preceding Year Corresponding Quarter Ended 30/06/2011 RM'000	Current Year To Date 30/06/2012 RM'000	Preceding Year Corresponding Period Ended 30/06/2011 RM'000
Tax expense for the period				
Malaysian income tax	-	-	-	-
Overseas income tax	10	-	10	-
Deferred taxation	(9)	-	1	-
	1	-	11	-

Despite suffering losses during the period, 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.

B8. 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 ("Bursa Securities) and the subsequent announcements made in connection with GN3.

On 21 February 2012, the Board of Directors made an announcement that the Company had submitted an application to Bursa Securities to extend the deadline for submission of the Company's regularisation plan from 28 February 2012 to 31 May 2012, pursuant to the GN3 and this application was approved by Bursa Securities on 2 April 2012.

On 30 March 2012, the Board of Directors made an announcement that the Group had proposed to undertake the following regularisation plan to regularise the financial position of the Group ("Proposed Regularisation Scheme"):

(i) Proposed Share Premium Reduction, Proposed Par Value Reduction and Proposed Share Consolidation

(ii) Proposed Issuance of Shares with Warrants

(iii) Proposed Rights Issue with Warrants

(iv) Proposed Capitalisation of Debt

(v) Proposed Exemption of Mandatory Take-over Offer

(vi) Proposed Increase in Authorised Share Capital

(vii) Proposed Amendments to the Memorandum of Association of the Company

On 31 May 2012, the Company submitted the relevant documents in relation to the Proposed Regularisation Scheme to Bursa Securities and as at the date of issue of this report, there has been no further material development on this matter.

B9. Status of utilisation of proceeds

At the end of the reporting period, there were no unutilised proceeds raised from any corporate proposals.

B10. Group borrowings and debt securities

The Group's borrowing as at 30 June 2012 is as follows:

	Short Term	Long Term	Total
Secured	RM'000	RM'000	RM'000
Term Loan	636	3,653	4,289

The above term loan is denominated in Ringgit Malaysia.

B11. Material litigations

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

B12. Dividends payable

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

B13. Earnings/(loss) per share

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 30/06/2012	Preceding Year Corresponding Quarter Ended 30/06/2011	Current Year To Date 30/06/2012	Preceding Year Corresponding Period Ended 30/06/2011
(Loss)/profit attributable to Owners of the Company (RM'000)	(612)	(257)	(853)	(244)
Weighted average number of ordinary shares in issue ('000)	134,156	134,156	134,156	134,156
Basic (loss)/earnings per share (sen)	(0.46)	(0.19)	(0.64)	(0.18)

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

B14. Realised and unrealised profits/losses disclosure

	As At 30/06/2012 RM'000	As At 31/12/2011 RM'000
Accumulated losses of the Group		
- Realised losses	(32,027)	(31,177)
- Unrealised gain/(loss)		
- unrealised gain/(loss) on foreign exchange	(23)	(21)
- in respect of deferred tax recognised	(63)	(62)
	(32,113)	(31,260)

B15. Authorisation for issue

The Interim Financial Statements and the accompanying notes were authorised for issue by the Board of Directors on 30 August 2012.

BY ORDER OF THE BOARD
BCT TECHNOLOGY BERHAD