SMARTAG
Total RF Solutions

SMARTAG
Total RF Solutions

SMARTAG SOLUTIONS BERHAD

(Company No: 639421-X)
(Incorporated in Malaysia under the Companies Act, 1965)

PUBLIC ISSUE OF 57,000,000 NEW ORDINARY SHARES OF RM0.10 EACH IN SMARTAG SOLUTIONS BERHAD ("SMARTAG SOLUTIONS SHARES" OR "SHARES") AT AN INITIAL PUBLIC OFFERING PRICE OF RM0.31 PER SMARTAG SOLUTIONS SHARE PAYABLE IN FULL UPON APPLICATION COMPRISING:-

- **50,000,000 NEW SMARTAG SOLUTIONS SHARES BY WAY OF PRIVATE PLACEMENT TO ELIGIBLE IDENTIFIED INVESTORS;**

- **5,000,000 NEW SMARTAG SOLUTIONS SHARES MADE AVAILABLE FOR THE ELIGIBLE DIRECTORS, EMPLOYEES AND PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF SMARTAG SOLUTIONS, ITS SUBSIDIARIES AND ITS JOINTLY-OWNED ENTITY; AND**

- **2,000,000 NEW SMARTAG SOLUTIONS SHARES MADE AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC,**

IN CONJUNCTION WITH THE LISTING OF SMARTAG SOLUTIONS BERHAD ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD ("ACE MARKET").

Adviser, Sponsor, Underwriter & Placement Agent

KENANGA INVESTMENT BANK BERHAD
Company No. 15678-H

INVESTORS ARE ADVISED TO NOTE THAT COMPANIES LISTED ON THE ACE MARKET MAY BE OF HIGH INVESTMENT RISK. INVESTORS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

THERE ARE CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD CONSIDER. TURN TO SECTION 6 OF THIS PROSPECTUS FOR "RISK FACTORS".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to "Company" is to Smartag Solutions (639421-X), references to "Group" is to our Company, our subsidiary companies and our jointly-owned entity and references to "we", "us", "our" and "ourselves" are to our Company, and, save where the context otherwise requires, our subsidiary companies and our jointly-owned entity. Unless the context otherwise requires, statements as to our beliefs, expectations, estimates and opinions are those of our Management (being our Directors and key management as disclosed in this Prospectus).

Certain abbreviations, acronyms and technical terms used are defined in "Definitions" appearing in page viii to page xiii. Words denoting the singular shall include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

All reference to dates and times are references to dates and times in Malaysia.

Any reference in this Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted.

This Prospectus includes statistical data provided by the Management and various third parties and cites third party projections regarding growth and performance of the industry in which our Group operates. This data is taken or derived from information published by industry sources and from internal data.

Certain information in this Prospectus is extracted or derived from report(s) prepared by various third parties. In particular, certain information in this Prospectus is extracted or derived from report(s) provided by Frost & Sullivan Malaysia Sdn Bhd, an independent business and market research consulting firm. However, neither we nor our advisers have independently verified these data and we do not make any representation as to the correctness, accuracy or completeness of such reports.

The information on our website, or any website directly or indirectly linked to such websites does not form part of this Prospectus and you should not rely on it.

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RESPONSIBILITY STATEMENTS

The Directors and Promoters (as defined in this Prospectus) of our Company have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

Kenanga Investment Bank Berhad ("**KIBB**"), being the Adviser, Sponsor, Underwriter and Placement Agent, acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning the IPO and the Listing (as defined in this Prospectus).

STATEMENTS OF DISCLAIMER

A copy of this Prospectus has been registered with the Securities Commission ("**SC**"). The registration of this Prospectus should not be taken to indicate that the SC recommends the IPO or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Prospectus. The SC has not, in any way, considered the merits of the securities being issued / offered for investment. A copy of this Prospectus, together with the application form, has also been lodged with the Registrar of Companies who takes no responsibility for its contents.

The SC is not liable for any non-disclosure on the part of our Company and takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus.

INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT IN OUR SHARES. INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN SHOULD CONSULT THEIR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

Approval has been obtained from Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation of the entire enlarged issued and paid-up share capital of our Company. Our admission to the Official List of the ACE Market of Bursa Securities is not to be taken as an indication of the merits of the invitation, our Company or our securities. Bursa Securities shall not be liable for any non-disclosure on our part and takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. The official quotation of our Shares on the ACE Market will commence after receipt of confirmation from Bursa Malaysia Depository Sdn Bhd that all Central Depository System ("**CDS**") Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

OTHER STATEMENTS

Companies listed on the ACE Market may have a limited operating history or may not have any profit track record prior to listing. Such companies may be of high investment risk. As with all investments, prospective investors should be aware of all potential risks in investing in such companies and should make the decision to invest after giving due and careful consideration by referring to, among others, this Prospectus, latest financial statements and corporate announcements. You are strongly recommended to seek advice from a securities professional/adviser.

The Public Issue (as defined in this Prospectus) is an exempt transaction under section 213 of the Capital Markets and Services Act 2007 ("**CMSA**") and is therefore not subject to the approval of the SC.

Investors are advised to note that recourse for false or misleading statements or acts made in connection with this Prospectus is directly available through sections 248, 249 and 357 of the CMSA.

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning the issue for which any of the persons set out in section 236 of the CMSA, e.g. directors and advisers, are responsible.

Acceptance of the applications will be conditional upon permission being granted by Bursa Securities to deal in and for the listing of and quotation for our entire enlarged and issued paid-up ordinary capital shares on the ACE Market of Bursa Securities. Accordingly, all monies paid in respect of any application accepted from you will be returned in full without interest if the application is not made within the third day on which Bursa Securities is open after the date of issue of this Prospectus or the permission is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that we are notified by or on behalf of Bursa Securities within the aforesaid timeframe. If any such monies are not returned in full within fourteen (14) days after we become liable to do so, the provision of 243(2) of the CMSA shall apply accordingly.

This Prospectus has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia, and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or with or by any regulatory authority or other relevant body of any jurisdiction other than Malaysia.

We will not, prior to acting on any acceptance in respect of the IPO, make or be bound to make any enquiry as to whether you have a registered address in Malaysia and will not accept or be deemed to accept any liability in relation thereto whether or not any enquiry or investigation is made in connection therewith.

We will not take any action to ensure that this Prospectus complies with the laws of any countries or jurisdiction other than the laws of Malaysia. It is your sole responsibility to consult your legal and/or other professional advisers on the applicable laws that you are or might be subjected to. Neither us nor KIBB will accept any responsibility or liability if your application becomes illegal, unenforceable, voidable or void in any country or jurisdiction.

Further, it shall also be your sole responsibility to ensure that your application for the Issue Shares (as defined in this Prospectus) would be in compliance with the terms as stated in this Prospectus and the Application Forms (as defined in this Prospectus) and would not be in contravention of any law of countries or jurisdictions other than Malaysia to which you may be subjected to. We will further assume that you have accepted the IPO in Malaysia and will at all applicable time be subjected only to the laws of Malaysia in connection therewith. However, we reserve the right, in our absolute discretion to treat any acceptance as invalid if we believe that such acceptance may violate any law or applicable legal or regulatory requirements.

We have not authorised any person to give any information or to make any representation that is not contained in this Prospectus in connection with the IPO. If any such information or representation is given or made, you must not rely on them as having been authorised by us and/or KIBB. Neither the delivery of this Prospectus nor any public issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of our Company since the date of this Prospectus.

If there are any discrepancies or inconsistencies between the English and Malay versions of this Prospectus, the English version shall prevail.

ELECTRONIC PROSPECTUS / INTERNET SHARE APPLICATION

This Prospectus can also be viewed or downloaded from the Bursa Securities' website at www.bursamalaysia.com. The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same.

You may also obtain a copy of the Electronic Prospectus from the website of CIMB Investment Bank Berhad at www.eipocimb.com, the website of CIMB Bank Berhad at www.cimbclicks.com.my, the website of Malayan Banking Berhad at www.maybank2u.com.my and the website of Affin Bank Berhad at www.affinOnline.com via hyperlink to the website of Bursa Securities.

You are advised that the Internet is not a fully secured medium, and that your Internet Share Application (as defined in this Prospectus) may be subject to risks in data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond the control of the Internet Participating Financial Institution (as defined in this Prospectus). These risks cannot be borne by the Internet Participating Financial Institutions.

If you are in doubt about the validity or integrity of an Electronic Prospectus, you should immediately request from us, our Adviser / Sponsor or Issuing House, a paper printed copy of this Prospectus. In the event of any discrepancy arising between the contents of the Electronic Prospectus and the paper printed copy of this Prospectus for any reason whatsoever, the contents of the paper printed copy of this Prospectus, which is identical to the copy of the Prospectus registered with the SC, shall prevail.

In relation to any reference in this Prospectus to third party Internet sites (referred to as **"Third Party Internet Sites"**), whether by way of hyperlinks or by way of description of the Third Party Internet Sites, you acknowledge and agree that:

(i) we and our Adviser / Sponsor do not endorse and are not affiliated in any way with the Third Party Internet Sites. Accordingly, we and our Adviser / Sponsor are not responsible for any availability of, or the content or any data, files or other materials provided on the Third Party Internet Sites. You bear all risks associated with the access to or use of the Third Party Internet Sites;

(ii) we and our Adviser / Sponsor are not responsible for the quality of products or services in the Third Party Internet Sites, particularly in fulfilling any of the terms of any of your agreements with the Third Party Internet Sites. We and our Adviser / Sponsor are also not responsible for any loss or damage or cost that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance on any data, files or materials provided by such parties; and

(iii) any data, information, files or other materials downloaded from the Third Party Internet Sites is done at your discretion and risk. We and our Adviser are not responsible, liable or under obligations for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other materials.

Where an Electronic Prospectus is hosted on the website of the Internet Participating Financial Institutions, you are advised that:

(i) the Internet Participating Financial Institutions are only liable in respect of the integrity of the contents of an Electronic Prospectus, to the extent that the content of the Electronic Prospectus situated on the web server of the Internet Participating Financial Institutions which may be viewed via your web browser of other relevant software. The Internet Participating Financial Institutions shall not be responsible in any way for the integrity of the contents of an Electronic Prospectus, which has been obtained from the web server of the Internet Participating Financial Institutions, and subsequently communicated or disseminated in any manner to you or other parties; and

(ii) while all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in an Electronic Prospectus, the accuracy and reliability of the Electronic Prospectus cannot be guaranteed because the Internet is not a fully secured medium.

The Internet Participating Financial Institutions are not liable (whether in tort or contract or otherwise) for any loss, damage or costs, you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracy, change, alteration, deletion or omission in respect of the information provided in an Electronic Prospectus which may arise in connection with or as a result of any fault with web browser or other relevant software, any fault on yours or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the Internet Participating Financial Institutions, and/or problems occurring during data transmission, which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

PUBLIC SHAREHOLDING SPREAD

In compliance with the Listing Requirements (as herein defined), we need to have at least 25% of our enlarged issued and paid-up share capital in the hands of a minimum number of 200 public shareholders, holding not less than 100 Shares each, upon admission to the ACE Market. We expect to achieve this at the point of Listing. However, in the event that this requirement is not met pursuant to this IPO (and no corresponding waiver is granted), we may not be allowed to proceed with the IPO. In this event, monies paid in respect of all applications will be returned in full without interest.

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IMPORTANT DATES

The indicative timing of events leading up to the listing of and quotation for our Company's entire enlarged issued and paid-up share capital on the ACE Market is set out below: -

Event	Tentative Date
Issuance of Prospectus / Opening of Application for the Issue Shares	28 March 2011
Closing of Application for the Issue Shares	4 April 2011
Balloting Date	6 April 2011
Despatch of Notices of Allotment to successful applicants	12 April 2011
Listing of our Company's entire enlarged issued and paid-up share capital on the ACE Market	18 April 2011

SAVE FOR THE OPENING DATE OF THE APPLICATION FOR THE ISSUE SHARES, THESE DATES ARE TENTATIVE AND ARE SUBJECT TO CHANGES WHICH MAY BE NECESSARY TO FACILITATE IMPLEMENTATION PROCEDURES.

APPLICATIONS WILL BE ACCEPTED FROM 10:00 A.M. ON 28 MARCH 2011 AND WILL REMAIN OPEN UNTIL 5:00 P.M. ON 4 APRIL 2011 OR SUCH LATER DATE OR DATES OUR BOARD OF DIRECTORS AND KIBB AT THEIR ABSOLUTE DISCRETION MAY JOINTLY DECIDE. LATE APPLICATIONS WILL NOT BE ACCEPTED.

SHOULD THE DATE OF CLOSING OF APPLICATION FOR THE ISSUE SHARES BE EXTENDED, THE DATES FOR BALLOTING, DESPATCH OF NOTICES OF ALLOTMENT TO SUCCESSFUL APPLICANTS AND LISTING OF OUR ENTIRE ENLARGED ISSUED AND PAID-UP SHARE CAPITAL ON THE ACE MARKET WILL BE EXTENDED ACCORDINGLY. IN THE EVENT THE DATE OF THE CLOSING OF APPLICATION FOR THE ISSUE SHARES IS EXTENDED, THE PUBLIC WILL BE NOTIFIED OF SUCH EXTENSION BY WAY OF ADVERTISEMENTS PLACED IN A WIDELY CIRCULATED ENGLISH AND BAHASA MALAYSIA NEWSPAPER PRIOR TO THE ORIGINAL CLOSING DATE.

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FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements. All statements other than those of historical facts included in this Prospectus, including, without limitation, those regarding our Group's financial position, business strategies, plans and objectives of our Management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, contingencies and other factors which may cause our actual results, our performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our Group's present and future business strategies and the environment in which our Group will operate in the future. Such forward-looking statements reflect our Management's current view with respect to future events and are not a guarantee of future performance.

Some of these forward-looking statements can be identified by the use of forward-looking terminology such as the words "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast", or similar expressions and include all statements that are not historical facts. Such forward-looking statements include, without limitation, statements relating to:

(a) demand for our products and services;
(b) our business strategies;
(c) plans and objectives of our Management for future operations, products and services;
(d) our financial positions; and
(e) our future earnings, cash flows and liquidity.

Our actual results may differ materially from information contained in such forward-looking statements as a result of a number of factors beyond our control, including, without limitations:

(a) the economic, political and investment environment in Malaysia and globally; and
(b) government policy, legislation or regulation.

Additional factors that could cause our actual results, performance or achievement to differ materially include, but are not limited to those discussed in Section 6 – "Risk Factors" and Section 8.3 – "Management's Discussion and Analysis on Financial Condition and Results of Operations" of this Prospectus. Due to these and other uncertainties, we cannot assure you that the forward-looking statements included in this Prospectus will be realised.

The forward-looking statements in this Prospectus are based on information available to us as at the date of this Prospectus. We expressly disclaim any obligation or undertaking to release publicly any update or revision to any forward-looking statement contained in this Prospectus to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

You will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forward-looking statements that are contained herein.

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DEFINITIONS

The following terms shall apply throughout this Prospectus unless otherwise defined or the context requires otherwise:

ACE Market	:	ACE Market of Bursa Securities
Act	:	Companies Act 1965
ADA	:	Authorised Depository Agent
Application Forms	:	The printed application form(s) for the application of the Issue Shares
Articles or Articles of Association	:	Articles of Association of our Company
Board or Directors or Board of Directors	:	Board of Directors of our Company
Bonus Issue	:	On 21 September 2010, Smartag Solutions completed a bonus issue of 150,000,000 new Smartag Solutions Shares issued and credited as fully paid-up on the basis of fifteen (15) new Smartag Solutions Shares for every two (2) existing Smartag Solutions Shares held before the bonus issue
CAGR	:	Compound Annual Growth Rate
CCM	:	Companies Commission of Malaysia
CDS	:	Central Depository System
CDS Account	:	An account established with Bursa Depository by a Depositor for the recording of deposits or withdrawal of securities and for dealings in such securities by the Depositor
CEO	:	Chief Executive Officer
CMSA	:	Capital Markets and Services Act 2007
CTOO	:	Chief Technology and Operations Officer
Depositor	:	A holder of a CDS Account
EBITDA	:	Earnings before interest, taxation, depreciation and amortisation
Electronic Share Application	:	Application for the Issue Shares through Participating Financial Institution's Automatic Teller Machine as set out in Section 16 of this Prospectus
EPS	:	Earnings per share
FPE	:	Financial period ended/ending
FYE	:	Financial year ended/ending
Government	:	The Federal Government of Malaysia
ICT	:	Information Communication Technology

DEFINITIONS *(Cont'd)*

Independent Directors	:	The independent directors of Smartag Solutions as at the date of this Prospectus
Internet Participating Financial Institution	:	Participating organisations for the Internet Share Application as listed in Section 16 of this Prospectus
Internet Share Application	:	Application of the Issue Shares through an Internet Participating Financial Institution
IPO	:	Initial Public Offering for the Issue Shares in conjunction with the listing of and quotation for our entire enlarged issued and paid-up share capital on the ACE Market
Issue Price	:	RM0.31 per Issue Share
Issue Shares	:	The 57,000,000 new Smartag Solutions Shares representing approximately 25.11% of our enlarged issued and paid-up share capital to be issued pursuant to the Public Issue
LPD	:	15 February 2011, being the latest practicable date prior to the date of this Prospectus
Listing	:	Our admission to the Official List of the ACE Market and the initial listing of and quotation for Smartag Solutions' entire enlarged issue and paid-up share capital comprising 227,000,000 Smartag Solutions Shares on the ACE Market
Listing Requirements	:	Listing Requirements for the ACE Market issued by Bursa Securities
Market Day	:	Any day between Monday and Friday (inclusive of both days) which is not a public holiday and on which Bursa Securities is open for the trading of securities
MoU	:	Memorandum of Understanding
NA	:	Net assets
NBV	:	Net book value
NTA	:	Net tangible assets
PAT	:	Profit after taxation
PBT	:	Profit before taxation
Private Placement	:	The private placement of 50,000,000 Issue Shares to eligible identified investors at the Issue Price
Placement Agent	:	Kenanga Investment Bank Berhad (15678-H)
Promoters	:	Datuk Abdul Hamed bin Sepawi, Lim Peng Keong and Choong Huck Liang, collectively
Prospectus	:	This prospectus dated 28 March 2011 in relation to the IPO

DEFINITIONS *(Cont'd)*

Public Issue	:	The public issue of the Issue Shares at the Issue Price, to eligible identified investors by way of private placement and Issue Shares made available to eligible directors, employees and persons who have contributed to the success of our Group, and to the Malaysian public, payable in full upon application and subject to the terms and conditions of this Prospectus and the Application Forms
R&D	:	Research and development
RM and sen	:	Ringgit Malaysia and sen, respectively, the official currency of Malaysia
SC Guidelines	:	SC's Equity Guidelines issued on 8 May 2009 (effective and updated on 3 August 2009)
SME	:	Small-to-medium enterprise
Sq. ft.	:	Square feet
Smartag Solutions Shares or Shares	:	Ordinary shares of RM0.10 each *in* Smartag Solutions
THB	:	Thai Baht, the official currency of Thailand
Underwriter	:	Kenanga Investment Bank Berhad (15678-H)
Underwriting Agreement	:	The underwriting agreement dated 3 March 2011 between our Company and the Underwriter for the underwriting of 7,000,000 Issue Shares
USA	:	United States of America
USD	:	United States Dollar

Company and Organisation Abbreviations

Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities or the Exchange	:	Bursa Malaysia Securities Berhad (635998-W)
Danawa	:	Danawa Resources Sdn Bhd (164490-D)
FMM	:	Federation of Malaysian Manufacturers
Frost & Sullivan	:	Frost & Sullivan Malaysia Sdn Bhd (522293-W)
ISO	:	International Organisation for Standardisation
Issuing House	:	MIDF Consultancy and Corporate Services Sdn Bhd (11324-H)
KIBB or Adviser or Sponsor	:	Kenanga Investment Bank Berhad (15678-H)
MDeC	:	Multimedia Development Corporation
MCMC	:	Malaysian Communications and Multimedia Commission

DEFINITIONS *(Cont'd)*

MITI	:	Ministry of International Trade and Industry
MSC	:	Multimedia Super Corridor
Netbay	:	Netbay Co. Ltd (Registration No.: 0105547155810)
Registrar	:	Boardroom Corporate Services (KL) Sdn Bhd (3775-X)
Reporting Accountants and Auditors	:	Baker Tilly Monteiro Heng (AF 0117)
ROC	:	Registrar of Companies
Royal Thai Customs	:	The Customs Department of Thailand
SC	:	Securities Commission of Malaysia
SIPG	:	Shanghai International Port (Group) Co. Ltd (Registration No: 310000400003970), the managing company of Shanghai Port
SIRIM	:	Standard and Industrial Research Institute of Malaysia
Smartag International	:	Smartag International Inc. (formerly known as Art4Love, Inc.) (I.R.S. Employer Identification No.: 81-0554149) our 94.01% owned subsidiary company
Smartag Solutions or Company	:	Smartag Solutions Berhad (639421-X)
Smartag Solutions Group or Group	:	Collectively, Smartag Solutions, its subsidiary companies and its jointly-owned entity
Smartag Technologies	:	Smartag Technologies Sdn Bhd (600030-D), our wholly-owned subsidiary company
SSET	:	Shanghai Super Electronic Technology Co Ltd (Registration No.: 3101042008973)
Sure-Reach Smartag	:	Sure-Reach Smartag Sdn Bhd (892718-M) (formerly known as Uempirical Sdn Bhd), a jointly-owned entity of our Company and Sure-Reach Worldwide Express Sdn Bhd (600702-X)

Technical Terms Glossary and Terms Specific to Our Business

EPC	:	Electronic Product Code is a unique number that is used to identify a specific item in a supply chain as defined by EPCglobal.
EPCglobal	:	EPCglobal is a joint venture between GS1 (Global Standards One) (formerly known as EAN International) and GS1 US (formerly the Uniform Code Council, Inc.). It is an organization set up to achieve worldwide adoption and standardization of EPC technology and is comprised of industry representatives and organisations focused on creating global standards for RFID. The main focus of EPCglobal currently is to create both a worldwide standard for RFID and the use of the Internet to share data via EPCglobal network participants.

DEFINITIONS *(Cont'd)*

EPCIS	:	EPC Information Services or EPCIS is an EPCglobal standard to enable disparate applications to leverage EPC data via EPC-related data sharing, both within and across enterprises. Ultimately, this sharing is aimed at enabling participants in the EPCglobal network to gain a shared view of the disposition of EPC-bearing objects within a relevant business context.
GPS	:	Global Positioning System is a space-based global navigation satellite system that provides location and time information where there is an unobstructed line of sight to GPS satellites.
ISO18186:2010	:	"ISO18186:2010 - Freight Container - RFID Cargo Shipment Tag System" is an international standard which describes the parameters of RFID based systems for freight container logistics in order to improve transparency and efficiency of cargo shipment.
Land Checkpoint Project	:	Refers to our project which involves enabling containers transported via land to be tracked using RFID tags and RFID systems based on ISO18186:2010 standard. The RFID tags are affixed to the containers and are scanned by RFID readers which are set up by us at locations such as customs checkpoints or other gateways to retrieve vital information pertaining to the merchandise stored in the RFID tags. Our revenue model for this container tracking service to potential clients will be based on the frequency of the tags being read at checkpoints. This is discussed under Section 5.15.1 of this Prospectus.
Middleware	:	Middleware refers to computer software that connects software components and their applications. The features of a middleware vary from one vendor to another, but its basic function is to filter and streamline the data and route those to the respective user-interface software and systems. In a RFID system the middleware filters data collected by RFID readers and routes the data to back-end user interface software and systems.
Port Project	:	Refers to our project involving end-to-end tracking of containers being shipped from warehouses to shipping ports and beyond using RFID tags and RFID systems based on ISO18186:2010 standard. Our Port Project will be based on the same business and revenue model as our Land Checkpoint Project. This is discussed under Section 5.15.2 of this Prospectus.
RFID	:	Radio Frequency Identification (RFID) is an electronic system using radio frequency signals to identify individually tagged objects or personnel using RFID tags without any direct contact or line of sight for the purpose of identification and tracking.
RFID E-Seal	:	RFID E-Seals refer to the active RFID tags currently manufactured by SSET which our Company plans to provide under Land Checkpoint Project and Port Project to potential clients as part of our service.
RFID reader	:	RFID reader is also referred as an interrogator which sends and receives data to and from the RFID tag through antennas. RFID readers are strategically placed within a specified area to transmit radio signals to the tags to retrieve required data about the object being tagged within a specified range.

DEFINITIONS *(Cont'd)*

RFID tag	:	RFID tag, also known as a transponder refers to a radio device that consists of an integrated chip attached to an aerial and is placed in a casing for the device. The basic types of RFID tags consist of passive tags, active tags and semi-passive tags which are further discussed in Section 4.3.2 (i) of this Prospectus.
TEU	:	Twenty-foot Equivalent Unit which refers to a standard measurement for freight containers.
User Acceptance Test	:	A process to obtain confirmation by the owner or client of the object under test, through trial or review, that a system meets mutually agreed-upon requirements.

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Company No. 639421-X

1. CORPORATE DIRECTORY

BOARD OF DIRECTORS

Name/Designation	Address	Occupation	Nationality
Datuk Abdul Hamed bin Sepawi *(Non-Independent Non-Executive Chairman)*	9, Luak Buay, 98007 Miri, Sarawak	Company Director	Malaysian
Lim Peng Keong *(Executive Director)*	No. 24, Lintang Delima Dua, 11700 Gelugor, Pulau Pinang	Company Director	Malaysian
Choong Huck Liang *(Executive Director)*	1C-3-I2, Taman Leader, Jalan Chee Seng 13 11200 Tanjong Bungah, Pulau Pinang	Company Director	Malaysian
Dato' Ngiam Foon *(Independent Non-Executive Director)*	21, Jalan Sri Hartamas 15, Taman Sri Hartamas, 50480 W. Persekutuan Kuala Lumpur	Company Director	Malaysian
Dato' Seri Chia Kwang Chye *(Independent Non-Executive Director)*	No 1, Jalan Pelangi, Hillside, Tanjong Bungah, 11200, Pulau Pinang	Company Director	Malaysian
Lim Boh Soon *(Independent Non-Executive Director)*	56 Yuk Tong Avenue, Singapore 596357	Company Director	Singaporean

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Ngiam Foon	Chairman	Independent Non-Executive Director
Dato' Seri Chia Kwang Chye	Member	Independent Non-Executive Director
Lim Boh Soon	Member	Independent Non-Executive Director

1. CORPORATE DIRECTORY *(Cont'd)*

NOMINATING COMMITTEE

Name	Designation	Directorship
Lim Boh Soon	Chairman	Independent Non-Executive Director
Dato' Ngiam Foon	Member	Independent Non-Executive Director
Dato' Seri Chia Kwang Chye	Member	Independent Non-Executive Director
Datuk Abdul Hamed bin Sepawi	Member	Non-Independent Non-Executive Chairman

REMUNERATION COMMITTEE

Name	Designation	Directorship
Dato' Seri Chia Kwang Chye	Chairman	Independent Non-Executive Director
Lim Boh Soon	Member	Independent Non-Executive Director
Dato' Ngiam Foon	Member	Independent Non-Executive Director
Datuk Abdul Hamed bin Sepawi	Member	Non-Independent Non-Executive Chairman

COMPANY SECRETARY : Lam Voon Kean (MIA 4793)
9 Reservoir, 5th Avenue, 11500 Pulau Pinang

REGISTERED OFFICE : Suite 2-1, 2nd Floor Menara Penang Garden
42A Jalan Sultan Ahmad Shah
10050 Pulau Pinang
Tel: (604) 229 4390
Fax: (604) 226 5860

HEAD OFFICE : 368-4-1, Bellisa Row
Jalan Burmah
10350 Georgetown
Pulau Pinang
Tel: (604) 227 5013
Fax: (604) 226 3591
Website: http://www.smartag.my
Email: info@smartag.my

1. CORPORATE DIRECTORY *(Cont'd)*

ADVISER, SPONSOR, UNDERWRITER AND PLACEMENT AGENT	:	Kenanga Investment Bank Berhad (15678-H) 801, 8th Floor Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur Tel: (603) 2027 5555 Fax: (603) 2164 6690
AUDITORS AND REPORTING ACCOUNTANTS	:	Baker Tilly Monteiro Heng (AF 0117) Monteiro & Heng Chambers 22 Jalan Tun Sambanthan 3 50470 Kuala Lumpur Tel: (603) 2274 8988 Fax: (603) 2260 1708
SOLICITORS FOR THE LISTING	:	Cheang & Ariff 39 Court @ Loke Mansion 273A Jalan Medan Tuanku 50300 Kuala Lumpur Tel: (603) 2691 0803 Fax: (603) 2692 8533
LEGAL ADVISER TO OUR COMPANY ON LAWS AND REGULATIONS OF THE USA	:	Law Offices of Eric Stoppenhagen 244 5th Avenue Suite 1878 New York, NY 10001 Tel: (646) 594 8669 Fax: (949) 258 5379
INTERNAL CONTROL CONSULTANTS	:	Morison AAC Advisory Sdn Bhd (579966-K) 18 Jalan 1/64 Off Jalan Kolam Air Jalan Ipoh 51200 Kuala Lumpur Tel: (603) 4048 2888 Fax: (603) 4048 2999
INDEPENDENT MARKET RESEARCHER	:	Frost & Sullivan Malaysia Sdn Bhd (522293-W) Suite E-08-15, Block E Plaza Mont Kiara 2 Jalan Kiara, Mont' Kiara 50480 Kuala Lumpur Tel: (603) 6204 5800 Fax: (603) 6201 7402
PRINCIPAL BANKER	:	Malayan Banking Berhad (3813-K) Sentul Raya Sales & Service Centre No. 12 &14, Jalan 14/48A, The Boulevard Shop Office, Off Jalan Sentul 51000 Kuala Lumpur Tel: (603) 4045 6562 Fax: (603) 4045 6009

1. CORPORATE DIRECTORY *(Cont'd)*

REGISTRAR	:	Boardroom Corporate Services (KL) Sdn Bhd (3775-X) Lot 6.05, Level 6, KPMG Tower 8 First Avenue Bandar Utama 47800 Petaling Jaya Selangor Darul Ehsan Malaysia Tel: (603) 7720 1188 Fax: (603) 7720 1111
ISSUING HOUSE	:	MIDF Consultancy and Corporate Services Sdn Bhd (11324-H) Level 8, Menara MIDF 82, Jalan Raja Chulan 50200 Kuala Lumpur Tel: (603) 2173 8888 Fax: (603) 2173 8677
STOCK EXCHANGE LISTING SOUGHT IN RELATION TO THE PUBLIC ISSUE	:	ACE Market of Bursa Securities

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2. SUMMARY INFORMATION

THIS FOLLOWING INFORMATION SUMMARY SETS OUT THE SALIENT INFORMATION CONTAINED IN THIS PROSPECTUS. YOU SHOULD READ AND UNDERSTAND THIS INFORMATION SUMMARY TOGETHER WITH THE FULL TEXT OF THIS PROSPECTUS PRIOR TO DECIDING ON WHETHER TO INVEST.

2.1 INFORMATION ON OUR GROUP

2.1.1 Information on Smartag Solutions, its Subsidiaries and its Jointly Owned Entity

Our Company, Smartag Solutions was incorporated in Malaysia on 12 January 2004 under the Act as a private limited company under the name of Smartag Solutions Sdn Bhd and was converted into a public limited company and adopted its present name on 11 June 2008. On 25 February 2011, our Company received a Thai foreign business license to provide container tracking services using RFID to Netbay. Please refer to Section 5.11 for further details of the foreign business licence.

As at the LPD, the authorised share capital of Smartag Solutions is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each and the issued and paid-up share capital of Smartag Solutions is RM17,000,000 comprising 170,000,000 ordinary shares of RM0.10 each.

Our Group's corporate structure is as follows:

Smartag Solutions	
Date / country of incorporation	*12.01.2004 / Malaysia*
Issued and paid-up capital (RM)	*17,000,000*
Principal activities	*Provision of RFID solutions for various applications*

	Smartag Technologies	
100.00%	Date / country of incorporation	*27.11.2002 / Malaysia*
	Issued and paid-up capital (RM)	*50,098*
	Principal activities	*Currently dormant*

	Smartag International	
94.01%	Date / country of incorporation	*24.03.1999 / USA*
	Total paid-in capital (USD)	*1,238,998*
	Principal activities	*Currently dormant*

	Sure-Reach Smartag	
50.00%	Date / country of incorporation	*11.03.2010 / Malaysia*
	Issued and paid-up capital (RM)	*10,030,000*
	Principal activities	*R&D of information technologies*

Our core business is provided through Smartag Solutions, while our subsidiaries comprising Smartag Technologies and Smartag International are currently dormant companies. Sure-Reach Smartag is a jointly-owned company formerly known as Uempirical Sdn Bhd which was formed together by Smartag Solutions and Sure-Reach Worldwide Express Sdn Bhd to provide RFID software solutions and integration for courier services and document record management industries. Further information on our subsidiaries and jointly-owned entity is set out in **Section 4.2** of this Prospectus.

Smartag is headed by our CEO, Lim Peng Keong who is one of the pioneer members of our Company. Our Company was formed to tap into the vast potential of RFID technology that can be applied to a myriad of applications for various industries. We position ourselves as a total RFID solutions provider by focusing on identifying our clients' needs and how their business processes can be improved by using RFID technology.

Our history and key milestones to date are detailed in **Section 5.1.4** of this Prospectus.

2.1.2 Summary of Our RFID Products and Solutions

Currently, our Company generates revenue from sales of our internally developed RFID software product, Smartware™ and RFID-based solutions for various applications such as logistics management, supply chain management, inventory management, warehouse optimization and asset tracking. Please refer to **Section 8** of this Prospectus for more information of our revenue breakdown.

The revenue model for our products and services is summarised below:-

(i) RFID Products

Our core product currently consists of our internally developed RFID middleware known as Smartware™. Our Smartware™ is used in all our RFID solutions or can be sold individually to potential customers such as resellers who are typically system integrators who use our Smartware™ middleware as part of their RFID solutions for their own clients.

In addition, we have also developed a new software engine product known as Smartrack™ which serves as a data repository system allowing seamless information sharing between different parties in a RFID system. Smartrack™ can be sold individually or used as part of our RFID solutions. Our Smartrack™ can be used as part of the software component in providing our service in our Land Checkpoint Project and Port Project.

We have also developed and are currently marketing the use of our semi-passive RFID tag which is a hardware product. Both our Smartrack™ software engine and semi-passive RFID tag is expected to contribute positively to our future revenue.

(ii) RFID Solutions

Our core activity is providing total RFID solutions using our Smartware™ middleware and other third party components to enable filtering and processing tasks to generate useful data that can be used for timely decision making. Our solutions are customised and implemented on a project basis for our clients. Additionally, our solutions are also sold to resellers who are typically system integrators who procure our RFID solutions for their own end-user clients. The solutions provided are also tailored to these system integrators' specifications.

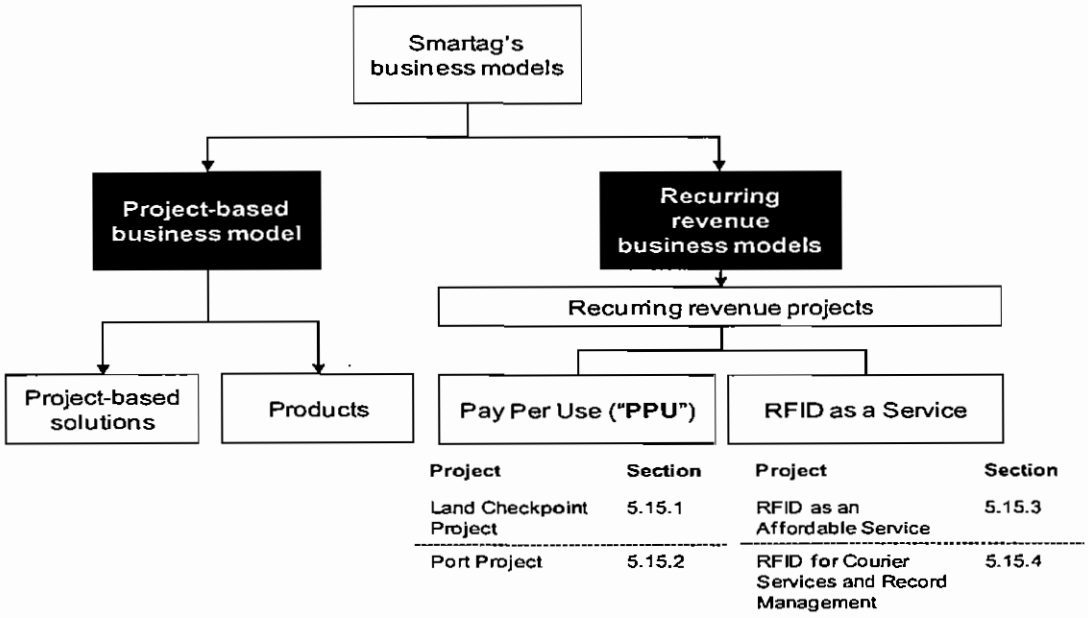
Our services typically involve helping our clients to optimize their business processes and systems by integrating RFID-based technology and solutions. The integration of RFID technology involves the installation of the relevant hardware and our RFID software products into the existing systems of our clients.

Further details of what RFID is and what we provide as a business are explained in **Section 4.3 and Section 5.1.1** of this Prospectus, respectively.

2. SUMMARY INFORMATION *(Cont'd)*

2.2 SUMMARY OF OUR FUTURE PLANS

Our future plans focuses on building our market share, expanding into new areas of RFID technology and new areas of RFID applications and enhancing our business model to provide us with recurrent income, where possible. Our future plans and strategies will be implemented through the business models as summarised in the diagram below:-



Historically our revenue has been derived on a project basis and through sales to resellers. We are taking steps to diversify our business using models such as PPU to allow us to generate recurring revenue from a wider clientele base through our Land Checkpoint Project and Port Project. We are also moving towards providing RFID on a subscription service basis that will generate recurring fees through our subsidiary, Smartag Technologies. Our jointly-owned entity, Sure-Reach Smartag will be developing RFID solutions for courier services and record management. Please refer to the respective sections of the Prospectus as depicted in the above diagram for further information.

Our Smartware™ and Smartrack™ will serve as among the key components in our RFID system to be used for the Land Checkpoint Project and the Port Project.

Land Checkpoint Project

Our Land Checkpoint Project enables containers transported via roads to be tracked using our RFID system based on ISO18186:2010 standard. The RFID tags are affixed to the containers and are scanned by RFID readers which are set up by us at locations such as customs checkpoints or other gateways to retrieve vital information pertaining to the merchandise stored in the RFID tags. The use of RFID technology aids in improving logistical efficiencies, deters tampering of goods while in transportation, reduces waiting time at customs checkpoints and enhances monitoring of goods in transport.

Our Smartrack™ software engine will serve as an enabler to our service and functions as a central depository of information where authorised users including our potential clients can retrieve information pertaining to the merchandise being shipped such as status of journey, status of completion of customs paperwork, container tamper detection and time of arrival.

2. SUMMARY INFORMATION *(Cont'd)*

Our revenue model for this container tracking service to potential clients will be based on the frequency of the tags being read at checkpoints. Our initial commercialisation point for the Land Checkpoint Project is expected to begin in Thailand where the RFID systems and infrastructures have been set up at various customs checkpoints, namely at Sadao, Suvarnabhumi and Mukdahan.

We intend to subsequently expand this route into a network of RFID-linked routes which will extend from Malaysia to Thailand, Laos, Vietnam and parts of Southern China using the proceeds from our Public Issue. While we expect our initial commercialisation in Thailand to serve as the foundation to this business model, our Land Checkpoint Project can be replicated in other countries as well should the opportunity arise.

As part of our efforts towards commercialisation of the Land Checkpoint in Thailand, we are collaborating with Netbay as our Thailand-based business partner. Netbay is a provider of comprehensive online transaction services in Thailand for consumers, business entities and government entities. Among these services, Netbay is currently responsible for providing online transaction services to users that transport their merchandise across customs checkpoints under the purview of the Royal Thai Customs. Netbay's online services allow the users to conduct the necessary paperwork, license application and also make customs related payment electronically.

Our Company has completed commercial trials with Netbay to link our RFID system to Netbay's existing network system so that the users of Netbay's payment system will be able to subscribe to our service to track and trace their merchandise. On 25 February 2011, our Company received a Thai foreign business license to provide container tracking services using RFID to Netbay. Please refer to Section 5.11 for further details of the foreign business licence. On 15 March 2011 we entered into an RFID Container Tracking Service and Partnership Agreement with Netbay for the implementation of, with the assistance of Netbay, RFID container tracking systems and services at designated customs checkpoints in Thailand determined by the Royal Thai Customs.

More detailed information in regards to our Land Checkpoint Project are set out in **Section 5.15.1** of this Prospectus.

Port Project

Our Port Project represents an extension of our Land Checkpoint Project as any merchandise intended for export and transported through land is likely to eventually require shipping facilities of the port. Our Port Project is built upon the same business and revenue model as our Land Checkpoint Project where we provide RFID track and trace as a long term service to our clients to ensure recurring revenue.

We have already set up RFID infrastructures at a few ports which are ready for commercialisation. Currently, we are performing road-shows and seminars to generate awareness with regards to our Port Project among potential users and clients such as manufacturers and traders who need to track their merchandise being shipped.

As the network of port expands under our Port Project, many stakeholders including potential users of the system, freight forwarders, shipping liners and port authorities alike stand to benefit from our RFID track and trace capability and seamless sharing of data. Subscribers or users of our service through Smartrack™ as a platform and mediator for data sharing will gain better visibility and security of their containers which are shipped between various RFID enabled ports and other destinations. More detailed information in regards to our Port Project are set out in **Section 5.15.2** of this Prospectus.

RFID as an Affordable Service

We are working to provide RFID service through an affordable subscription basis and leveraging the internet as a platform to achieve this. Some telecommunication service providers have a base of corporate clients in which we can tap into as our potential pool of clients as well. SMEs can subscribe to our services for purposes like asset tracking, stock-takes, personnel tracking and security. More information is set out in **Section 5.15.3** of this Prospectus.

RFID for Courier Services and Record Management

Sure-Reach Smartag is currently undertaking R&D for RFID-based solutions for courier services and document record management industries with expected completion of development by 2012. However, the results are yet to be commercialised. With the use of RFID, users and other stakeholders of the system will be able to obtain accurate updates of the parcel's delivery status and minimise human error when handling and sorting / distributing parcels. More information is set out in **Section 5.15.4** of this Prospectus.

2.3 RISK FACTORS

You should carefully consider, along with other matters in this Prospectus, the risks and investment considerations as set out in Section 6 of this Prospectus (which may not be exhaustive) and summarised below:-

Business Risks

(a) Any future inability to continuously secure new projects will lead to fall in revenue and may adversely impair our ability to sustain our business, financial condition and operational results

(b) Project risks may pose under-estimation of project costs, delays in project completion and cancellation of projects which may all adversely impact our Company's reputation and affect our business, financial condition and operational results

(c) Dependency on a few major customers at any point in time and the loss of any customers may materially affect the business, operating results and financial position of the Group

(d) Any inability to execute our future plans successfully will result in us incurring expenses and resources without corresponding increases in revenue which may adversely affect our business growth moving forward

(e) Dependency on SSET for their RFID E-Seals to be used in our Land Checkpoint Project and Port Project may materially affect our business, financial condition and operational results should SSET stop supplying, cease to manufacture or for any reasons unable to supply such hardware to us

(f) Dependency on major suppliers

(g) Our exposure to the foreign exchange currency market and any adverse movements in the foreign exchange currency market may negatively impact our business, financial position and operating results

(h) Dependency on key personnel may impair our operations and materially affect our business, financial condition and operational results, should they leave their employment with our Group

2. SUMMARY INFORMATION *(Cont'd)*

(i) Limited human capital and financial resources will undermine our ability to take on more projects at any one time which may result in loss of opportunities and loss of potential revenue and profits

(j) Our inability to attract and retain qualified personnel will limit our business growth and may adversely affect our business, financial condition and operating results

(k) We may not have sufficient insurance coverage

(l) Non-renewal or loss of our MSC status may result in loss of competitiveness when vying for new projects and also loss of benefits deriving from our pioneer status which may adversely impact our business and financial condition

(m) Possible infringement of third party intellectual rights may cause substantial costs being incurred and diversion of our management's attention and resources from the business operation which could have a material adverse effect on our business, financial condition and results of operations

(n) Material defects in our products and solutions may potentially pose liability issues to our Company which may adversely impact our financial position

Risk Related to Our Industries

(a) Lack of awareness may inhibit greater up-take of RFID technology

(b) Lack of skilled resources in relations to RFID expertise may inhibit the pace of our business expansion

(c) Initial set up costs may delay or deter adoption of RFID technology and growth in the RFID market

(d) Any future inability to keep up with constant changes in technology advancements and competition may pose challenges for the growth of our Group

Other Risks

(a) Control by Promoters may limit our ability to influence the outcome of decisions requiring the approval of shareholders

(b) Susceptibility to global economic slowdowns and changes to political and legislative developments may materially affect the operations of our Group

Risk relating to our shares and share prices

(a) Failure or delays in the Listing

(b) No prior market for our Shares

(c) The market value of our Shares may be volatile and subject to external factors

Please refer to **Section 6** of this Prospectus for detailed information of our risk factors.

2. SUMMARY INFORMATION *(Cont'd)*

2.4 FINANCIAL HIGHLIGHTS

2.4.1 Proforma Consolidated Income Statement

The proforma and audited consolidated income statements of our Group for the three (3) financial years ended 30 September 2008, 30 September 2009 and 30 September 2010 are set out below:

	<Proforma>		<Audited>
	<FYE 30 September>		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	23,915	34,558	22,769
Cost of sales	(14,516)	(26,346)	(9,808)
Gross profit	9,399	8,212	12,961
Other income	36	59	1,406
Other expenses	-	-	(8)
Selling and distribution expenses	(42)	(233)	(375)
Administrative expenses	(968)	(1,532)	(3,615)
Operating profit	8,425	6,506	10,369
Finance costs	-	-	(9)
Share of result of a jointly controlled entity	-	-	(12)
PBT	8,425	6,506	10,348
Taxation	-	(7)	(1)
PAT	8,425	6,449	10,347
EBITDA	8,440	6,618	10,484
Effective tax rate (%)	-	*0.11*	*0.01*
Gross profit margin (%)	*39.30*	*23.76*	*56.92*
Pretax margin (%)	*35.23*	*18.83*	*45.45*
Profit after tax margin (%)	*35.23*	*18.81*	*45.44*
*Number of ordinary shares assumed to be in issue of RM0.10 each ('000) **	*170,000*	*170,000*	*170,000*
*Gross Earnings per Share ("**EPS**") (sen)*	*4.96*	*3.83*	*6.09*
Net EPS (sen)	*4.96*	*3.82*	*6.09*

Note:-

* *Number of Smartag Solutions' ordinary shares in issue after the Bonus Issue.*

2. SUMMARY INFORMATION *(Cont'd)*

Basis of Preparation for FYE 30 September 2008, FYE 30 September 2009 and the FYE 30 September 2010

The proforma consolidated income statements of our Group are prepared for illustrative purposes only and have been prepared based on the audited financial statements of our Group and on the following basis:-

FYE 30 September 2008	Combined income statements of Smartag Solutions for the FYE 30 September 2008, Smartag Technologies for the ten (10) months FPE 30 September 2008 and Smartag International for the FYE 31 December 2008, after adjusting for the reclassification of Smartag Solutions' revenue of RM0.975 million in the FYE 30 September 2007 to the FYE 30 September 2008 in order to facilitate the elimination of inter-company sales to Smartag Technologies of which Smartag Technologies had recognised the related revenue and costs in its FYE 30 September 2008 upon the completion of the said project. Amount billed by Smartag Solutions in the FYE 30 September 2007 was recognised as work-in-progress by Smartag Technologies in its FYE 2007. The reclassification of Smartag Solutions' cost of sales amounting to RM0.269 million from FYE 30 September 2009 was due to late billings in order to match with the related revenue recognised during the FYE 30 September 2008.
FYE 30 September 2009	Combined income statements of our Company for the FYE 30 September 2009, Smartag Technologies for the FYE 30 September 2009 and Smartag International for the FYE 31 December 2009, after adjusting for the reversal of administrative expenses incurred by Smartag International for the financial period from 1 October 2009 to 31 December 2009 of USD4,772 (equivalent to RM16,809), and the reclassification of our Company's cost of sales from FYE 30 September 2009 to FYE 30 September 2008 as mentioned above. The audited financial statements of Smartag International were prepared for the FYE 31 December 2009 and the twelve (12) months financial period from 1 October 2009 to 30 September 2010 and as such, there was an overlapping period from 1 October 2009 to 31 December 2009 which gave rise to the adjustment of expenses.
FYE 30 September 2010	Based on the audited consolidated income statement of the Smartag Group for the FYE 30 September 2010.

(a) The proforma consolidated income statements for the financial years under review have been prepared based on the audited financial statements of our Company and our subsidiaries which have been prepared at the different financial year ends and certain audited financial statements have been prepared for a period less and/or more than twelve (12) months.

(b) The proforma consolidated income statements for the financial years under review have been prepared based on accounting policies consistent with those adopted in the preparation of the audited consolidated financial statements of our Group for the FYE 30 September 2010.

(c) There were no exceptional items in all the financial years under review.

(d) The issued and paid-up share capital our Company of 170,000,000 Shares prior to the Public Issue.

2. SUMMARY INFORMATION *(Cont'd)*

(e) The gross EPS is computed as profit before taxation over the number of our Company's ordinary shares prior to the Public Issue.

(f) The net EPS is computed as net profit for the financial years over the number of our Company's ordinary shares prior to the Public Issue.

(g) No diluted earnings per share is shown as there were no potential dilutive shares in issue during the financial years under review.

(h) All significant inter-company transactions are eliminated on consolidation and the consolidated results reflect external transactions only.

(i) There were no share of results by the minority interest during the financial years under review as the losses applicable to the minority in Smartag International have exceeded the minority interest in the equity of Smartag International.

(j) There was share of results of a jointly controlled entity based on first set of audited financial statements for the period 11 March 2010 (since date of incorporation) to 30 September 2010.

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2. SUMMARY INFORMATION *(Cont'd)*

2.4.2 Proforma Consolidated Balance Sheets as at 30 September 2010

The following table sets out the summary of the proforma consolidated balance sheets of our Group as at 30 September 2010, assuming that the Public Issue and utilisation of the proceeds had been effected as at that date:-

	Audited Consolidated Balance Sheet as at 30 September 2010	Adjusted Audited Consolidated Balance Sheet as at 30 September 2010	Proforma I After the Public Issue	Proforma II After Proforma I and the Utilisation of Proceeds
	RM'000	RM'000	RM'000	RM'000
Assets				
Non-Current Assets				
Property, plant and equipment	7,316	7,316	7,316	16,151
Investment in a jointly controlled entity	5,003	5,003	5,003	5,003
Intangible assets	4,232	4,232	4,232	7,589
	16,551	16,551	16,551	28,743
Current Assets				
Trade receivables	11,611	11,611	11,611	11,611
Other receivables, deposits and prepayments	43	43	43	43
Inventories	63	63	63	63
Fixed deposits placed with a licensed bank	18	18	18	18
Cash and bank balances	943	943	18,613	4,477
Total current assets	12,678	12,678	30,348	16,212
Total Assets	**29,229**	**29,229**	**46,899**	**44,955**
Equity and Liabilities				
Equity attributable to equity holders of the Company				
Share capital	17,000	17,000	22,700	22,700
Share premium	-	-	11,970	11,173
Foreign currency translation reserve	6	6	6	6
Retained earnings	11,573	11,650	11,650	10,503
Shareholders' equity	28,579	28,656	46,326	44,382

2. SUMMARY INFORMATION *(Cont'd)*

	Audited Consolidated Balance Sheet as at 30 September 2010	Adjusted Audited Consolidated Balance Sheet as at 30 September 2010	Proforma I After the Public Issue	Proforma II After Proforma I and the Utilisation of Proceeds
	RM'000	RM'000	RM'000	RM'000
Non-Current Liabilities	-	-	-	-
Current Liabilities				
Trade payables	40	40	40	40
Other payables and accruals	610	533 (1)	533	533
Tax payable	*	*	*	*
Total Current Liabilities	650	573	573	573
Total Liabilities	650	573	573	573
Total Equity and Liabilities	**29,229**	**29,229**	**46,899**	**44,955**
Number of ordinary shares of RM0.10 each ('000)	170,000	170,000	227,000	227,000
Net assets (RM'000)	28,579	28,656	46,326	44,382
Net assets per Share (sen)	16.81	16.86	20.41	19.55
Net tangible assets (RM'000)	24,347	24,424	42,094	36,793
Net tangible assets per Share (sen)	14.32	14.37	18.54	16.21

Notes:-

* *Negligible.*

(1) *Adjustment made for conversion of a convertible note that was issued by Smartag International to a third party. For further information, please refer to the Proforma Consolidated Financial Information in Section 14 of this Prospectus.*

Basis of Preparation

The proforma consolidated balance sheets of our Group as at 30 September 2010 is prepared based on the audited consolidated balance sheets of our Group as at 30 September 2010, and adjusted for the full conversion of a convertible note for shares in Smartag International.

The proforma consolidated balance sheets of our Group has been prepared based on the accounting policies consistent with those adopted in the preparation of the audited consolidated financial statements of our Group for the FYE 30 September 2010.

2. SUMMARY INFORMATION *(Cont'd)*

2.4.3 Proforma Consolidated Cash Flow Statement for the FYE 30 September 2010

The following sets out the proforma consolidated cash flow statement of our Group for the FYE 30 September 2010 before the Public Issue:-

	FYE 30 September 2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	10,348
Adjustments for:	
Depreciation expenses	142
Foreign currency reserve	8
Deposit written off	13
Goodwill written off	864
Interest expense	8
Property, plant and equipment written off	24
Share of result of a jointly controlled entity	12
Unrealised loss on foreign exchange	85
Interest income	(6)
Operating profit before working capital changes	11,498
Changes in Working capital:-	
Inventories	51
Receivables	18,305
Payables	(14,463)
	15,391
Tax paid	7
NET CASH FROM OPERATING ACTIVITIES	**15,398**
CASH FLOWS FOR INVESTING ACTIVITIES	
Products development costs incurred	(3,447)
Interest received	6
Purchase of property, plant and equipment	(6,608)
Investment in a jointly controlled entity	(5,015)
NET CASH FOR INVESTING ACTIVITIES	**(15,064)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Interest paid	(8)
NET CASH FROM FINANCING ACTIVITIES	**(8)**

2. SUMMARY INFORMATION *(Cont'd)*

	FYE 30 September 2010 RM'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**326**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	**635**
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	**961**

Basis of Preparation

The proforma consolidated cash flow statement of our Group is prepared for illustrative purposes only, to show the effects on the audited consolidated cash flow statement of our Group for the FYE 30 September 2010, adjusted for the full conversion of a convertible note for shares in Smartag International but before the Public Issue.

The proforma consolidated cash flow statement of our Group for the FYE 30 September 2010 is prepared based on the audited consolidated cash flow statement of our Group for the FYE 30 September 2010.

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2. SUMMARY INFORMATION *(Cont'd)*

2.5 OUR IPO

In conjunction with our Listing on the ACE Market, we will undertake the Public Issue as follows:-

(i) 50,000,000 new Issue Shares, representing approximately 22.03% of the enlarged issued and paid-up share capital of our Company, have been reserved for Private Placement to eligible identified investors;

(ii) 5,000,000 new Issue Shares, representing approximately 2.20% of the enlarged issued and paid-up share capital of our Company will be made available the eligible directors, employees and persons who have contributed to the success of our Group; and

(iii) 2,000,000 new Issue Shares, representing approximately 0.88% of the enlarged issued and paid-up share capital of our Company will be made available for application by way of balloting to the Malaysian public.

Please refer to **Section 3** of this Prospectus for more particulars on our IPO.

2.6 PRICING OF THE ISSUE SHARES

We and KIBB as the Sponsor, Underwriter and Placement Agent have determined and agreed on the Issue Price of RM0.31 per Smartag Solutions Share.

Further details of the pricing of our Issue Shares are set out in **Section 3.3** of this Prospectus.

2.7 PROCEEDS FROM THE PUBLIC ISSUE AND INTENDED UTILISATION

The gross proceeds amounting RM17,670,000 is intended to be utilised as follows:-

Full details of the intended utilisation are set out in **Section 3.6** of this Prospectus.

Note	Proposed Utilisation	(RM)'000	%	Expected time frame for utilisation
(a)	Project Related Capital Expenditure	8,835	50.0	Within three (3) years from date of listing
(b)	R&D Expenditure and R&D Related Capital Expenditure	3,357	19.0	Within two (2) years from date of listing
(c)	Working Capital	3,534	20.0	Within two (2) years from date of listing
(d)	Estimated Listing Expenses	1,944	11.0	Within six (6) months from date of listing
	TOTAL	**17,670**	**100.0**	

3. PARTICULARS OF THE IPO

3.1 PURPOSE OF THE IPO

The purpose of the IPO is:-

(a) To enable us to mobilise our business plans at a quicker pace through the funds raised from the IPO. Further details are shown in Section 3.6 of this Prospectus;

(b) To provide our Group with access to the capital markets for further development and growth, both at the time of the IPO and later, through other future capital raisings;

(c) To provide us with the resources for further R&D activities. As our business is very much intellectually and technologically driven, R&D is a crucial component to remain relevant and competitive;

(d) To provide an opportunity for investors and institutions, eligible employees, persons who have contributed to the success of our Group and the public to participate in the growth of our Group;

(e) To enhance the stature and heighten the public profile of our Group as well as increasing market awareness of our products and services. The IPO will also complement the stature of our customers, suppliers and other stakeholders (including the investing public) and assuring them the transparency that comes with the regulatory processes and disclosure requirements involved in our Company's listing on the ACE Market; and

(f) To enable our Company to attract and retain able and qualified personnel through our profile as a listed company, thus allowing our Group to further expand our business prospects.

3.2 OUR IPO

Our Issue Shares will be offered at the Issue Price of RM0.31 and shall be subject to the terms and conditions of this Prospectus and the Application Forms and, upon acceptance, will be allocated in the manner as set out below.

3.2.1 Public Issue

The Public Issue of 57,000,000 Issue Shares representing approximately 25.11% of our enlarged issued and paid-up share capital will be offered at the Issue Price as follows, subject to the terms and conditions contained in this Prospectus and the Application Forms:-

Public Issue	No. of Issue Shares to be allotted	% of the Enlarged Share Capital
(i) by way of private placement to eligible identified investors [1]	50,000,000	22.03
(ii) made available to eligible directors, employees and/or persons who have contributed to the success of our Group [2]	5,000,000	2.20
(iii) by way of balloting to the Malaysian public	2,000,000	0.88
Total	**57,000,000**	**25.11**

3. PARTICULARS OF THE IPO *(Cont'd)*

Notes:-

1) As specified under Section 229(1)(a), Schedule 6 of the CMSA.

2) Allocation of the Issue Shares to the eligible Directors, employees and/or persons who have contributed to the success of our Group.

The eligible Directors, employees and persons who have contributed to the success of our Group to be allocated the Issue Shares consist of a total of 54 persons.

The Issue Shares as mentioned above will be allocated to the eligible Directors and employees of our Group, based on the following criteria as approved by the Company's Board of Directors:-

(i) Full time employee of at least eighteen (18) years old;
(ii) Job position;
(iii) Length of service; and
(iv) Expected positive future contributions to the Group.

Details of the allocation to our independent non-executive directors are as follows:-

Name	*Designation*	*No. of Issue Shares allocated*
Dato' Ngiam Foon	*Independent Non-Executive Director*	*100,000*
Lim Boh Soon	*Independent Non-Executive Director*	*100,000*

Save as above, there are no other allocations to our Directors.

3.2.2 Basis of Allocation

The basis of allocation for the Issue Shares takes into account the desirability of distributing the Issue Shares to a reasonable number of applicants with a view of broadening our shareholding base to meet the public spread requirements and to establish a liquid and adequate market for our Shares.

In the event any Issue Shares under 3.2.1 (ii) above are not taken up by our eligible directors, employees and persons who have contributed to the success of our Group, such Issue Shares will be made available for application by the Malaysian public via balloting under Section 3.2.1 (iii) or be allocated by way of private placement to eligible identified investors. In the event of an under subscription of the Issue Shares under Section 3.2.1 (iii), such remaining Shares not subscribed for may be allocated via private placement to eligible identified investors, and vice-versa. Any remaining shares under 3.2.1 (ii) and 3.2.1 (iii) not taken up via private placement will then be subscribed by the Underwriter.

There is no minimum subscription amount to be raised from the Public Issue as the Issue Shares under 3.2.1 (ii) and (iii) have been fully underwritten by our Underwriter. The Issue Shares made available under Section 3.2.1 (i) will not be underwritten since eligible investors have been identified to subscribe for these Shares and have accordingly given their irrevocable undertakings to subscribe.

We expect to raise gross proceeds of RM17,670,000 from the Public Issue.

There is no over-allotment or 'green-shoe' option that will result in an increase in the amount of Issue Shares.

3. PARTICULARS OF THE IPO *(Cont'd)*

3.2.3 Share Capital

	Number of Smartag Solutions Shares	Share Capital RM
Authorised	250,000,000	25,000,000
Issued and fully paid-up	170,000,000	17,000,000
To be issued pursuant to the Public Issue	57,000,000	5,700,000
Enlarged issued and paid-up share capital	**227,000,000**	**22,700,000**

Issue Price per Share	RM0.31
Total market capitalisation based on the enlarged issued and paid-up share capital upon listing	RM70,370,000

We have only one (1) class of share in our Company, namely ordinary shares of RM0.10 each. The Issue Shares will upon allotment rank *pari passu* in all respects with one another and all other existing issued and fully paid-up Shares including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the Issue Shares and they shall not be entitled to any distributions declared or such entitlements for which the record date is prior to the allotment of the Issue Shares.

Subject to any special rights attached to any shares which we may issue in the future, our ordinary shareholders shall, in proportion to the amount paid-up on the Smartag Solutions Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions, and in the event of our liquidation, any surplus shall be distributed amongst the members in proportion to the capital paid-up at the commencement of the liquidation, in accordance with our Articles and the provisions of the Act.

Each shareholder shall be entitled to vote at our general meetings in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or authorised representative or proxy or attorney of a shareholder shall have one (1) vote, and on poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Smartag Solutions Share held. A proxy may but need not be a member of our Company, or qualified legal practitioner, or an approved company auditor or a person approved by the Registrar and the provisions of Section 149(1)(b) of the Act shall not apply to our Company.

3. PARTICULARS OF THE IPO *(Cont'd)*

3.3 PRICING OF THE ISSUE SHARES

We and KIBB as the Adviser, Sponsor, Underwriter and Placement Agent have determined and agreed on the Issue Price of RM0.31 per Smartag Solutions Share, after taking into account, inter-alia, the following:-

(a) Our Group's net EPS of 4.56 sen computed based on our Group's PAT of approximately RM10.347 million for the FYE 30 September 2010 and our enlarged issued and paid-up share capital of 227,000,000 Smartag Solutions Shares, translating to an annualised net PE multiple of approximately 6.80 times based on the Issue Price;

(b) Our proforma financial and operating history and conditions as described in Section 8 of this Prospectus;

(c) The prevailing market condition with previous listings of companies on ACE and Main Market since January 2010 at an average historical PE multiple of approximately 11 times;

(d) Our future business plans and the potential revenue generation from our on-going and future projects such as the Land Checkpoint Project, Port Project, RFID as an affordable service and RFID for courier services and document record management industries that are reasonably quantifiable; and

(e) Our Group's competitive strengths such as experienced and capable technical team, first mover advantage in niche area of RFID application regionally, and active involvement in the development of RFID related standards as described in Section 5 of this Prospectus, and the future prospects of the RFID industry due to positive growth in the global, Asia Pacific and South East Asian RFID markets as described in Section 7 of this Prospectus.

All groups of investors as disclosed in Section 3.2.1 of this Prospectus will be offered at the Issue Price. You should note that the market price of our Smartag Solutions Shares upon listing on the ACE Market is subject to the vagaries of market forces and other uncertainties which may affect the market price of our Shares being traded. You should bear in mind the risk factors as set out in Section 6 of this Prospectus and form your own views on the valuation of the Shares before deciding on whether to invest in our Shares.

3.4 PRE-IPO SHARES ACQUISITION COST

The following table summarises the acquisition of our Shares by our directors, key management, substantial shareholders or persons connected to them during the past three (3) years, or which they have the right to acquire (if any) and the effective cash cost of the Shares acquired by them under these transactions:-

	Number of Shares acquired in the past 3 years	After Bonus Issue based on Shares acquired over the last 3 years	Aggregate cash consideration for the Shares acquired over the last 3 years (RM)	Effective cost per Share (sen)
Directors and Substantial Shareholders				
Datuk Abdul Hamed bin Sepawi	4,000,000	34,000,000	400,000	1.18
Lim Peng Keong	1,070,000	9,095,000	107,000	1.18
Choong Huck Liang	980,000	8,330,000	98,000	1.18

3. PARTICULARS OF THE IPO *(Cont'd)*

	Number of Shares acquired in the past 3 years	After Bonus Issue based on Shares acquired over the last 3 years	Aggregate cash consideration for the Shares acquired over the last 3 years (RM)	Effective cost per Share (sen)
Other Substantial Shareholders				
Kibaran Hasrat Sdn Bhd	1,000,000	8,500,000	100,000	1.18
Luas Makmur Sdn Bhd	1,420,000	12,070,000	142,000	1.18
Namnan Co. Ltd	1,300,000	11,050,000	130,000	1.18
Online Entertainment Sdn Bhd	2,350,000	19,975,000	235,000	1.18
Key Management				
Tan Win Sen [1]	930,000	7,905,000	93,000	1.18
Public Issue	**57,000,000** [2]		17,670,000	31.00

Notes:-

1) Shares acquired during the past three (3) years prior to the LPD through Software Product Developers Sdn Bhd which are jointly held by Ong Chee Beng and Tan Win Sen. Ong Chee Beng is the marketing manager of our Company but not part of our key management. Tan Win Sen is a key management of the Company and his interest in the Company is disclosed accordingly in Section 9.4.1 of this Prospectus as well.

2) Number of Shares issued pursuant to the Public Issue.

3.5 DILUTION

Dilution is the amount by which the Issue Price to be paid by the applicants for our Issue Shares exceeds our NA per Share after the Public Issue as depicted in the table below:-

	(Sen)	Immediate dilution from the Issue Price (Sen)	Percentage of the immediate dilution from the Issue Price (%)
Issue Price	31.00	-	-
Proforma NA per Share as at 30 September 2010 [1]	16.81	14.19	45.77
Proforma NA per Share as at 30 September 2010 adjusted for the Public Issue [2]	20.41	10.59	34.16
Proforma NA per Share as at 30 September 2010 adjusted for utilisation of proceeds (excluding working capital) and net of estimated listing expenses [2]	19.55	11.45	36.94

Notes:-

1) Based on the pre-IPO share capital of 170,000,000 Smartag Solutions Shares.

2) Based on the enlarged IPO share capital of 227,000,000 Smartag Solutions Shares.

3. PARTICULARS OF THE IPO *(Cont'd)*

3.6 PROCEEDS OF THE PUBLIC ISSUE AND INTENDED UTILISATION

The gross proceeds amounting to RM17,670,000 is intended to be utilised as follows:-

Note	Proposed Utilisation	(RM'000)	%	Expected time frame for utilisation
(a)	Project Related Capital Expenditure	8,835	50.0	Within three (3) years from date of listing
(b)	R&D Expenditure and R&D Related Capital Expenditure	3,357	19.0	Within two (2) years from date of listing
(c)	Working Capital	3,534	20.0	Within two (2) years from date of listing
(d)	Estimated Listing Expenses	1,944	11.0	Within six (6) months from date of listing
	TOTAL	**17,670**	**100.0**	

As stated in Section 3.2.2, there is no minimum subscription to be raised from the IPO. Pending the eventual utilisation of the proceeds from the Public Issue for the above purposes, the proceeds would be placed in short-term deposits with licensed financial institutions, used to invest in short-term money market instruments and/or used for working capital requirements as our Directors may deem appropriate.

(a) Project Related Capital Expenditure

We intend to allocate RM8,835,000 or approximately 50% of our gross proceeds for capital expenditure in relation to our Port Project and Land Checkpoint Project.

Part of our future plans involves enhancing our business prospects by providing RFID as a form of service to potential clients to generate recurring revenue through our Land Checkpoint Project and Port Project. The Land Checkpoint Project enables containers transported via road to be tracked using RFID tags and RFID systems based on ISO18186:2010 standard. The Port Project involves end-to-end tracking of containers being shipped from warehouses to shipping ports and beyond using RFID tags and RFID systems based on ISO18186:2010 standard. The use of RFID technology at customs checkpoints and ports aids in logistical efficiencies, deters tampering of goods while in transportation, reduces waiting time at the checkpoints and enhances monitoring of goods in transport. Both projects have yet to be commercialised. Please refer to Sections 5.15.1 and 5.15.2 for further discussions on the Land Checkpoint Project and Port Project.

As shipment of merchandise using containers will eventually pass through vital gateways like customs checkpoints and checkpoints stationed at ports, essential equipment and infrastructures such as RFID readers are strategically set up to scan passing RFID tags affixed to the containers. As such, our revenue model for the RFID container tracking service that we aim to provide for our potential clients will be based on the frequency of the tags being read at checkpoints.

In order to expand our projects at a quicker pace, the proceeds from the Public Issue would be channelled to set up the necessary equipment at identified customs and port checkpoints which would make up the RFID network whereby container shipments can be tracked almost seamlessly between land and sea using RFID technology. The cost of a full-fledged and complete installation at each checkpoint for the Land Checkpoint Project may cost up to approximately RM300,000, while the cost of a full-fledged and complete installation at each port for the Port Project ranges between RM400,000 to RM900,000. All these installations consist of hardware such as RFID readers, servers, computer terminals and other network peripherals which will belong to our Group.

3. PARTICULARS OF THE IPO *(Cont'd)*

The cost estimations above are based on our experience in setting up the related equipment and infrastructure at certain ports and customs houses and current market prices for the necessary hardware which may vary in the future. A cost range is provided for the installations as each checkpoint differs in terms of the number of vehicle lanes where each lane will be installed with readers and other equipment. For ports, besides checkpoint lanes, there may also be installations on the wharf cranes at the ports.

Our initial commercialisation point for the Land Checkpoint Project is expected to begin in Thailand where the RFID systems and infrastructures are set up at various customs checkpoints and as a step towards this commercialisation, we had on 15 March 2011 signed with Netbay a RFID Container Tracking Service Agreement in relation to the implementation of RFID container tracking systems at key customs checkpoints throughout Thailand. To date, we have already set up RFID infrastructures at the Sadao, Suvarnabhumi and Mukdahan customs checkpoints in Thailand and performed commercial trials. For our Port Project, we have already set up infrastructures at Johor Port, Penang Port and Klang North Port in Port Klang which are ready for commercialisation where potential clients can subscribe with us to obtain our RFID container tracking services. In addition, we have established links with Shanghai Port to jointly market our RFID solutions in container management.

Notwithstanding the above, the Company has its internal plans of targeting certain checkpoints for the Land Checkpoint Project and certain ports for the Port Project. However, the set up of RFID infrastructure under the Land Checkpoint Project at the targeted checkpoints is dependant on various conditions such as prior approval from the relevant authorities and cost variations of the RFID implementation at each checkpoint. Similarly, the set up of RFID infrastructure at the targeted ports under the Port Project will depend on the feedback from various industry stakeholders, demand from potential clients and prior approval and participation from the port managements and customs. As a result, the speed and order of implementation of the targeted customs checkpoints and port checkpoints may to an extent deviate from the Company's internal plans.

If the total actual expenses are higher than estimated, the balance will be funded through internally generated funds of the Company and/or borrowings. In the event that the total actual capital expenditures are lower than budgeted or not utilised within the said timeframe, the excess will be utilised for working capital purposes.

(b) R&D Expenditure and R&D Related Capital Expenditure

We intend to allocate RM3,357,000 or approximately 19% of the gross proceeds as funds to be used for R&D purposes. This will be categorised into R&D expenditure and R&D related capital expenditure as elaborated below.

R&D Expenditure

As R&D is a progressive activity and its direction would depend on technological changes, evolution of RFID and the direction of our business development, the funds will be used as and when there is a need to incur such expenditure where it may potentially benefit our future projects and our capacity to generate revenue.

Our R&D activities focus on areas where we anticipate opportunities for growth and future demand to emerge. These activities may include development of new products or development of new RFID solutions for various industry applications.

3. PARTICULARS OF THE IPO *(Cont'd)*

We intend to allocate RM1,330,000 from our gross proceeds for the purpose of research expenditure as detailed in the table below:-

Research Activities	RM'000
Research on future RFID applications	1,080
Development enhancement on existing RFID products and solutions	216
Miscellaneous expenses relating to our R&D activities	34
Total	**1,330**

R&D Related Capital Expenditure

We have allocated RM2,027,000 for R&D related capital expenditure for the equipments to undertake R&D activities such as computers, servers, readers and software development tools.

If total R&D funds required are higher than the allocated gross proceeds, the balance will be funded through internally generated funds. Our Group may also from time to time, apply for R&D grants to fund our R&D activities. In the event that the total actual R&D expenditures are lower than budgeted or not utilised within the said timeframe, the excess will be utilised for working capital purposes.

(c) Working Capital

Approximately RM3,534,000 or approximately 20% of the gross proceeds amount is proposed to be utilised for general working capital requirements and day-to-day operations such as marketing expenses, travelling expenses, administrative expenses, preliminary feasibility test costs for projects as well as project management expenses such as purchases of resources and payment to suppliers. Moving forward, our overall requirement for working capital will increase in tandem with the growth of our Group.

(d) Estimated Listing Expenses

The estimated expenses and fees incidental to the Listing of RM1,944,000 or approximately 11% of the gross proceeds amount shall be borne by our Company, details of which are as follows:-

Estimated expenses	RM ('000)
Professional fees	985
Fees to authorities	69
Advertising & printing costs	208
Underwriting, placement and brokerage	448
Issuing House	72
Miscellaneous & contingencies	162
Total	**1,944**

If the actual expenses are higher than anticipated, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted, the excess will be utilised for working capital purposes.

Aside from the proforma financial impact arising from the utilisation of proceeds on our consolidated balance sheets as set out in Section 8 of this Prospectus, other foreseeable quantitative and qualitative impact from the utilisation of proceeds from the Public Issue include, inter-alia, the following:-

(i) Potential growth in our revenue from the commercialisation of our Land Checkpoint Project and Port Project. As more customs and port checkpoints are linked to our system, our ability to generate higher revenue will increase as higher volume of cargo shipments are achieved;

(ii) Heightened R&D capabilities and flexibility as there will be ready funds reserved for such activities. The R&D funds will enable us to develop and upgrade new and existing products and solutions, perform essential R&D activities for the purpose of our future projects and updating ourselves with the latest equipment and devices in the market;

(iii) Interest cost savings as our major activities can be funded without relying on external borrowings;

(iv) Enable further expansion of our workforce particularly R&D and technical personnel as well as marketing and administrative personnel. We believe in keeping our workforce at a lean and efficient level but we expect to increase the number of employees in tandem with the growth of our Group; and

(v) Improve the Group's cash flow and liquidity.

3.7 BROKERAGE, UNDERWRITING AND PLACEMENT COMMISSIONS

(a) Brokerage Fee

Brokerage fee relating to the Issue Shares is payable by us at the rate of one percent (1.0%) of the Issue Price in respect of successful applications, which bear the stamps of KIBB, or the Issuing House, participating organisations of Bursa Securities, members of the Association of Banks in Malaysia or members of the Malaysian Investment Banking Association.

(b) Underwriting Commission

KIBB, as our Underwriter, has agreed to underwrite 7,000,000 of the Issue Shares, which will be made available by way of balloting to the Malaysian public and made available to eligible directors, employees and persons who have contributed to the success of the Smartag Solutions Group as set out in Section 3.2.1. Underwriting commission is payable by us to our Underwriter at the rate of 2.5% of the Issue Price. KIBB will not be underwriting for the portion allocated for private placement since eligible investors have been identified to subscribe for these Shares.

(c) Placement Commission and Placement Management Fee

KIBB has arranged for the placement of the Issue Shares and the Offer Shares at a rate of 2.0% of the value of the Issue Shares that have been successfully placed by KIBB based on the Issue Price. A management fee is payable to KIBB, at a rate of 0.5% of the aggregate value of the Issue Shares under the Private Placement based on the Issue Price.

3. PARTICULARS OF THE IPO *(Cont'd)*

3.8 SALIENT PROVISIONS OF THE UNDERWRITING AGREEMENT

The following are the reproductions of some of the salient clauses extracted from the Underwriting Agreement (**"UWA"**) entered into between us and the Underwriter on 3 March 2011, including escape clauses, which may allow the Underwriter to withdraw from obligations under the agreement after the opening of the offer. Terms defined in the UWA shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires.

"AGREEMENT TO UNDERWRITE"

*2.1 In consideration of the payment by the Company of the underwriting commission, the Underwriter, hereby relying upon each of the representations, warranties and undertakings by the Company set out in Clause 3, agrees to underwrite the shares as set out in the **First Column** of the **FIRST SCHEDULE** upon the terms and conditions hereinafter contained.*

2.2 The Underwriter shall not be responsible for any failure by the Company to meet its obligations hereunder nor shall such failure relieve the Company of its obligations hereunder and nothing in this UWA shall be construed as constituting or evidencing a partnership between the Underwriter and the Company.

2.3 The obligations of the Underwriter under this UWA are conditional upon:-

2.3.1 this UWA having been duly executed by all the Parties hereto and duly stamped with a company seal;

2.3.2 there having been on or prior to the closing date, neither any material adverse change nor any development reasonably likely to result in any material adverse change, in the condition (financial or otherwise) of the Company and any company within the Group, which is material in the context of the Listing and Public Issue from that set forth in the Prospectus, nor the occurrence of any event or the discovery of any fact which is inaccurate, untrue or incorrect to any extent which is or will be material in the reasonable opinion of the Underwriter, which makes any of the representations and warranties contained in Clause 3 untrue and incorrect in any material respect as though they had been given and made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings contained in Clause 3;

2.3.3 the delivery to the Underwriter:-

2.3.3.1 prior to the date of the registration of the Prospectus, a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors and the shareholders in general meeting approving this UWA, the Prospectus, the Public Issue and authorising the execution of this UWA and the issuance of the Prospectus; and

*2.3.3.2 a certificate, in the form or substantially in the form contained in the **SECOND SCHEDULE**, dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 2.3.2.*

3. PARTICULARS OF THE IPO *(Cont'd)*

2.3.4 the Prospectus being in the form and substance satisfactory to the Underwriter;

2.3.5 the delivery to the Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the Directors of the Company as the Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of this UWA that will adversely affect the performance or financial position of the Company and the companies within the Group;

2.3.6 the Underwriter having been satisfied that sufficient arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 12;

2.3.7 the Listing and Public Issue not being prohibited by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;

2.3.8 the Company having complied and that the Listing and Public Issue is in compliance with the policies, guidelines and requirements of Bursa Securities and/or the SC and all revisions, amendments and/or supplements thereto;

2.3.9 the Company having fully complied with all the conditions which are required to be complied with prior to the issuance of the Prospectus or the Closing Date imposed by the SC and Bursa Securities in respect of the Listing and Public Issue and the Company's proposed listing on the ACE Market of Bursa Securities;

2.3.10 the acceptance for registration by the SC of the Prospectus and such other documents as may be required in accordance with the CMSA in relation to the Listing and the lodgement of the Prospectus with the CCM on or before its release;

2.3.11 Bursa Securities has agreed and approved in principle on or prior to the Closing Date to the admission to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the ACE Market of Bursa Securities and the SC (as the case may be) having approved the Prospectus and if such approvals shall be conditional, all conditions thereto being in terms acceptable to the Underwriter on or prior to the closing date being reasonably satisfied and such approval not being withdrawn, revoked, suspended, terminated or lapsed and that such listing and quotation shall be granted 2 clear Market Days after the submission to Bursa Securities of the relevant documents including the receipt of confirmation from the Bursa Depository confirming that the securities accounts of all successful applicants have been duly credited and the Issue House has confirmed that the notices of allotment have been despatched to entitled holders;

2.3.12 the approval of the shareholders of the Company via a resolution for the appointment of the Underwriter;

2.3.13 the Prospectus having been issued within one (1) month of the date hereof or within such extended period as may be determined by the Underwriter;

2.3.14 the issue of the Issue Shares having been approved by Bursa Securities, SC and any other relevant authorities and the shareholders of the Company in a general meeting and such authorisation has not been withdrawn, revoked, suspended, terminated or lapsed; and

2.3.15 all necessary approvals and authorisations required in relation to the Issue Shares including but not limited to governmental approvals having been obtained and are in full force and effect.

2.4 If any of the conditions set out in Clause 2.3 is not satisfied by the closing date, the Underwriter shall thereupon be entitled to terminate this UWA and in that event, except for the liability of the Company for the payment of costs and expenses as provided in Clause 12 incurred prior to the termination and any claims pursuant to Clause 3.3.1, there shall be no further claims by the Underwriter against the Company, and the Parties shall be released and discharged from their respective obligations hereunder PROVIDED THAT the Underwriter may at its discretion with respect to its obligations waive compliance with any of the provisions of Clause 2.3.

TERMINATION/LAPSE OF AGREEMENT

8.1 Notwithstanding anything herein contained, the Underwriter may by notice in writing to the Company given at any time before the closing date, terminate, cancel or withdraw its commitment to underwrite the Shares if:-

8.1.1 there is any breach by the Company of any of the representations, warranties or undertakings contained in Clause 3, which is not capable of remedy or, if capable of remedy, is not remedied to the satisfaction of the Underwriter within such number of days as stipulated by the Underwriter to the Company in writing or as stipulated in the notice informing the Company of such breach or by the closing date, whichever is earlier; or

8.1.2 there is withholding of information which is required to be disclosed "by" or "to" the Underwriter, which is required to be disclosed pursuant to this UWA, and if capable of remedy, is not remedied within such number of days as stipulated by the Underwriter to the Company in writing or as stipulated in the notice informing the Company of such breach which, in the opinion of the Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Listing , or the distribution or sale of the Issue Shares; or

8.1.3 there shall have occurred, happened or come into effect any material and adverse change to the business or financial condition of the Company or the Group; or

8.1.4 there shall have occurred, happened or come into effect any of the following circumstances:-

(a) any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or

(b) any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Underwriter (including without limitation, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents);

which, (in the reasonable opinion of the Underwriter), would have or can reasonably be expected to have, a material adverse effect on and/or materially prejudice the business or the operations of the Group, the success of the Listing , or the distribution or sale of the Issue Shares, or which has or is likely to have the effect of making any material part of this UWA incapable of performance in accordance with its terms; or

8.1.5 there is failure on the part of the Company to perform any of its obligations herein contained which is not capable of remedy or, if capable of remedy, is not remedied to the satisfaction of the Underwriter within such number of days as stipulated by the Underwriter to the Company in writing or as stipulated in the notice informing the Company of such breach or by the closing date, whichever is earlier.

8.2 In the event of termination pursuant to Clause 8(1) hereof, the respective Parties hereto shall, save and except for any antecedent breach, be released and discharged from their obligations hereunder whereupon this UWA shall be of no further force or effect subject to the following:-

8.2.1 the liability of the Company for the payment of costs and expenses as provided in Clause 12 hereof incurred prior to or in connection with such termination shall remain;

8.2.2 the liability of the Company for the payment of the Underwriting Commission as provided in Clause 6 hereof shall remain;

8.2.3 subject thereto, the Company shall return any moneys paid without interest thereon to the Underwriter within three (3) Market Days of the receipt of such notice of termination from the Underwriter;

Provided that the Underwriter may at its discretion waive compliance with or modify any of the provisions of this Clause without prejudice to its powers, rights and remedies under this UWA.

8.3 In the event that this UWA is terminated pursuant to Clause 8.1.4, the Underwriter and the Company may confer with a view to defer the Listing and Public Issue by amending its terms or the terms of this UWA and may enter into a new underwriting agreement accordingly, but neither the Underwriter nor the Company shall be under any obligation to enter into a fresh agreement.

8A FORCE MAJEURE

8A.1 Notwithstanding anything herein contained, it will be an event of force majeure if one of the following occurs:-

8A.1.1 any material change in any law, regulation, directive, policy or ruling in any jurisdiction which seriously affects or will seriously affect the business of the Company and/or the companies within the Group;

3. PARTICULARS OF THE IPO *(Cont'd)*

8A.1.2 any change in national or international monetary, financial, political or economic conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia or overseas) or currency exchange rates or an occurrence as a result of an act or acts of God or in the event of national disorder, armed conflict or serious threat of the same, hostilities, embargo, severe economic dislocation, natural catastrophe, earthquake, typhoon, outbreak of war, outbreak of disease or the declaration of a state of national emergency which adversely affects (1) the business of the Company or (2) the success of the Listing and Public Issue;

8A.1.3 the Kuala Lumpur Composite Index falling below 1,200 points and remaining below 1,200 points for three (3) consecutive Market Days;

8A.1.4 the imposition of any moratorium, suspension or material restriction on trading in all securities generally on Bursa Securities for 3 consecutive Market Days.

8A.2 In the event of a force majeure pursuant to Clause 8A.1, the Underwriter may, subject to prior consultation with the Company, at any time prior to or on the Closing Date:-

8A.2.1 terminate this UWA by giving notice to the Company in the manner as set out in Clause 13; or

8A.2.2 request for the closing date to be extended to such reasonable date as the Underwriter may decide.

8A.3 Upon delivery of the notice of termination pursuant to Clause 8A.2.1 and in the manner as set out in Clause 13, this UWA will terminate whereafter each Party's rights and obligations will cease and none of the Parties will have any claim against each other save and except such claims in respect of the costs and expenses of the Underwriter and underwriting commission as set out in Clause 12 hereof.

8A.4 In the event of a delivery of a request under Clause 8A.2.2, the Company shall consent to such request for the extension of the closing date.

8A.5 The delivery of a request under Clause 8A.2.2 shall not preclude the Underwriter from giving any further request(s) for extension pursuant to Clause 8A.2.2 or giving a notice to terminate pursuant to Clause 8A.2.1.

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4. INFORMATION ON OUR GROUP

4.1 INFORMATION ON OUR GROUP

4.1.1 Information on Smartag Solutions, its Subsidiaries and its Jointly Owned Entity

Our Company, Smartag Solutions was incorporated in Malaysia on 12 January 2004 under the Act as a private limited company under the name of Smartag Solutions Sdn Bhd and was converted into a public limited company and adopted its present name on 11 June 2008. On 25 February 2011, our Company received a Thai foreign business license to provide container tracking services using RFID to Netbay. Please refer to Section 5.11 for further details of the foreign business licence.

As at the LPD, the authorised share capital of Smartag Solutions is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each and the issued and paid-up share capital of Smartag Solutions is RM17,000,000 comprising 170,000,000 ordinary shares of RM0.10 each.

As at LPD, our Group's corporate structure and equity interests are as follows:

Smartag Solutions	
Date / country of incorporation	*12.01.2004 / Malaysia*
Issued and paid-up capital (RM)	*17,000,000*
Principal activities	*Provision of RFID solutions for various applications*

	Smartag Technologies	
100.00%	Date / country of incorporation	*27.11.2002 / Malaysia*
	Issued and paid-up capital (RM)	*50,098*
	Principal activities	*Currently dormant*

	Smartag International	
94.01%	Date / country of incorporation	*24.03.1999 / USA*
	Total paid-in capital (USD)	*1,238,998*
	Principal activities	*Currently dormant*

	Sure-Reach Smartag	
50.00%	Date / country of incorporation	*11.03.2010 / Malaysia*
	Issued and paid-up capital (RM)	*10,030,000*
	Principal activities	*R&D of information technologies*

Our core business is provided through Smartag Solutions, while our subsidiaries comprising Smartag Technologies and Smartag International are currently dormant companies. Sure-Reach Smartag is a jointly-owned company formerly known as Uempirical Sdn Bhd which was formed together by Smartag Solutions and Sure-Reach Worldwide Express Sdn Bhd to provide RFID software solutions and integration for courier services and document record management industries.

4. INFORMATION ON OUR GROUP *(Cont'd)*

Further information on our subsidiaries and jointly-owned entity is set out in Section 4.2 of this Prospectus. Our future plans and strategies for our subsidiaries and jointly-owned entity are discussed in Section 5.15 of this Prospectus.

Smartag is headed by our CEO, Lim Peng Keong who is one of the pioneer members of our Company. Our Company was formed to tap into the vast potential of RFID technology that can be applied to a myriad of applications for various industries. We position ourselves as a total RFID solutions provider by focusing on identifying our clients' needs and how their business processes can be improved by using RFID technology. Our history and key milestones to date are detailed in Section 5.1.4 of this Prospectus.

Currently, our Company generates revenue from sales of our internally developed RFID software product, Smartware™ and RFID-based solutions for various applications such as logistics management, supply chain management, inventory management, warehouse optimization and asset tracking. Please refer to Section 8 of this Prospectus for more information of our revenue breakdown.

The revenue model for our products and services is summarised below:-

(i) RFID Products

Our core product currently consists of our internally developed RFID middleware known as Smartware™. Our Smartware™ is used in all our RFID solutions or can be sold individually to potential customers such as resellers who are typically system integrators who use our Smartware™ middleware as part of their RFID solutions for their own clients.

In addition, we have also developed a new software engine product known as Smartrack™ which serves as a data repository system allowing seamless information sharing between different parties in a RFID system. Smartrack™ can be sold individually or used as part of our RFID solutions. Our Smartrack™ can be used as part of the software component in providing our service in our Land Checkpoint Project and Port Project.

We have also developed and are currently marketing the use of our semi-passive RFID tag which is a hardware product. Both our Smartrack™ software engine and semi-passive RFID tag is expected to contribute positively to our future revenue.

(ii) RFID Solutions

Our core activity is providing total RFID solutions using our Smartware™ middleware and other third party components to enable filtering and processing tasks to generate useful data that can be used for timely decision making. Our solutions are customised and implemented on a project basis for our clients. Additionally, our solutions are also sold to resellers who are typically system integrators who procure our RFID solutions for their own end-user clients. The solutions provided are also tailored to these system integrators' specifications.

Our services typically involve helping our clients to optimize their business processes and systems by integrating RFID-based technology and solutions. The integration of RFID technology involves the installation of the relevant hardware and our RFID software products into the existing systems of our clients.

4. INFORMATION ON OUR GROUP *(Cont'd)*

Further details of what RFID is and what we provide as a business are explained in Section 4.3 and Section 5.1.1 of this Prospectus, respectively.

4.1.2 Changes in the Issued and Paid-Up Share Capital of Smartag Solutions

The details of the changes in the issued and paid-up share capital of Smartag Solutions since its incorporation up to the LPD are as follows:-

Date of allotment	No. of Shares allotted	Par value RM	Consideration	Cumulative total No. of Shares	Cumulative total RM
12.01.2004	3	1.00	Subscribers' shares	3	3
03.09.2004	927,107	1.00	Cash	927,110	927,110
01.10.2004	72,890	1.00	Cash	1,000,000	1,000,000
28.03.2008	1,000,000	1.00	Cash	2,000,000	2,000,000
27.06.2008	-	0.10	n/a	[1]20,000,000	2,000,000
21.09.2010	150,000,000	0.10	Issued pursuant to the Bonus Issue on the basis of fifteen (15) Shares for every two (2) existing Shares	170,000,000	17,000,000

Note:-

1) Sub-division of each RM1.00 share into ten (10) shares of RM0.10 each.

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in our Company.

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4. INFORMATION ON OUR GROUP *(Cont'd)*

4.2 INFORMATION ON SUBSIDIARY COMPANIES AND JOINTLY-OWNED ENTITY

4.2.1 Information on Smartag Technologies

(a) History and Business

Smartag Technologies was incorporated in Malaysia as a private limited company under the Act on 27 November 2002 under the name Symbion Technologies Sdn Bhd and changed its name to Smartag Technologies Sdn Bhd on 30 June 2006. On 24 March 2008, Smartag Solutions Sdn Bhd acquired 70 ordinary shares of Smartag Technologies at a consideration of RM1.00 per share from Lam Siang Choong and 50,028 ordinary shares at a consideration of RM1.00 per share from Lim Peng Keong. Smartag Technologies became a wholly-owned subsidiary of Smartag Solutions. Smartag Technologies is currently dormant.

Our future plans for Smartag Technologies are detailed in Section 5.15.3 of this Prospectus.

(b) Share Capital

The authorised share capital of Smartag Technologies is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM50,098 comprising 50,098 ordinary shares of RM1.00 each.

Details of the changes in the issued and paid-up share capital of Smartag Technologies since its incorporation up to the LPD are as follows:-

Date of allotment	No. of shares allotted	Par value RM	Consideration	Cumulative total RM
27.11.2002	100	1.00	Subscribers' shares	100
01.10.2007	49,998	1.00	Cash	50,098

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in Smartag Technologies.

(c) Shareholders

Smartag Technologies is wholly-owned by Smartag Solutions Berhad.

(d) Directors

The directors of Smartag Technologies consist of our CEO, Lim Peng Keong and our CTOO, Choong Huck Liang who are both the Executive Directors of Smartag Solutions.

(e) Subsidiary and Associated Companies

Smartag Technologies does not have any subsidiaries or associated companies.

4. INFORMATION ON OUR GROUP *(Cont'd)*

4.2.2 Information on Smartag International

(a) History and Business

Smartag International Inc., a Nevada corporation was formed as Theca Corporation on 24 March 1999 in Colorado, USA. On 29 November 2004, Theca Corporation merged with Art4Love Inc., a Delaware corporation, into Art4Love Inc., a Nevada corporation. Art4Love was subsequently listed and traded over the Pink Over-the-Counter Market in USA on 13 January 2005. Art4Love Inc. attempted to sell and lease art from artists' collections worldwide to companies and individuals but ceased operations in December 2006. On 31 December 2008, pursuant to a share purchase agreement, Chad Love Lieberman, Art4Love Inc.'s former majority stockholder and president sold to Smartag Solutions an aggregate of 10,000,000 common stocks in Smartag International which amounted to 98.6% shareholding of Smartag International. On 19 February 2009, Art4Love Inc. changed its name to Smartag International Inc. Smartag International is currently dormant and is still listed and traded over the Pink Over-the-Counter Market in USA.

As our near to medium term plans are focused on expanding our presence in the Asian market, we may realise our investment in Smartag International should the opportunity arise.

(b) Share Capital

The authorised share capital of Smartag International is USD525,000 comprising 500,000,000 common stocks of USD0.001 each and 25,000,000 preferred stocks of USD0.001 each. The total paid-in share capital of Smartag International is USD1,238,998 comprising 10,637,151 common stocks of USD0.001 each and additional paid-in capital of USD1,228,361.

Details of the changes in the paid-in share capital of Smartag International for the past three (3) financial years and up to the LPD are as follows:-

Date of allotment / paid-in of capital	No. of common stocks allotted	Value per stock (USD)	Common stocks total (USD) - (1)	Consideration	Additional paid-in Capital (USD) - (2)	Cumulative total (1 + 2) (USD)
Balance as at 01.01.2006	127,008	0.001	127	Subscriber's shares	1,148,173	1,148,300
01.11.2008	10,000	0.001	10	Cash	(10)	1,148,300
09.12.2008	10,000,000	0.001	10,000	Cash	40,000	1,198,300
31.12.2008	-	-	-	Cash	15,698	1,213,998
10.11.2010	500,000	0.001	500	Cash	24,500	1,238,998

As at the date of this Prospectus, there are no other outstanding warrants, options, convertible securities or uncalled capital in Smartag International.

4. INFORMATION ON OUR GROUP *(Cont'd)*

(c) Shareholders

The table below shows the shareholding of Smartag International to date:-

Name	Direct	
	No. of shares	%
Smartag Solutions	10,000,000	94.01
Public shareholders	637,151	5.99
Total	**10,637,151**	**100.00**

(d) Directors

The directors of Smartag International consist of Datuk Abdul Hamed bin Sepawi, Lim Peng Keong and Choong Huck Liang who are also the Chairman, CEO and CTOO of Smartag Solutions respectively.

(e) Subsidiary and Associated Companies

Smartag International does not have any subsidiaries or associated companies.

(f) Revolving Promissory Note Issued by Smartag International to Smartag Solutions

On 17 March 2009, Smartag International issued a non-interest bearing Revolving Promissory Note to our Company. Under the terms, our Company agreed to advance to Smartag International, from time to time and at the request of Smartag International, amounts of up to an aggregate of USD200,000 until 31 December 2010. This Revolving Promissory Note is renewable annually on 31 December of each year.

As Smartag International is currently dormant and does not generate any revenue or cashflow, the purpose of the Revolving Promissory Note is to enable Smartag International to settle any statutory and administrative expenses such as audit fees, filing expenses, secretarial expenses and corporate exercise fees as and when incurred. As at 30 September 2010, a total amount of USD91,452 (ringgit equivalent of RM282,357 at the conversion rate of USD1:RM3.0875 as at 30 September 2010) has been drawn-down and there is a sum of USD108,548 (ringgit equivalent of RM335,142 at the conversion rate of USD1:RM3.0875 as at 30 September 2010) remaining to be drawn-down.

4.2.3 Sure-Reach Smartag

(a) History and Business

Sure-Reach Smartag was incorporated in Malaysia as a private limited company under the Act on 11 March 2010 under the name Uempirical Sdn Bhd and changed its name to Sure-Reach Smartag Sdn Bhd on 19 May 2010 as a result of a joint-venture between Smartag Solutions and Sure-Reach Worldwide Express Sdn Bhd to provide RFID software solutions and integration especially for the courier services and record management industry. Sure-Reach Smartag is currently undertaking R&D for RFID-based solutions for courier services and record management industry however the results are yet to be commercialised.

Our future plans for Sure-Reach Smartag are detailed in Section 5.15.4 of this Prospectus.

(b) Share Capital

The authorised share capital of Sure-Reach Smartag is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM10,030,000 comprising 10,030,000 ordinary shares of RM1.00 each.

Details of the changes in the issued and paid-up share capital of Sure-Reach Smartag since its incorporation up to the LPD are as follows:-

Date of allotment	No. of shares allotted	Par value RM	Consideration	Cumulative total RM
11.03.2010	2	1.00	Subscribers' shares	2
31.05.2010	10,029,998	1.00	Cash	10,030,000

As at the date of this Prospectus, there are no outstanding warrants, options, convertible securities or uncalled capital in Sure-Reach Smartag.

(c) Shareholders

Sure-Reach Smartag is equally owned by Smartag Solutions and Sure-Reach Worldwide Express Sdn Bhd.

(d) Directors

The directors of Sure-Reach Smartag consist of Lim Peng Keong and Choong Huck Liang who represent Smartag Solutions and Chan Kim Hui and Wong Sok Fong who represent Sure-Reach Worldwide Express Sdn Bhd.

(e) Subsidiary and Associated Companies

Sure-Reach Smartag does not have any subsidiaries or associated companies.

4. INFORMATION ON OUR GROUP *(Cont'd)*

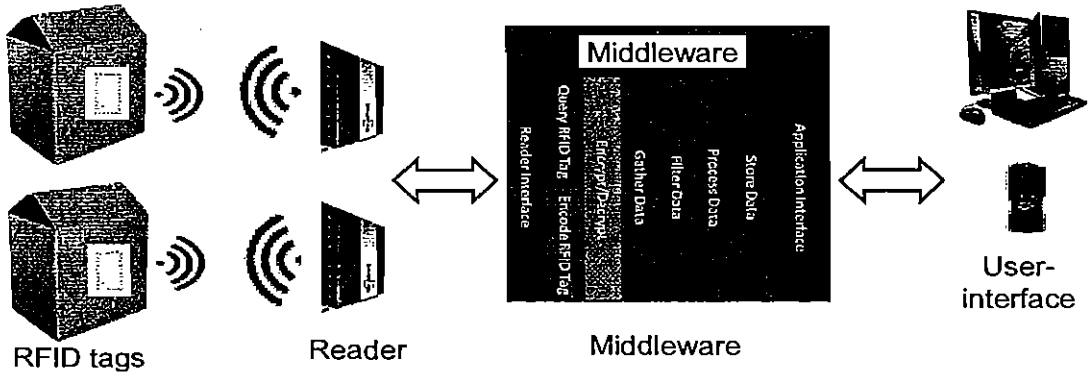
4.3 RFID TECHNOLOGY

The foundation of our business is principally based upon RFID technology. RFID as a technology has been widely applied in various functions such as verification passes, toll collection and asset tracking. With today's advancement in technology, the potential for RFID to be applied in more aspects of an organisation's business and consumer's everyday life makes RFID a relevant and crucial technology moving forward.

4.3.1 What is RFID?

RFID is an electronic system using radio frequency signals to identify individually tagged objects or personnel using RFID tags without any direct contact or line of sight for the purpose of identification and tracking.

4.3.2 Basic Principles of a RFID System



A basic RFID system or solution will typically consist of RFID tags, readers, middleware and a user interface:

(i) RFID tag, also referred to as a transponder, is a radio device that consists of an integrated chip attached to an aerial and is placed in a casing for the device. RFID tags can incorporate batteries to enable a longer read range, sensor capabilities, and storage memory. RFID tags come in many form factors designed to suit specific applications. Typical forms include stick-on labels, key-chains, and encapsulation (plastic/metal being the most common). In some instances, it could take the form of a semi-finished tag known as inlays, where it could be directly attached or embedded into an object (for example, into a piece of metal, tree trunk, and so on). The basic types of RFID tags consist of:-

Passive tag	-	Passive tags do not hold a power source (typically battery) and secondly, a passive tag does not contain a transmitter, thus is incapable of transmitting radio frequency signals by itself. Instead, passive tags rely on radio waves transmitted by the reader to power the tags' internal circuit operations. The read range for a passive tag is from several inches to approximately 15 meters. The cost of passive tags can range from USD0.10 to USD10.00 each.

4. INFORMATION ON OUR GROUP *(Cont'd)*

Active tag	Active RFID tags are designed with a power source onboard. With its onboard power source (typically a battery), unlike passive tags (does not have any onboard power source and relies on the electromagnetic waves of the reader to charge up the tag to transmit a signal), the read range for an active tag is significantly greater. Active tags are capable of storing more data than passive tags, enabling it to be used for more demanding applications that require more data to be stored on the tag. Active technology allows a tag to transmit information independently and in real time compared to passive tag. Active tags can be read from 100 meters or more. Active tags are priced from approximately USD7.00 to over USD100.00, with an average range of between USD30.00 and USD40.00.
Semi passive tag	Semi-passive tags could be considered a hybrid technology leveraging on certain characteristics of both passive and active technology. Semi-passive tags, or sometimes referred to as battery-assisted passive tag, contains a power source to energize the internal circuitry of the tag, similar to an active tag, but leverages on the radio frequency waves transmitted by the reader for communication purposes, similar to a passive tag. The purposes of the energy source are to power the tags' internal circuitry and memory, besides powering sensors, which may come with the semi-passive tag. Semi-passive tags have longer read ranges than passive tags, but much lesser power is required to activate the tag compared to an active tag. The presence of a battery to power the internal circuitry of the tag requires less radio frequency power from the reader to be activated. The size of a semi-passive tag can vary, depending on the type of battery used. Due to this, the size of a semi-passive tag can be as large as the regular active tags, but could be also as small as some of the passive tags found in the market. Semi-passive tags typically have a read range from 35m to 50m. The price for semi-passive tags can range from USD2.00 to USD5.00.

(ii) **RFID reader** is also referred to as an interrogator which sends and receives data to and from the tag through antennas. A reader may have multiple antennas that are responsible for sending and receiving data. RFID readers typically come in three main form factors; fixed, mobile/hand-held, and integrated or embedded into objects (for example, in hand phones, cars, handheld devices and so on). Readers are strategically placed within a specified area to transmit radio signals to the tags to retrieve required data about the object being tagged within a specified range. Data from the reader are processed by a middleware such as our Smartware™ middleware which is running in the server for fixed readers or can be embedded in handheld mobile readers. The basic types of RFID readers consist of:-

Passive readers	-	Passive readers are largely used in most RFID applications. These readers have their own electric power supply and can only read passive tags. Passive readers will initiate communication with tags by sending out a radio field to create a magnetic induction or electromagnetic wave to transfer power to the tag. After the tag receives power from the reader through the emission of the radio field then the tag can be interrogated by the reader to read information on the tag.
Active readers	-	Active readers are used for active tags and have their own electrical power supply. As both tags and readers have their own power source, communications between the tag and reader can be initiated by either device. As active tags may regularly emit data, active readers located in the vicinity of an active tag will automatically detect active RFID in the area even though the reader may not have been interrogating any devices in the area.

(iii) **Middleware** acts as an intermediary between the reader and back-end enterprise applications or user-interface software. The data collected by readers are managed by the host computer, which runs RFID middleware software. The features of a middleware vary from one vendor to another, but its basic function is to filter and streamline the data and route those to the respective user-interface software and systems. Our Smartware™ middleware is able to integrate with various enterprise back-end application server and user-interface applications with ease and is able to manage high number of RFID readers.

The above explanation only depicts how a basic RFID system or solution is put together. However, RFID solutions can extend beyond a simple warehouse to entire supply chains, cross-border shipments and even tracking consumer products and transactions worldwide. Our Company's positioning as a **total RFID solutions provider** combines our internally developed software or hardware products with these RFID components and also other ICT components if necessary to work as a system and solutions for different applications.

4.3.3 Standardisation Efforts for RFID

Many early RFID solutions were deployed using proprietary technology which may have used unique methods for communication. This lack of standardization resulted in industry fragmentation and slower adoption for RFID technology. With the lack of standards, compatibility issues have continued to persist and these issues have been detrimental in the industry due to the occurrence of interoperability issues.

As a response, RFID developers are formalizing RFID standards that define the parameters of a RFID system deployment in different application settings. These standards are developed and approved by several bodies including the EPCglobal, ISO, IEC (International Electrotechnical Commission), ASTM International (American Society for Testing and Materials) and DASH7 Alliance. Additionally, many RFID companies are also working closely with standards bodies to develop a framework for RFID systems and ensure that issues due to the lack of standards are addressed.

4. INFORMATION ON OUR GROUP *(Cont'd)*

Further information on efforts towards standardisation for RFID is found in Section 1.4 of the Summary of the Independent Market Research Report under Section 7 of this Prospectus.

The following RFID standards from EPCglobal and ISO are essential standards that our products and solutions will be based on:-

(i) EPCglobal's EPCIS Standard

EPCglobal leads the development of industry-driven standards framework to support the use of RFID. Among the components of this standards framework in which our Company is building our solutions upon is known as Electronic Product Code Information Services or EPCIS which is a standard that dictates how information is shared through RFID systems.
The information shared basically answers the *What*, *Where*, *When*, and *Why* of events occurring which relate to time, location, disposition and business step of each event that occurs during the life of the tagged object, for example, in the supply chain. Tags, readers and middleware which are EPCIS compliant will be able to seamlessly share information based upon a standard format across organizations and borders. A standard platform for communication provides important capabilities to improve efficiency and visibility in the global supply chain. We are an active member of EPCglobal and is participating in discussions with EPCglobal working groups in developing various aspects of the framework for EPCIS.

(ii) ISO 18186:2010

On 9 April 2009 we were appointed as the Malaysian representative by the Malaysia Department of Standards to the ISO technical committee called *TC 104: Freight Containers* solely for the purpose of participating in discussions, meetings and drafting in regards to the ISO18186:2010 standard for *"Freight Container – RFID Cargo Shipment Tag System"*. TC 104 is an international technical committee under ISO tasked to set standards on all aspects relating to freight containers including how the system will work, physical attributes, design, terminologies used, container handling equipment used, container markings and electronic tagging and identification of containers.

Our participation with TC 104 involved drafting and setting the standards on the ISO18186:2010 which was published in July 2010. ISO18186:2010 is an international standard which describes the parameters of RFID-based systems for freight container logistics in order to improve transparency and efficiency of cargo shipment. Part of this standard requires that the system is open and distributed in order to achieve management efficiencies in different geographical areas. In line with this system requirement, EPCIS was selected as the open and distributed standard for data repository in our ISO18186:2010-based project implementations. The RFID systems used for tracking and tracing cargo shipments as part of our Land Checkpoint Project and Port Project, as further discussed in Section 5.15.1 and 5.15.2, are based on the ISO18186:2010 standard. The ISO18186:2010 standard will continuously be refined and improved to adapt to real world application.

Overall, the introduction of standards from ISO and EPCglobal would improve the adoption and implementation of RFID. This is complemented through a coordination of solutions globally to follow standard operating parameters which enables better interoperability between RFID hardware and software. Furthermore, end-users are able to use RFID systems confidently as the ratification of various standards over the past years have improved the reliability of RFID technologies.

4.3.4 Other Information

For further information on the RFID value chain, RFID market structure and RFID applications, please refer to Section 1.2 and Section 1.5 of the Executive Summary of the Independent Market Research Report as set out under Section 7 of the Prospectus.

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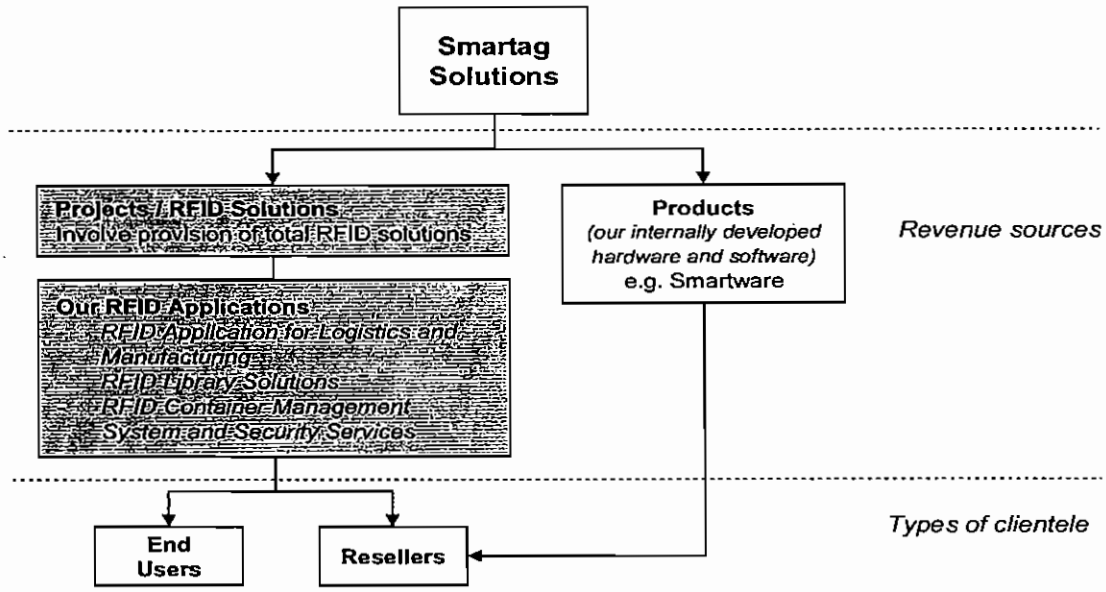
5. BUSINESS OVERVIEW

5.1 OUR BUSINESS

Our Group is principally engaged in the provision of total RFID-based solutions for any potential clients that seek to optimize their business process and data flow using RFID technology. Besides providing total solutions from consultation, planning and implementation to end clients, we also sell our internally developed RFID software and RFID hardware as part of our product range. The diagram below is a snapshot of our current business model on which revenue generation is based upon:-



Currently, our business involves providing RFID solutions for our clients on project basis. Besides project implementations, our revenue is also derived from sales of our products such as our Smartware™.

Our clientele base typically consists of end-users of our solutions (consisting of e.g. manufacturers, trading companies, financial institutions, etc) and resellers who are typically system integrators who procure our RFID solutions for their own end-user clients. Our solutions are also customised to the resellers' specifications. The sales of our products such as our Smartware™ are typically made to resellers who utilise the software as part of their overall solutions for their own clientele and projects.

Further information on our major clients are detailed in Section 5.7 of this Prospectus. For more detailed analysis of our financial information, please refer to Section 8.3 of this Prospectus.

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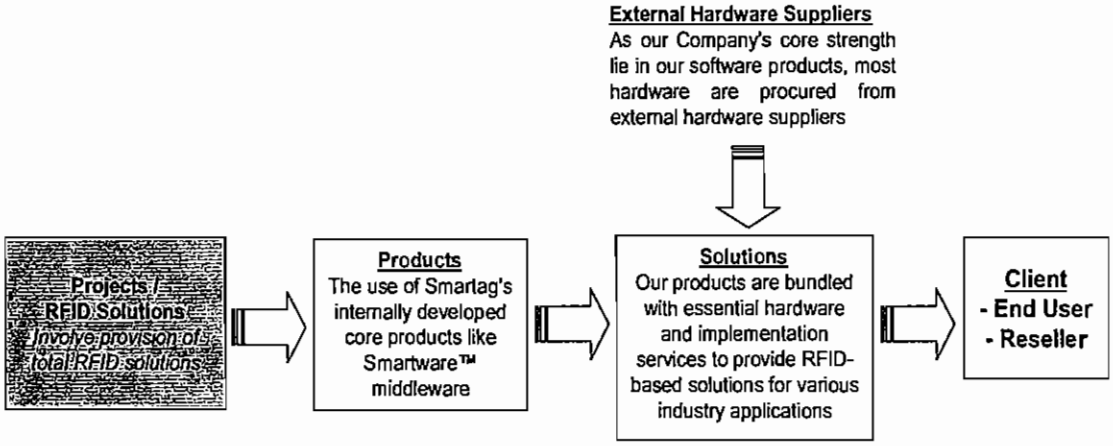
5. BUSINESS OVERVIEW *(Cont'd)*

5.1.1 Our RFID Products and Solutions

This section provides a comprehensive summary of our products and solutions. Our products are also used as an essential part of our solutions. The flowchart below depicts how our products are used to deliver total RFID solutions for our clients in various environments and applications:-



Our Group's core strength is in developing RFID software and providing RFID solutions and implementation. Our internally developed software comprise of our Smartware™ middleware and our Smartrack™ software engine for data repository. However, for data to be captured into the RFID system, hardware such as RFID tags and readers are required and these are typically procured from third party hardware suppliers. We have also recently designed and developed our own semi-passive RFID tag which is expected to contribute positively to our revenue in the future.

Our solutions for RFID systems involve the bundling of both the required hardware and software in which we customise to our clients' specific requirements, suitability of operational environment and budget. RFID technology can be used to optimize business processes and work flow for various industries and applications such as manufacturing, logistics, transportation, asset tracking, library management, healthcare, distribution of goods, warehousing and livestock management.

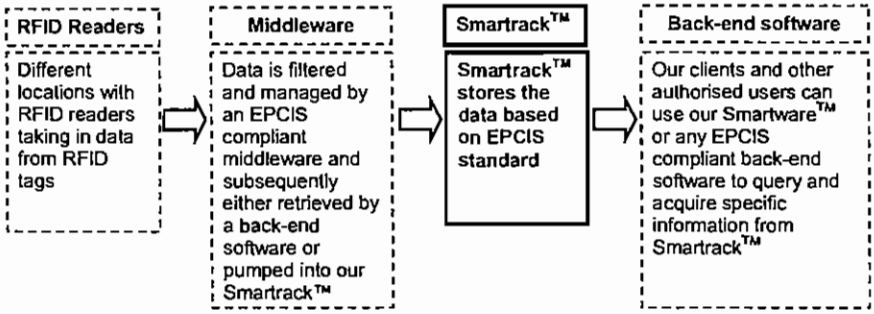
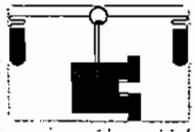
RFID Products

Our internally developed products are used as a core part of our RFID solutions. As at the LPD, our range of products comprise of our Smartware™ middleware, our Smartrack™ software engine for data repository and our internally developed semi-passive RFID tag.

Smartware™

Smartware™ is a RFID middleware designed specifically for managing, filtering, coordinating, and securing data collected from a single or multiple RFID tags via the RFID readers. The 'processed' data is then retrieved by a user-interface software or other compliant enterprise applications to be presented in an understandable format to the user. The middleware is able to integrate with various enterprise applications with ease. It is also able to manage multiple RFID devices at a time. Our Smartware™ middleware is used as part of our solutions or can be sold individually to potential customers such as resellers who are typically system integrators who use our Smartware™ middleware as part of their RFID solutions for their own clients.

5. BUSINESS OVERVIEW *(Cont'd)*

	When sold individually, our Smartware™ is either priced according to individual software license sold where the installation and use is limited to one equipment or device only or priced by enterprise-wide use where the Smartware™ is installed into a central server that can be accessed by multiple computers and devices. Sales of our Smartware™ represent one-time sales for the software license without any annual license fees attached.
SMARTRACK	**Smartrack™** Smartrack™ is a back-end data repository software engine suitable for applications where data is intended to be shared among different parties residing at different geographical locations. Smartrack™ can be used as part of our solutions or can be sold separately per software license. Smartrack™ works as a data repository system for storage of information relating to the location and state of the items being tagged with RFID tags so that these information can be shared among authorised parties in a standardized manner based on EPCIS standards. By enabling data to be collated from across different processes of a supply chain or from different enterprises, users are more equipped to detect inefficiencies, performance levels and areas for improvement. Smartrack™, as a central depository system can reside at our clients' server (when sold per software license) and also at our Company's server (when provided as a service such as our Land Checkpoint Project and Port Project). The diagram below shows how our Smartrack™ is positioned in a typical RFID system:-  Smartrack™ is presently used in commercial trials for our Land Checkpoint Project and Port Project as discussed in Section 5.15 of this Prospectus and is expected to contribute positively to our revenue in the future.
Semi-passive RFID tags 	Our semi-passive RFID tag was designed by us and manufactured using outsourced services. The semi-passive tags come in a flexible sticker or label form. The flexible paper-like form of the tag and its internal paper battery allows it to be integrated into various applications. It provides reliable and long-range transmission of more than 30 meters in environments where passive RFID is limited and active RFID is too expensive. The tags can provide reliable reading for an estimated of up to two (2) years lifespan. Beyond the battery lifetime, the tag will still function as a normal EPCIS compliant passive tag. This product is expected to contribute positively to our revenue in the future.

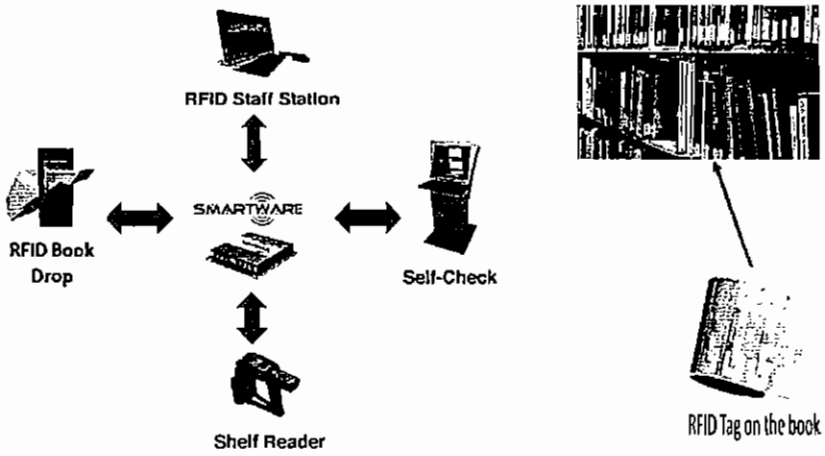
5. BUSINESS OVERVIEW *(Cont'd)*

RFID Solutions

Our Smartware™ middleware and Smartrack™ software engine can be used across industries, particularly for tracking and tracing purposes, and we customise our solutions in accordance to our client's requirements and budget, be it end users or resellers. So far up to the LPD, our solutions have been deployed in the following broad applications below:-

RFID Applications for Logistics and Manufacturing	Our *RFID Applications for Logistics and Manufacturing* focuses on RFID solutions to improve efficiencies and enhance value within the supply chain which can be applied to various industries. This solution category is broadly segmented into manufacturing and logistics. ***Manufacturing*** Factories and manufacturers today operate large scale production lines and keeping track of the volume of materials and goods flowing through the processing lines and storage on a huge scale in warehouses can be a daunting task. The level and efficiency of these processes are often determined by the coordination and timing of materials and resources. Manufacturers can utilise RFID technology as a tool to enhance this visibility and improve and automate their work processes, from tracking materials and parts on the manufacturing floor, to verifying what processes have been completed, which inspections or tests are needed and to automatically update the production database. Inventory controllers and production planners can use RFID tags to track finished goods from the production line to the warehouse and match customer's orders, thus minimising human errors that can occur when using manual entry. Stock-takes can also be automated as the user only needs to retrieve data by 'reading' tagged stocks present in the warehouse. Data collected through RFID readers from the tagged items are filtered and processed by our Smartware™ middleware and retrieved by a compliant back-end user interface software which helps to present the information in an understandable format to users. ***Logistics*** Logistics related applications encompass a wide field of management of the flow of goods/assets, information and other resources. This solution can be applied to industries such as transportation (shipping of goods from one point to another), healthcare (tracking of equipment movement and medications), oil and gas (tracking expensive equipment in harsh environments), agriculture (tracking livestock) or telecommunication (tracking deployment of ICT infrastructures). As logistics activities will normally extend beyond a single location, the use of our Smartrack™ software engine as a platform to facilitate data sharing among various interested parties can be beneficial as it allows up-to-date information on the status of tagged items to be ascertained by product managers, logistics coordinators and end-customers who may be given authorisation to access different levels of information.

5. BUSINESS OVERVIEW *(Cont'd)*

	The data can also be sent to our Smartrack™ software engine which will act as a depository to share data with other authorised parties, especially when finished goods are shipped out of the manufacturing facilities and transported to other destinations where interested parties such as customers who would want to know the status of the product delivery.
RFID Library Solutions	Our RFID library solution offered is based on RFID tags, readers and library modules. Using RFID will aid in improving efficiency by enabling **self check-in/out stations** which are easy to use terminals installed with RFID readers that are able to read the books tagged with RFID tags thereby enabling library patrons to manage their own borrowing transactions, review their account status and renew library materials. **RFID book drop boxes** are usually located outside of the library premises. It allows library materials to be returned safely and securely any time and even before or after library working hours and the return status will be updated via a RFID reader in the drop-in box. Using RFID tags and RFID readers which ensure accurate readings are taken, librarians can easily document data with available user-interface software at their **RFID work stations.** Strategically placed readers act as an anti-theft component of the RFID library system, providing a read range of up to six (6) metres. A computer will instruct the reader to detect books which have not been borrowed, triggering the alarm when items pass through the check-out gate. In addition, our mobile **shelf readers** can be mounted on a trolley and pushed around the library to read and gather inventory information at large quantities at a time compared to the traditional line-of-sight barcode scanning which can only be done one book at a time. The diagram below shows the main components of our RFID Library Solutions whereby information are obtained and processed through our Smartware™ middleware.  Our *RFID Library Solutions* are not necessarily limited to applications for tracking library books and improving library operations but can also be applied for operations involving record and document management in general.

5. BUSINESS OVERVIEW *(Cont'd)*

RFID Container Management System and Security Services	The threat to the security of container shipments carrying valuable merchandise is driving the need for improvements in air and maritime security. Authorities especially at sea-ports and customs checkpoints are striving to increase operational efficiency while balancing other factors like security, visibility and control. The problem is caused by the highly complex environments in which thousands of containers need to be handled at precise timing. Many authorities and shippers still use manual methods for checking shipments, handling declarations, payment of port charges and other charges and filling in forms which can lead to tracking errors, mishandling and/or delays which are costly. Our Company is addressing these problems by setting up RFID equipment at certain customs checkpoints and port checkpoints and applying our RFID-based solutions through the Land Checkpoint Project and Port Project which represents an essential part of our business expansion moving forward. To date, for our Land Checkpoint Project implementations in Thailand, we have already set up RFID infrastructures at the Sadao, Suvarnabhumi and Mukdahan customs checkpoints in Thailand and performed commercial trials while for our Port Project we have already set up infrastructures at Johor Port, Penang Port and Northport in Port Klang and established links with Shanghai Port to jointly market the RFID solutions in container management. Further information is disclosed in Section 5.1.4, 5.15.1 and 5.15.2 of this Prospectus.
Training, Technical Support & Professional Consultancy	Our Company aims to continuously upgrade our sales service. This includes on-site and off-site training, technical support and consultation to support our clients. We provide training to instruct our clients in the proper use and maintenance of the products, allowing them to realise the optimum benefits of the technology involved. Depending on the clients' requirements, we are able to tailor our technical support to suit a desired budget, whether the client requires phone-in support, email support, or even 24-by-7 standby support. Our support team will ensure that the clients can concentrate fully on their businesses without having to worry about breakdowns or system failure. Apart from training and technical support, we also provide RFID consulting services on how RFID can fit into a client's business process. This may include other RFID consulting services ranging from system studies to site surveys. Our training, technical support and professional consultancy are part of our post-project services which we offer to our clients. Currently, we are not deriving any revenue from this segment but as the number of project implementation increase, we expect these services to contribute positively to our revenue in the future.

5. BUSINESS OVERVIEW *(Cont'd)*

5.1.2 Principal Markets

The breakdown in revenue between our locally derived and overseas derived revenue for the past three (3) years from FYE 30 September 2008 to FYE 30 September 2010 (net of inter-company transactions) are as follows:-

	< Proforma >				< Audited >	
	< FYE 30 September >					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Malaysia	13,554	56.7	20,904	60.5	15,309	67.2
Thailand	10,361	43.3	13,654	39.5	-	-
Indonesia	-	-	-	-	7,460	32.8
TOTAL	**23,915**	**100.0**	**34,558**	**100.0**	**22,769**	**100.0**

Historically, our client pool has been largely based locally and also in Thailand and Indonesia. During our FYE 30 September 2008 and FYE 30 September 2009, we had implemented a warehouse asset tracking and management RFID system for S.I.N. Commercial Co. Ltd (a Thailand incorporated company). We also sold our RFID solutions to E-Business Plus Co. Ltd and TeamWork Solution Co. Ltd (both of whom are Thailand-based companies) as they are RFID system integrators (resellers) for their own clients. During FYE 30 September 2010, our Indonesia-based client, PT Andira Citra Mandiri Utama had engaged our Company to provide solutions for security control and monitoring systems. Moving forward, we expect to increase both our local and overseas client base in line with our future plans and strategies.

Please refer to Section 8.3.1 of this Prospectus for more information on the revenue breakdown of our Group.

5.1.3 Seasonality

Historically, we do not experience any seasonality as our revenue sources depend on projects that we secure.

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5. BUSINESS OVERVIEW *(Cont'd)*

5.1.4 Our History and Key Milestones

The table below summarises the key achievements and milestones of our Group:-

YEAR	KEY MILESTONES
2004	(i) ***Development and Commercialisation of Smartware™*** Our internally developed Smartware™ middleware product began commercialisation as part of our RFID solutions provided which enabled organisations to link the front end of RFID systems i.e. RFID readers to their user-interface systems. The middleware developed by our Company is able to interact with RFID readers in order to filter and process data collected by the RFID readers and then communicated in an understandable format via user-interface systems of our client. Our Smartware™ is currently our flagship product and we have since continuously upgraded and improved on its processing abilities and its ability to communicate with various types and brands of readers and link data collected to various user-interface systems.
2006	(i) ***Installation of RFID infrastructures and systems at Johor Port as a pilot initiative for our Port Project*** As part of the pilot initiative to develop and perform tests on our RFID system for port operations, our Company had set up various RFID infrastructures at Johor Port to work towards commercialisation of our container tracking service. RFID tags are used to track the shipping containers starting from the point where the container trucks enter the security gates of the port into the waiting area and up to the point where the containers are loaded onto ships. The use of RFID technology coupled with our Smartware™ has helped Johor Port Berhad improve security and solve congestion problems at the entry gates, the loading bays as well as the wharf cranes. The RFID system serves as a proof-of-concept showcase for potential clients of our container tracking service as further discussed in Section 5.15.2 of this Prospectus. As the utilisation of RFID for port operations is a relatively new concept especially in the South-East Asia region, our continuous R&D on the system at Johor Port has helped our Company in improving and also promoting the RFID system as a service for potential clients to track their merchandise being shipped in containers. In addition, our successful implementation of this proof-of-concept system has been a catalyst in proving our technical capabilities and gaining the interest of various key partners including SSET, SIPG, Netbay and industry organisations like ISO, EPCglobal and FMM. Further details of our encounters and collaborations with these parties are elaborated in the rest of this section.
2007	(i) ***Received Multimedia Super Corridor (MSC) Status*** Our Company was awarded the Multimedia Super Corridor (MSC) Malaysia company status in 2007 by the Ministry of Science Technology and Innovation through the MDeC. Our Company enjoys financial and non-financial benefits through the MSC status including exemption from taxation for applicable revenue sources.

5. BUSINESS OVERVIEW *(Cont'd)*

YEAR	KEY MILESTONES
2008	(i) ***Secured project to implement RFID technology for libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang*** Our Company implemented a total RFID system for libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang to track the libraries' books. The project was funded by the Ministry of Energy, Water and Communications as part of the Penang & Kulim Broadband Project in which various internet service providers were involved to provide the backbone infrastructure for internet connectivity. This is the very first project of its kind in Malaysia involving a state library whereby library books tagged with RFID stickers can be returned at collection boxes elsewhere at points of convenience for the general public. This project is meant to encourage more people to borrow books by making it more convenient for them to be returned at these collection boxes, which have RFID readers linked to the central library server. We have completed implementation to key library locations and are currently providing the libraries with RFID sticker tags for their books. Further details of the RFID library solutions are set out in Section 5.1.1 of this Prospectus. (ii) ***Collaboration with SSET and established linkages between Shanghai Port and Johor Port*** Our encounter with SSET begun when our Company was searching for suitable RFID readers and tags as part of the hardware components to our Port Project. At that time, SSET was responsible for implementing RFID systems at Shanghai Port (managed by SIPG) and later came to know of our implementations at Johor Port. Our Company was subsequently introduced to SIPG via SSET to engage in establishing cross-border linkages between RFID systems from port-to-port. On 13 May 2008, our Company entered into a collaboration with SSET for the deployment of RFID systems to initiate a RFID tagging project between the existing RFID systems in Shanghai Port in China and Johor Port in Malaysia to achieve communication between the two (2) ports and to enhance tracking of container movement. To date, the port-to-port trials using SSET's RFID E-Seals for containers travelling between Shanghai Port and Johor Port have been successfully completed and we are currently performing live showcases in relations to our RFID container tracking services for potential clients as a way to spread awareness on RFID technology and our brand of services. The long term objective of this collaboration is to establish greater linkages between ports in South-East Asia, China and other countries with regards to tracking of freight container movements to enable data sharing and communication beyond a single port and to other authorised parties. This collaboration is part of our efforts to commercialise our Port Project as further detailed in Section 5.15.2 of this Prospectus. Subsequently, this collaboration was formalised through an agreement on 28 December 2009 as disclosed in Section 5.13 (b) of this Prospectus. SSET will also be the supplier of the RFID E-Seals and readers for our Port Project and Land Checkpoint Project.

5. BUSINESS OVERVIEW *(Cont'd)*

YEAR	KEY MILESTONES
	By leveraging on our links with SIPG as one of the world's busiest ports in terms of cargo TEUs handled, our products and services can be promoted at a faster rate to the many port stakeholders including port managements, logistics companies and shipping liners.
2009	(i) ***Became a member of EPCglobal*** Joined as a member of EPCglobal which is an international organisation set up to achieve worldwide adoption and standardisation of EPC technology. The main focus of the organisation currently is to create a worldwide standard for RFID. One of the standards which dictate the content and format of how data will be coded and presented is called EPCIS. Our Company actively participates in discussions with the EPCglobal working groups in developing various aspects of the standards framework. The development and function of our software product, Smartrack™, is based on EPCIS standard and serves as an essential component to our Land Checkpoint Project and Port Project which is further explained in Section 5.1 and Section 5.15 of this Prospectus. Our active involvement with the activities of EPCglobal not only aid in providing visibility to our corporate profile and international standing but also allow our Company to keep up with the developments of the global RFID market. (ii) ***Development of our Smartrack™ product*** In line with the EPCglobal movement for standardisation in RFID communication and as a key aspect of our Land Checkpoint Project and Port Project, our Company commenced the development of Smartrack™, a software engine which works as a repository of data based on the EPCglobal's EPCIS standard to enable sharing of RFID event data across EPCglobal compliant network participants. As our Port Project involves building a network of ports to enable seamless tracking of container movements, our Smartrack™ will work as a repository system that facilitates the sharing of data among different authorised users across different countries especially among our potential clients who will be able to track the status and movement of their merchandise through the tracking services which our Company will provide using Smartrack™. Our Company had received the EPCIS compliant certification for Smartrack™ on 3 November 2010. This certification is issued by EPCglobal and is obtained upon passing a series of tests performed by independent parties. This enhances our Smartrack™ branding and demonstrates our continuous efforts to improve and refine our products.

5. BUSINESS OVERVIEW *(Cont'd)*

YEAR	KEY MILESTONES
	(iii) ***Appointed as representative to ISO TC104: Freight Container*** We were appointed as representative to the Malaysia Department of Standards in the ISO technical committee called TC 104 solely for the purpose of participating in discussions, meetings and drafting in regards to the ISO18186:2010 standard for "*Freight Container - RFID Cargo Shipment Tag System*". The establishment of this standard is to describe the parameters of RFID based systems for freight container logistics in order to improve transparency and efficiency of cargo shipment. The ISO18186:2010 standard will form the framework of the RFID system used for our Land Checkpoint Project and Port Project. (iv) ***Development of our Semi-Passive RFID Tag*** We successfully developed our own hardware product, a semi-passive RFID tag that can read up to a range of more than 30 meters. Our semi-passive RFID tag uses a thin and flexible paper battery. The thin and flexible form makes it easy to be used for various applications and allows it to be manufactured in the form of a sticker tag or credit card sized tag. (v) ***Smartag Solutions selected as a finalist for the MSC Malaysia APICTA Awards 2009 - Best of R&D category*** APICTA recognises the best in innovation from across the Asia Pacific ICT community. We submitted our R&D design for our semi-passive tag under the R&D Category and was shortlisted as one of the finalist contenders. (vi) ***Recognized as top 30 MSC companies based on SCORE*** Recognized as the top 30 MSC companies with 3 stars out of 4 on MDec's SCORE programme which is a competitive benchmarking system made mandatory for all MSC companies. Having this recognition provides us the credibility in promoting our brand of services.
2010	(i) ***Collaboration Agreement between SIPG to promote RFID freight container tracking system*** This agreement is by virtue an extension of our collaboration with SSET on 13 May 2008 as mentioned above and an agreement entered into between SSET and our Company in 28 December 2009 as stated in Section 5.13 (b) of this Prospectus. This agreement was entered into with SIPG on 5 May 2010 to develop *a* long term implementation plan to carry out the application demonstration in other ports by using the Johor Port and Shanghai Port link as the demonstration model. Our Company has been working closely with SSET and SIPG in conducting container RFID trials at Johor Port and Shanghai Port to promote the RFID freight container tracking system based on the ISO18186:2010 standard to other ports as a strategy to target the ultimate customers of our service i.e. merchandise shippers. Further detail of this agreement is disclosed in Section 5.13 (c) of this Prospectus.

5. BUSINESS OVERVIEW *(Cont'd)*

YEAR	KEY MILESTONES
	(ii) ***Signed letter of intent and subsequently a definitive agreement with Netbay to implement the RFID container tracking systems*** Our encounter with Netbay began in 2009 where our track record and credibility gained from the RFID system implementation at Johor Port provided a strong reference point for Netbay to start engaging with us culminating in the initiation of our Land Checkpoint Project using Thailand as the first expected commercialisation site. Netbay is a provider of comprehensive online transaction services in Thailand for consumers, business entities and government entities. Among these services, Netbay is currently responsible for providing online transaction services to users that transport their merchandise across customs checkpoints under the purview of the Royal Thai Customs. Netbay's online services allow the users to conduct the necessary paperwork, license application and also make customs related payment electronically. As part of our commercialisation plans under the Land Checkpoint Project, our Company will work with Netbay to link our RFID system to Netbay's existing network system so that the users of Netbay's payment system will also be able to track and trace the movements of their merchandise every time the containers carrying the merchandise passes our RFID readers installed at customs checkpoints. To date, we have already set up RFID infrastructures at the Sadao, Suvarnabhumi and Mukdahan customs checkpoints in Thailand and performed commercial trials-runs. On 2 November 2010, our Company signed a letter of intent with Netbay and on 15 March 2011 the definitive agreement was signed with Netbay in relation to the implementation of RFID container tracking systems and services at designate customs checkpoints in Thailand determined by the Royal Thai Customs. This was a result of the successful completion of the commercial trial on the RFID system provided by our Company. The agreement will be effective for a period of five (5) years and subject to automatic renewal according to terms of the agreement. (iii) ***Recipient of Merit Award for the MSC Malaysia APICTA Awards 2010 - Best of e-Logistics category*** Our Company is the recipient of the "MSC Malaysia APICTA Awards 2010 - Best of e-Logistics category" merit award under the e–Logistics category for our Smartrack™ software engine used for data repository and to facilitate in tracking information for RFID tagged items. (iv) ***Recipient of Merit Award for the 10th International APICTA Awards 2010 – Best of e-Logistics category*** Our Company is the recipient of the "Best of e-Logistics and Supply Chain Management category" merit award in the 10th International APICTA Awards 2010 for our Smartrack™ software engine for data repository and facilitation of track and trace information for RFID tagged items.

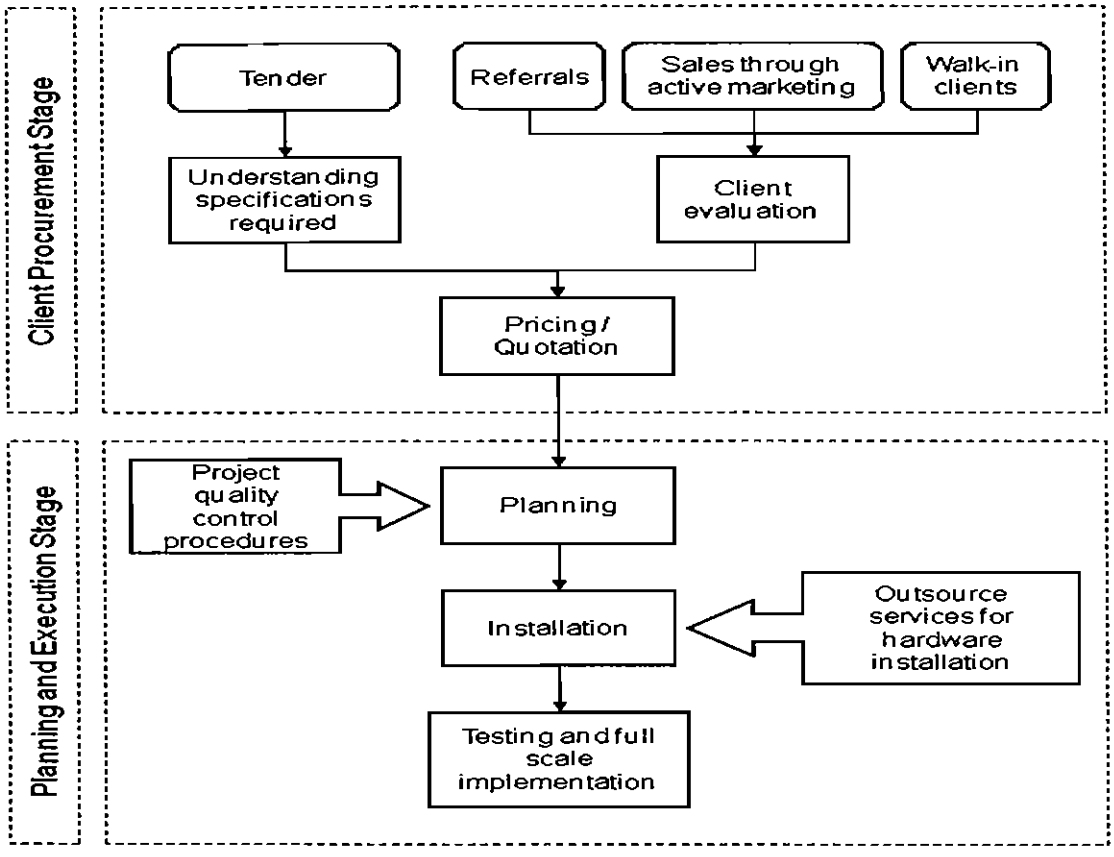
5. BUSINESS OVERVIEW *(Cont'd)*

YEAR	KEY MILESTONES
	(v) ***Obtained Certification for ISO 9001:2008 – Quality Management Systems*** In August 2010, our Company obtained the certification for ISO 9001:2008 which is an internationally recognised standard for the quality management of businesses. Through the adoption of ISO 9001:2008, clearer key roles and responsibilities are defined and any deficiencies from products and services can be highlighted. The adoption of ISO9001:2008's best practices aims to achieve cost savings, improvements, less wastage, reduction in inappropriate or rejected work and fewer complains. (vi) ***Participated and co-sponsored the 12th ECR Asia Pacific Conference*** In October 2010, our Company had participated and was a co-sponsor of the 12th ECR Asia Pacific Conference held in Malaysia in which FMM was also involved in promoting to its members. This annual international conference provides an avenue for local and foreign companies to hold talks and open discussions on challenges and solutions in the supply chain environment and serves as a platform to educate players in the industry about RFID and promote our brand name and services. On 5 October 2010, our Company signed an MoU with GS1 Malaysia which is formed under the aegis of FMM to develop, promote, and sustain the usage of technology standards especially in relations to the EPCIS and RFID among the various stakeholders within a supply chain, especially members of the FMM. (vii) ***Recognized as the top 10 MSC companies*** Recognized as the top 10 MSC companies out of 74 shortlisted MSC companies as part of MDeC's SCORE programme which is a competitive benchmarking system made mandatory for all MSC companies. Having this recognition provides us the credibility in promoting our brand of services.
2011	(i) ***Obtained Thailand Foreign Business License*** On 25 February 2011, our Company received a Thai foreign business license to provide container tracking services using RFID to Netbay. Please refer to Section 5.11 for further details of the foreign business licence. (ii) ***Signed RFID Container Tracking Service and Partnership Agreement with Netbay to implement the RFID container tracking systems*** On 15 March 2011 we entered into an RFID Container Tracking Service and Partnership Agreement with Netbay for the implementation of, with the assistance of Netbay, RFID container tracking systems and services at designated customs checkpoints in Thailand determined by the Royal Thai Customs.

5. BUSINESS OVERVIEW *(Cont'd)*

5.2 OUR PROJECT IMPLEMENTATION PROCESS

Majority of our sales to date are project based. The flow chart below depicts our project implementation process:-



Client Procurement Stage

The gestation period for procuring new projects will depend on the sales channel taken as government tenders may take months to obtain while clients procured through referrals, active targeted marketing and walk-in clients are relatively quicker.

Sales channels	Our avenues to procure our projects comprise mainly of:- • Project tenders from private organisations and government bodies. • Referrals from our existing shareholders, trading partners and other business associates; • Active targeted marketing activities such as participation in international conventions, summits and hosting seminars; and • Walk-in clients who may have visited our website or enquired our services before. Further information on our sales channels is discussed in Section 5.10.1 of this Prospectus.

Client and project evaluation	For tender projects, before we put in our bids, our technical team and finance controller will evaluate and understand the parameters and specifications required in the project in order to enable an estimate of the level of capital commitment needed to balance our allocation of resources and whether we have the technological capacity or experience to complete the project. For clients procured through other channels, we will basically evaluate any prospective clients to gauge their credibility through sources such as available public documents, statutory searches, media searches, enquiries with business associates or trade partners who may have ties with the prospective client or meetings with the client for pre-project discussions.
Pricing / Quotation	Upon satisfying ourselves that we are able to meet the technical requirements of a project being tendered, we will then submit our quotation. Upon satisfactory outcome of clientele background and credibility, we will provide the project fee quotation to the prospective client based on the scope of work and client requirements. From our experience in previous projects, we are able to, upon detailed discussions with our clients' overall needs, specifications and budget, price our services competitively with sufficient buffer for any unexpected delays or cost overruns.

Planning and Execution Stage

The time taken to complete our projects will depend on the size of the project and the length of planning or preliminary studies required. Furthermore, certain projects are implemented in phases or stages depending on the arrangements and requirements of our clients.

Planning	The planning stages involve more in-depth study and discussion with the client on the purpose for their adoption of RFID, their existing system and requirements to support an integrated RFID system and the layout of how the RFID equipment will be placed, installed and integrated with the clients' existing system. The planning stage is important as it will enable us to foresee possible pit-falls or challenges before actual implementation work begins and also familiarise ourselves with the clients' organisation in order to minimise the risk of circumstances that may cause cost overruns. Part of the planning process and pre-project implementation involves certain quality control procedures which are further detailed in Section 5.3.1 of this Prospectus.
Installation	The installation of the software modules to operate the RFID system will be performed by our technical staff. Installation of our Smartware™ middleware is done by us either on-site or off-site. After the software aspect of the project is ready, we will procure the necessary hardware from our trade partners and suppliers at competitive prices due to our long standing relationship with most of them. The installation process involve strategically putting in place the hardware such as tags, readers, servers and other equipment required.

5. BUSINESS OVERVIEW *(Cont'd)*

Installation (Cont'd)	When certain tasks such as hardware installation which typically requires time and labour resource and is technically less demanding, we would outsource the installation work to third party contractors or our hardware suppliers so that we can focus our resources on more technical issues or procuring new clientele.
Testing and full scale implementation	Once installation is complete, testing will commence on a small scale. Following that, a full scale implementation of the RFID system will be undertaken. For large scale or complex projects, or depending on the requirements of the clients, we will execute User Acceptance Test confirmations to ensure that all deliverables are formally agreed and accepted by the clients.

5.3 QUALITY ASSURANCE AND CONTROL PROCEDURES

5.3.1 Preliminary Project Implementation Quality Control Procedures

Before we undertake or begin a full-scale implementation for a project, we will usually perform preliminary evaluations and studies as our project implementation quality control. The purpose of doing such evaluations and studies is to understand the environment and business process and how best the implementation can be executed to achieve optimal results and to avoid unnecessary costs overrun or delay in timeline. Our evaluations and studies will generally entail the following:-

Environment Tests	Using devices such as a spectrum analysers, our technicians can determine the power output of a RFID equipment and check if there are any interference in the environment which may possibly interrupt the operation of the RFID system.
Purchases Evaluation	Evaluation and selection of suppliers are done based on their abilities to provide supplies in accordance with project requirements such as quality, price or delivery arrangements.
Equipment Testing	RFID readers will be temporarily set up at the test location to check if the system is viable for installation and/or identify any issues arising. Different proposed readers/tags models will be tested and measured in terms of the actual reading range and coverage area of the readers and responsiveness of the RFID tags within the environment. Thereafter, we will determine the strategic locations to install the RFID reader and antennas.
System Flow Study and Network Establishment	We will study how the RFID system will be incorporated into the business process and how to implement the system with minimum impact to the business operation. The next step would be to establish the connection of RFID readers to the existing client network.

5. BUSINESS OVERVIEW *(Cont'd)*

Data Interface and Data Required	After the installation is complete, we will study what data the RFID reader should collect and what data should be encoded into the tag and how collated data can be presented and organised in an understandable report for decision making. This function will be processed by the middleware and produced using back-end system interface software.

Notwithstanding the above, different cases and environments will entail different approaches to the general method of how evaluation and studies will be conducted.

5.3.2 Product and Solution Quality Control and Conformance

To ensure that our products are developed through procedures which allow us to monitor its performance and control the output quality, we adhere to the following procedures for product development:-

Design and development planning	• Determining the development stages of the product/solution. • Reviewing, verifying and validating the processes at each development stage. • Ensuring effective communication and clear responsibilities for design and development of the products.
Design and development input	• Determining objectives of the product/solution in terms of functional and performance requirements while taking into consideration applicable statutory or regulatory requirements especially with regards to radio frequency regulations.
Design and development output	• Ensuring that outputs of design and development shall be in a form suitable for verification against the design and development input and shall undergo tests and approval prior to release. The output of development should contain or reference product acceptance criteria.
Design and development review and change control	• Review shall include evaluating the ability of the results of design and development to meet requirements, and to identify any problems and propose necessary actions. • Records of the results of the reviews and any necessary actions shall be maintained. • Design and development changes shall be identified and records maintained. Based on the significant level of the changes, the design and development changes shall be reviewed, verified and validated, as appropriate, and approved before implementation and commercialisation.
Design and development verification and validation	• Verification to ensure that the design and development outputs have met the design and development input requirements • To ensure that the resulting product is capable of meeting the requirements for the specified application or intended use and if required executing User Acceptance Test confirmations.

5.3.3 Sales Service Quality Assurance

We also ensure quality service in our implementation of solutions and benchmarking our services to our clients' expectations and industry standards. Our extensive experience and technical expertise aid us in improving methods and ways of implementation. Furthermore, our technical personnel will undergo on-the-job R&D when it involves unique challenges to come up with solutions that will maximise the effectiveness and efficiency of the RFID system in a given environment.

Our post-project services include on-site and off-site training, technical support and professional consultation to support our clients. We provide trainers to instruct our clients in the proper use and maintenance of the products, allowing them to realise the optimum benefits of the technology involved. Apart from training and technical support, we also provide professional consulting services as every RFID implementation will require a certain degree of business process reengineering. Besides that, we also provide other RFID related consultations ranging from system study to site survey.

5.4 RESEARCH AND DEVELOPMENT

5.4.1 Our R&D Objectives and Policy

We are constantly exploring and keeping up with the growth in RFID technology and its potential applications, particularly applications relating to track and trace management using RFID and other RFID enabling technologies. Our R&D activities are carried out either through our internal research or collaborations with interested bodies or institutions. As RFID is incorporated into more and more complex organisational systems and transactions, we are also constantly reviewing and upgrading our software products such as the Smartware™ and Smartrack™ in terms of their functionality, efficiency and/or processing capabilities. All our developed products will go through intensive testing either within our facility or using the facilities of our R&D partners before being commercialised.

We recognise the importance of R&D to ensure we stay ahead of our competitors and sustain our continuous growth in the long run. Our R&D objectives and policies for the last three (3) years and moving forward are to create and sustain competitive advantages through:-

(i) Continuous improvement in terms of efficiency and cost effectiveness for our RFID products and solutions. This will also depend on the overall progress of RFID technology and continuous improvement in our products;

(ii) Continuous improvement in product quality, compatibility, features, functionality, scalability and security to ensure customer satisfaction;

(iii) Developing more products, both software and hardware that are EPCglobal compliant as a measure to push forward wider standardisation for RFID;

(iv) Continuous R&D into potential technologies which may be an extension, ancillary or complementary to RFID which are able to expand the applications of RFID technology and increase our Company's earning potential; and

(v) Expanding our technical team in tandem with the growth of our Company.

5. BUSINESS OVERVIEW *(Cont'd)*

5.4.2 Our R&D Process, Facilities and Technical Personnel

Our technical team performs academic studies, media searches, field studies, testings on new RFID hardware in the market and collaborations with interested bodies which have the necessary facilities or resources in order for us to keep abreast with advancements in the RFID field. Our current focus is on the applications of RFID in track and trace applications. Our technical team holds discussions on new areas for RFID applications that the Company can potentially tap into.

Our administrative and operational office is located at 368-4-1, Bellisa Row, Jalan Burmah, Georgetown, 10350, Pulau Pinang which also serves as our R&D office. We also have an R&D office at Unit A-G-11 SME Technopreneur Centre II, Cyberjaya, 2260 Jalan Usahawan 1, 63000 Cyberjaya, Selangor. Our in-house R&D facilities includes various equipment such as computer terminals, servers, readers, antennas, software development tools and a spectrum analyser which would enable us to undertake our basic R&D activities for the purpose of our projects or non-project related R&D activities. Our collaborations with certain academic institutions also enable us to perform further R&D activities using their facilities. In terms of product and solution development, we have the necessary expertise to design, test and develop them to meet our client's requirements.

Our technical team is headed by our CTOO, Choong Huck Liang and aided by our key technical personnel comprising Ho Ee Lock and Tan Win Sen. Their roles and responsibilities in terms of R&D scope are set out below:-

Technical Personnel	Roles and Responsibilities
Choong Huck Liang *(CTOO)*	He is responsible for overseeing the entire R&D objectives and directions of the team. He is also involved in the design and development of our software products i.e. Smartware™ and Smartrack™. Further details of his profile are highlighted in Section 9.1.2 of this Prospectus. He is also the Executive Director of our Company.
Ho Ee Lock *(Technology and Business Development Director)*	He is mainly responsible for research into hardware technology in the market. He keeps track of new hardware technology being introduced into the market or used by our suppliers / competitors that may be more cost effective or suitable for our future projects. Through him, our Company was appointed as the representative for the Malaysia Department of Standards to be in discussions with the ISO TC 104 committee and to aid in drafting the ISO18186:2010 standard for "*Freight Container - RFID Cargo Shipment Tag System*" which was officially published in July 2010. Further details of his profile are highlighted in Section 9.4.2 of this Prospectus.
Tan Win Sen *(R&D and Technical Manager)*	He is mainly responsible for research and evaluation of the process flow and other technical aspects such as our clients' existing software system, troubleshooting on ways to integrate software systems with hardware according to circumstances and developing our software products. Further details of his profile are highlighted in Section 9.4.2 of this Prospectus.

As at the LPD, our technical department including Choong Huck Liang, consist of twelve (12) personnel. Besides Choong Huck Liang, Ho Ee Lock and Tan Win Sen, we have another four (4) software developers, one (1) research consultant and one (1) personnel who is responsible for multi-media related work such as maintaining our website and preparing presentational slides for marketing and seminar hosting purposes. We have another three (3) technical support personnel who service our existing clients (two (2) of whom are currently stationed at Johor Port). We anticipate the need to hire more technical personnel for the development of products and services in view of our future plans.

5.4.3 Our R&D Expenses

We have incurred R&D related expenses in the past including expenses that led to the development of our Smartware™ middleware, Smartrack™ software engine and semi-passive RFID tag with the objective of using these software and hardware as part of our solutions and fulfilling future demand.

However, our R&D expenses do not include staff costs of our technical personnel as they are not only involved in the Company's R&D activities but also project implementations, technical support and aiding our sales and marketing team on road shows. As such, R&D expenditures incurred during the FYE 30 September 2008 was not material as results from our R&D activities are typically attributed to intellectual output rather than expenditures on costly equipment. The development of our Smartware™, Smartrack™ and semi-passive tag mostly comprised salary expenses and no other material R&D expenses were incurred.

In addition, certain R&D activities carried out concurrently with projects that we undertake for our clients in the past had been recognised as part of the project costs rather than R&D expenses as they were incurred in the course of undertaking revenue generating projects.

The following material development expenditure and R&D related capital expenditure incurred during the FYE 30 September 2009 and the FYE September 2010 are set out below:-

Development expenditure & R&D related capital expenditure	FYE 30 Sept 2009 RM'000	FYE 30 Sept 2010 RM'000
Product development costs	* 786	* 3,446
Capital expenditure for R&D purposes	355	43
TOTAL	**1,141**	**3,489**
Percentage of revenue	**3.30%**	**15.32%**

Notes:-

* *We have spent approximately RM4.23 million over FYE 30 September 2009 and the FYE 30 September 2010. RM1.40 million was subsequently reimbursed to us as a grant awarded to us by the Ministry of Science, Technology and Innovations under a grant scheme for the development of a software system to manage the entry and exit points of the port area as part of the installations at Johor Port. The development of this software system has been completed and capitalised. The remaining product development cost incurred in FYE 30 September 2010 amounting to RM2.83 million was in relation to our collaboration with CRUiSE GPS Systems Sdn Bhd to develop a land fleet management system. More information is disclosed in Section 5.4.4 (iv) of this Prospectus.*

5.4.4 Current & Future R&D Plans

Our current and on-going R&D plans for the future are detailed as follows:-

(i) Continuous improvement to our internally developed Smartware™ middleware and Smartrack™ software engine in terms of features, functionality, scalability and security.

(ii) Continuous development of our semi-passive RFID tag to improve in terms of design, material used to improve performance and signal transmission range to suit more RFID tagging applications and environments.

(iii) Initiated several R&D collaborations with SIRIM and a few local universities in aspects relating to RFID applications and RFID enabling technologies.

(iv) Collaboration with CRUiSE GPS Systems Sdn Bhd to develop a land fleet management system that incorporates GPS and RFID for real-time monitoring of vehicles. As at LPD, we have incurred an expenditure of RM2.83 million from our internally generated funds for this collaboration. The project cost is estimated at RM3.54 million. The remaining RM0.71 million is expected to be funded through our internally generated funds. The investment is funded by our Company and the intellectual property rights will belong to our Company once development of the land fleet management system is complete. The management expects the development of the system to be completed by 2011. The development of the land fleet management system is aimed to complement our Land Checkpoint Project and Port Project by providing to potential clients added services using GPS technology to enable real-time monitoring, tracking, and tracing of the movement of vehicles.

(v) Development and provision for RFID-based solutions in relation to the courier services and document record management industries via our jointly-owned entity, Sure-Reach Smartag. Both our Company and Sure-Reach Worldwide Express Sdn Bhd had jointly contributed approximately RM10.0 million in capital.

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5.5 LOCATIONS, PROPERTIES, PLANT AND EQUIPMENT

5.5.1 Key Information on Principal Location of Business

The details of our principal place of business of our Group as at LPD are set out below:-

Location	Existing Use / Description	Approximate Built-up area	Registered Owner	Tenant	Tenure / Date of Expiry of Tenancy	Restrictions in Interests / Major Encumbrances	Annual Rental
368-4-1, Bellisa Row, Jalan Burmah, 10350 Georgetown, Pulau Pinang	**Existing Use:** Operational and administrative activities and R&D site **Description:** 4th floor of a five (5) storey building	2,540 sq ft	Margaret Mary Kam Swee Lin	Smartag Technologies	01.01.2009 to 31.12.2011	N/A [1]	2009: RM45,600 2010: RM48,000 2011: not exceeding 110% of RM4,000 per month
SME Technopreneur Centre II Cyberjaya Unit A-G-11 SME Technopreneur Centre II Cyberjaya, 2260, Jalan Usahawan 1, 63000 Cyberjaya, Selangor	**Existing Use:** R&D site and office area **Description:** Ground floor of a four (4) storey building	645 sq ft	Cyberview Sdn Bhd	Smartag Solutions	20.09.2010 to 20.09.2012	N/A [1]	RM19,350

Note:-

(1) Not applicable as the properties stated above are not under ownership of our Group. Encumbrances are not disclosed to us by the registered owner.

5. BUSINESS OVERVIEW *(Cont'd)*

Currently, we do not own any form of properties. We do not own any production facilities as we run a technology service oriented business.

As at the LPD, there are no breaches of any law, rules and building regulations including land-use conditions or permissible land use which may result in a potential adverse material impact to the Group in relation to the properties leased.

There are no regulatory requirements or environmental issues which may materially affect our operations and the utilisation of our assets.

5.5.2 Key Information of Our Material Equipment

We do not own any individual equipment which is material. However, some of our essential equipment, when aggregated, does amount to a significant portion of our Group's assets. The details of our material equipment and their aggregated net-book value by category which are held by our Group as at 30 September 2010 are set out below:-

Equipment	Quantity	Description / Function	Aggregate NBV @ 30 September 2010 (RM'000)
RFID readers and reader related parts and equipment	162	RFID reader is the hardware device that reads RFID tags.	331
Communication equipment	25	Communication equipment and wireless infrastructure.	3,047
Software development tools	19	Software development tools and components for software development.	2,786
Ancillary equipment and electronic components	38	Comprising of cables, furniture, power adaptor and other electronic components.	1,950

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5. BUSINESS OVERVIEW *(Cont'd)*

5.6 TYPES, SOURCES AND AVAILABILITY OF RESOURCES

The main resources of our Company comes from the intellect of our human capital as our core products namely Smartware™ and Smartrack™ is researched, designed, and developed internally. We currently have sufficient human capital and do not foresee any problems in hiring the required personnel should the need arise. We believe that knowledge can be imparted through continuous training and on-the-job experience. We focus on hiring technical experts with experienced programming knowledge but nonetheless readily available experts in the field of RFID are limited and this risk of which is highlighted in Section 6.1(j) and Section 6.2(b) of this Prospectus.

Other input required for our solutions are procurement of hardware. Our Company's sources of RFID readers, tags and other related equipment are from local and overseas companies depending on project/client requirements and solutions provided. As RFID technology is becoming increasingly popular, there are various hardware manufacturers to choose from and we do not foresee any difficulty in acquiring any hardware needed at the right price. In the long term, as adoption for RFID technology increases, we believe that the prices of RFID related hardware would likely remain stable or gradually decrease. We continue to purchase from a few selected suppliers and maintain good relationships with our existing suppliers due to their good customer service, quality products and on-time delivery. Further information on our major suppliers is shown in Section 5.8 of this Prospectus.

However, for the purpose of our Land Checkpoint Project and Port Project, we will be procuring the RFID E-Seals manufactured by SSET. As SSET's RFID E-Seals are designed to comply with the ISO18186:2010 standard in which our RFID container tracking system is developed upon for our Land Checkpoint Project and Port Project, SSET will represent our Company's main source of supply for the RFID E-Seals. Although we do not anticipate any interruption to the supply for this particular hardware, any shortfall in delivery from SSET may result in potential loss of revenue for our Company. Nonetheless, as we understand the design behind the RFID hardware being used and possess knowledge of the ISO18186:2010 standard, it is possible to look for alternative methods to procure similar RFID tags. This risk is further discussed in Section 6.1(e) of this Prospectus.

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5. BUSINESS OVERVIEW *(Cont'd)*

5.7 MAJOR CUSTOMERS

The percentage contribution of our Group's major customers (those individually contributing 10% or more) to the total revenue of our Group for each of the last three (3) financial years from 30 September 2008 to 30 September 2010 are as follows:-

Major Customers	<---Proforma--->		<---Audited--->
	<---FYE 30 September--->		
	2008	2009	2010
Total Revenue (RM'000)	**23,915**	**34,558**	**22,769**
	Percentage of Total Revenue (%)		
UCH Technology Sdn Bhd [1]	30.82	60.46	17.56
Skycomp Technology Sdn Bhd [1]	-	-	22.83
E-Business Plus Co. Ltd	1.29	11.73	-
Danawa Resources Sdn Bhd	9.18	-	-
S.I.N. Commercial Co. Ltd	37.44	7.11	-
TeamWork Solution Co. Ltd	3.04	20.68	-
PT Andira Citra Mandiri Utama	-	-	32.76

Note:-

(1) Malaysian-based subsidiaries to a foreign company listed on the main market of the Hong Kong Stock Exchange.

Historically, the composition of our major clients varies from year to year but is generally limited to a few numbers as shown above. This is largely due to limitation of our resources at any one point, availability of projects and the relatively long sales cycle of a project which could span over a year.

As such, most of our revenue sources were concentrated on a few clients. Our top customers as shown above collectively contributed 81.77%, 99.98% and 73.15% of total revenue for the FYEs 30 September 2008, 2009 and 2010 respectively.

Despite historically having a dependency on projects and certain sales that we secure from year to year, as part of our future plans, we believe that through our on-going Port Project and Land Checkpoint Project as explained in Section 5.15.1 and Section 5.15.2 of this Prospectus, we will be able to serve a more diversified base of clients and achieve sustainable and recurring revenue sources alongside our typical project-based revenue source. For more information on our current risk of non-recurrent revenue due to the project-by-project nature of our business, please refer to Section 6.1 (a) of this Prospectus.

5. BUSINESS OVERVIEW *(Cont'd)*

The table below shows the profile of each customer and the purpose of the RFID implementation for them:-

Major Customers	Customer Type	Nature of RFID Sales
UCH Technology Sdn Bhd	Reseller	RFID solutions and Smartware™ middleware.
Skycomp Technology Sdn Bhd	Reseller	RFID solutions and Smartware™ middleware.
E-Business Plus Co. Ltd	Reseller	Provision of RFID solutions for point-of-sales retail management systems which are bundled with our Smartware™ middleware licenses and RFID.
Danawa Resources Sdn Bhd	End-user client	Implementation of our RFID solution for tracking telecommunication assets.
S.I.N. Commercial Co. Ltd	End-user client	Implementation of our RFID solutions for warehousing facilities to optimise warehouse management.
TeamWork Solution Co. Ltd	Reseller	Provision of RFID enabled solutions for security systems which are bundled with Smartware™ middleware licenses and RFID equipment.
PT Andira Citra Mandiri Utama	End-user client	Provision of RFID for security access solutions and provision of GPS equipment and related hardware.

The table below shows the contribution of our major customers based on their segmentation as end-user or reseller for each of the last three (3) financial years from 30 September 2008 to 30 September 2010:-

Major Customers	<---Proforma--->		<--Audited-->
	<---FYE 30 September--->		
	2008	2009	2010
Total Revenue (RM'000)	**23,915**	**34,558**	**22,769**
	Percentage of Total Revenue (%)		
End-user clients	46.62	7.11	32.76
Resellers	35.15	92.87	40.39

We are not continuously dependent on the clients listed above as our historical sales to them are based on project basis. However, we are to an extent dependent on our recurring sales of Smartware™ middleware licenses and our RFID solutions to the Malaysian-based subsidiaries of the foreign company which are resellers of our products and solutions.

5. BUSINESS OVERVIEW *(Cont'd)*

5.8 MAJOR SUPPLIERS

The percentage contribution of our Group's major suppliers (those individually contributing 10% or more) to total purchases of our Group for each of the last three (3) financial years from 30 September 2008 to 30 September 2010 are as follows:-

Major Suppliers	<---Proforma--->		<---Audited--->
	<---FYE 30 September--->		
	2008	2009	2010
Total Purchase (RM'000)	**16,817**	**24,096**	**9,817**
	Percentage of Total Purchases (%)		
UCH Technology Sdn Bhd [1]	25.81	18.74	-
Skycomp Technology Sdn Bhd [1]	40.36	59.97	50.89
Vast Base MSC Sdn Bhd [1]	-	-	18.56
Impact International Sdn Bhd	4.09	13.40	-
Cruise GPS Systems Sdn Bhd	-	-	28.01

Note:-

(1) Malaysian-based subsidiaries to a foreign company listed on the main market of the Hong Kong Stock Exchange.

The top suppliers as mentioned above collectively contributed to 70.26%, 92.11% and 97.46% of total purchase in FYEs 30 September 2008, 2009 and 2010 respectively. As such, we are to an extent dependent on these suppliers wherein the risk is highlighted in Section 6.1 (f) of this Prospectus. Although our purchases are concentrated on these few suppliers, there are various sources of hardware available in the market. Nonetheless, we continue to purchase from a few selected suppliers and maintain good relationships with our existing suppliers due to their good customer service, quality products and on-time delivery. In addition, for the purpose of our Land Checkpoint Project and Port Project, we may be dependent on SSET to a certain extent for the supply of RFID E-Seals. This risk is highlighted in Section 6.1 (e) of this Prospectus.

Our major suppliers and hardware supplied are highlighted below:-

Major Suppliers	Supply
UCH Technology Sdn Bhd	RFID equipment and other devices.
Skycomp Technology Sdn Bhd	RFID equipment and other devices.
Vast Base MSC Sdn Bhd	Monitoring system and security surveillance solution as part of our sales to PT Andira Citra Mandiri Utama.
Impact International Sdn Bhd	Outsourcing services for installation related work in relations to RFID implementations including for S.I.N. Commercial Co. Ltd.
Cruise GPS Systems Sdn Bhd	GPS equipment as part of our sales to PT Andira Citra Mandiri Utama.

5. BUSINESS OVERVIEW *(Cont'd)*

5.9 OUR COMPETITIVE STRENGTHS

5.9.1 Experienced and Capable Technical Team

Our Company is led by technical personnel who are well versed in RFID technology and the industry. Our technical team is led by our CTOO, Choong Huck Liang and aided by our R&D and Technical Manager, Tan Win Sen and our Technology and Business Development Director, Ho Ee Lock. Our technical team have been in the ICT industry for almost 30 years collectively and have experiences in major aspects of software development such as programming, testing, as well as project management with various software companies in Malaysia. Our many technical experiences in implementing RFID systems for our clients in the past have provided us with practical knowledge and exposure to various industries in which RFID can be applied. Implementation of RFID systems into different organisations and different industries comes with its unique challenges which can only be learnt through practical experiences. We see this as our advantage over any competing new-comer into the RFID industry. Furthermore, we constantly improve our R&D standards to push our technological capabilities and to tap into any potential areas of growth to increase our Group's overall earnings. Our past, current and on-going R&D efforts are shown in Section 5.4 of this Prospectus.

5.9.2 First Mover Advantage in Niche Area of RFID Application Regionally

We are among the few RFID solution providers in the South East Asian region to be implementing RFID track and trace focused systems at ports and customs checkpoints through our Land Checkpoint Project and Port Project. These are niche areas for RFID applications in which we believe would be difficult for new entrants to enter into the market as different procedures, requirements, technicalities and business dynamics have to be adhered to especially when it involves port facilities and customs offices which are typically under the purview of the government and other relevant authorities. In addition, the cost of installation of the RFID systems is relatively high for new start-up companies. Having first mover advantage provides us the head-start to capture more market share and promote our services to potential clients.

To date, for our Land Checkpoint Project implementations in Thailand, we have already set up RFID infrastructures at the Sadao, Suvarnabhumi and Mukdahan customs checkpoints in Thailand and performed commercial trials. On 15 March 2011, we signed a RFID Container Tracking Service Agreement with Netbay in relation to the implementation of RFID container tracking systems at key customs checkpoints throughout Thailand. For our Port Project we have already set up infrastructures at Johor Port, Penang Port and Northport in Port Klang and established links with Shanghai Port to jointly market the RFID solutions in container management. Setting up of these facilities provide natural barriers to entry as it will take significant efforts to gain entry into this niche market in the region. We plan to strengthen and establish our foothold as a competitive industry player in this market and progressively expand our operations.

5.9.3 Active Involvement in the Development of RFID Related Standards

As a technology service provider, we understand the need to not only keep abreast with technological developments but also developments in regulatory requirements and standards surrounding the technology. Similar to other companies that had led the way in developing certain existing RFID related standards in order to establish their presence in the market, our Company had also played a central role in aiding the drafting and publishing of the ISO18186:2010 as a standard for RFID system deployment in regards to freight container tracking and tracing activities as we foresee the need and practicality for such a standard in the transportation and logistics industry.

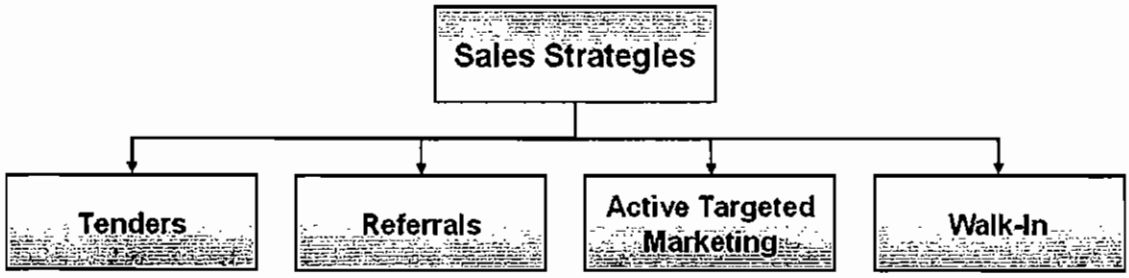
5. BUSINESS OVERVIEW *(Cont'd)*

Our Company through our technology and business development director, Ho Ee Lock was appointed as representative to the Malaysia Department of Standards in the ISO technical committee called TC 104 to participate in discussions, meetings and drafting of the ISO18186:2010 standard for "*Freight Container - RFID Cargo Shipment Tag System*". The establishment of this standard is to describe the parameters of RFID based systems for freight container logistics in order to improve transparency and efficiency of cargo shipment. Our involvement in developing the ISO18186:2010 standard not only serves to strengthen our foothold in the industry but also to complement our Land Checkpoint Project and Port Project where a standardised system will be the basis for seamless data sharing and communication between various parties from different geographical locations.

We also establish our presence by affiliating and collaborating with various organizations to tackle technical issues surrounding the growth and adoption of RFID by actively involving ourselves in the international efforts of EPCglobal and ISO for more standardization in RFID communication by participating in discussions to develop the EPCglobal standards framework for RFID and to continue refining the ISO18186:2010. Being among the ambassadors and advocates for international standardisation provides more visibility to our brand name, products and services.

5.10 SALES & MARKETING

5.10.1 Sales Channels



Our Company utilise a number of avenues to procure our projects and raise awareness of our products and services. As the diagram above summarises, these include:-

1. **Tenders** for projects from private organisations and government bodies are procured by submitting our quote after understanding the specifications, parameters and requirements of the project.

2. **Referrals** from our shareholders, trading partners and other business associates have largely contributed to most of our projects that we have secured in the past. Certain prospective clients were referred to us by our suppliers due to our good relationships with them in carrying their products when providing our solutions. Furthermore, due to our good track record and high quality service, we also obtain new clients who were referred to us by past or existing clientele.

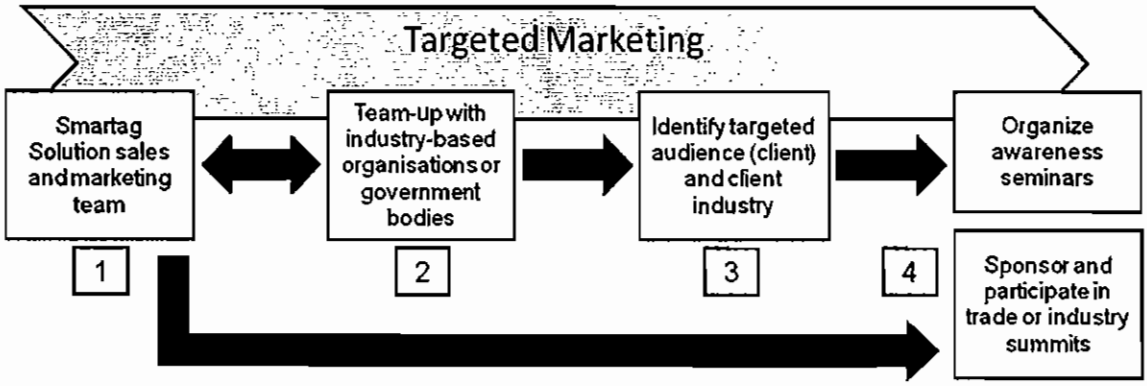
3. **Active targeted marketing** activities such as participation in international conventions, summits and hosting seminars are highlighted in Section 5.1.4 and further discussed in Section 5.10.2 of this Prospectus.

5. BUSINESS OVERVIEW *(Cont'd)*

4. **Walk-in clients** are clients who may have visited our website or enquired our services before and decide to engage us to provide RFID solutions. We hope that the listing of our Company on the ACE market will provide us with higher visibility to showcase our products and services and to educate the public and potential users the benefits of RFID technology and how it will have an impact on businesses and consumers alike.

5.10.2 Marketing Strategies

We market our solutions as high quality services customised to our clients' needs and budget. As we do not have a large sales team which comprise of only three (3) personnel including our sales manager, Ong Chee Beng, we leverage on the resources of certain organisations like industry-based organisations or government bodies to execute our marketing strategies. Our strategies emphasize on targeted audiences to enable more effective procurement of new clients. The diagram below shows the possible avenues in which we use to procure sales:-



1. Our sales and marketing team is currently led by our sales manager Ong Chee Beng. In addition, the team is strongly supported by our CEO, Lim Peng Keong, our CTOO, Choong Huck Liang and our technical staff. As the usage of RFID technology is not limited to any specific industry, potential clients can come from various industries and organisations but our resources are limited and therefore inhibits our ability to capture a wide spread of audience in a short amount of time.

2. Recognising this fact, we strategically team-up with various industry-based organisations and government bodies such as FMM, MCMC, MDeC and SIRIM which recognise the benefits of RFID and are interested in promoting this technology as well. By leveraging on their resources and networks and utilizing our understanding of the technology and its application, we focus on targeting our marketing efforts towards specific audiences related to the industry in which we aim to tap into and would have a certain degree of influence to purchase and adopt this technology.

3. By reference to the industry in which RFID technology can potentially benefit, we target specific audiences and educate them on how RFID can be applied and integrated into various aspects of their organisations or businesses in a non-technical manner. For example, when targeting the port logistics industry, we will target certain players in the industry such as shipping agents, shipping liners or freight forwarders who have direct contacts with the end-users or potential clients shipping their products while for manufacturing industries we would look towards the production or operational managers.

5. BUSINESS OVERVIEW *(Cont'd)*

Our Company, together with parties like FMM and MCMC will co-organise seminars where we invite these targeted audiences for an educational and awareness session to promote the benefits of using RFID and how it can be utilised in a non-technical manner. These seminars not only promote higher awareness of the technology but also serve to build our brand name as a RFID solution provider. In May 2010, we organised a seminar with MCMC on *Container Security and Process Optimization using RFID* where representatives from various key players in the logistics industry attended.

4. Besides collaborations with FMM and MCMC, we also sponsor certain trade or industry summits in order to promote our brand name to attendees of the summit. For example, in August 2009 we were among the sponsors for the GS1 Malaysia Supply Chain Summit 2009 held at Concorde Hotel Shah Alam, Malaysia. We were also the co-sponsor of the 12th ECR Asia Pacific Conference held on October 2010 in Malaysia. This conference was organised and facilitated by ECR Asia Pacific attended by top representatives from various local and multinational companies to hold talks and open discussions on challenges and solutions in the supply chain environment and also serves as a platform to educate players in the industry about RFID and promote our brand name and services.

   On 5 October 2010, Smartag Solutions signed an MoU with FMM to develop, promote, and sustain the usage of standards especially in relation to the EPCIS and RFID technology among the various stakeholders within a supply chain especially members of the FMM.

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5. BUSINESS OVERVIEW *(Cont'd)*

5.11 MAJOR LICENSES AND PERMITS

The major licences and permits and registrations of our Group, together with the conditions attached and status of compliance, are as follows:-

License/ Permits	Approving Authority	Issue date/ Expiry period	Issued to	Salient conditions	Status of Compliance
MSC Status *(Note 1)*	Multimedia Development Corporation Sdn Bhd	11.07.2007	Smartag Solutions	The MSC Malaysia Status Company hereby agrees to:	
				(i) Complete business registration of the proposed entity as a locally incorporated company under the Companies Act 1965 within one (1) month from the date of this letter, commence operations of the proposed entity within six (6) months from the date of this letter, and undertake such activities specified in the MSC Malaysia Status Company's business plan ("Business Plan") as approved by MDeC below ("MSC Malaysia Qualifying Activities") within six (6) months from the date of this letter or by such date(s) as may be specified in the Business Plan (which date(s) may be extended or modified with the written consent of MDeC) and thereafter continue with such business and activities unless otherwise approved by MDeC. The MSC Malaysia Qualifying Activities are as follows:-	Complied
				(a) The research, development and commercialization of the Smartware version 2 onwards.	Complied
				(b) The research, development and commercialization of the RFID Container Management System, adapter and middleware version 5 onwards.	Complied
				(c) The research, development and commercialization of RFID applications for manufacturing and logistics.	Complied
				(d) The research, development and commercialization of RFID middleware.	Complied

5. BUSINESS OVERVIEW *(Cont'd)*

License / Permits	Approving Authority	Issue date / Expiry period	Issued to	Salient conditions	Status of Compliance
				(e) The research, development and commercialization of RFID for library.	Complied
				(f) Provision of technical support, professional and training related to the above products.	Complied
				Any changes proposed to the above MSC Malaysia Qualifying Activities as detailed in the Business Plan must receive the prior written consent of MDeC;	
				(ii) Locate the implementation and operation of the MSC Malaysia Qualifying Activities in a Designated Zone in Cybercity with a minimum office space of 500 sq ft, within six (6) months from the date of this letter. The MSC Malaysia Status Company shall obtain MDeC's prior written approval in the event of any changes in the location or address of the company;	Complied
				(iii) Ensure that at all times at least fifteen percent (15%) of the total number of employees (excluding support staff) of the MSC Malaysia Status Company shall be "knowledge workers" (as defined by MDeC). "Knowledge workers" shall be recruited, employed and / or appointed solely for the purpose of undertaking the MSC Malaysia Qualifying activities. The recruitment, employment and/or appointment of foreign "knowledge workers" (if any) shall be the sole responsibility of the MSC Malaysia Status Company and MDeC shall not be held responsible for any liability arising from such recruitment, employment and/or appointment;	Complied
				(iv) Ensure that any products produced pursuant to the MSC Malaysia Qualifying Activities are original, and that no part or portion of such Product is an infringement or violation of any intellectual property or any proprietary rights of any third party, or constitutes a misappropriation of know-how belonging to any third party;	Complied. As far as we are aware, our products have not infringed any intellectual property or proprietary rights of any third party.

5. BUSINESS OVERVIEW *(Cont'd)*

License/ Permits	Approving Authority	Issue date/ Expiry period	Issued to	Salient conditions	Status of Compliance
				(v) Submit to MDeC a copy of the MSC Malaysia Status Company's Annual Report and Audited Statements in parallel with submission to the Companies Commission of Malaysia;	Complied
				(vi) Ensure that all information and/or documents furnished by the MSC Malaysia Status Company to MDeC or any other authority or agency do not contain any false, untrue or inaccurate statements or omit to state any facts, the omission of which would make any statements made therein in the light of the circumstances under which they are made, misleading;	Complied
				(vii) Inform and obtain the prior approval of MDeC for any proposed change in the name of the MSC Malaysia Status Company;	Not applicable
				(viii) Inform MDeC of any change in the equity structure or shareholding structure of the MSC Malaysia Status Company, or such other changes that may affect the direction or operation of the MSC Malaysia Status Company. MDeC must be informed of any change before steps are taken to effect such change; and	Complied
				(ix) Comply with all such statutory, regulatory and/or licensing requirements as may be applicable, including but not limited to the transfer Pricing Guidelines issued by the Inland Revenue Board of Malaysia on 2 July 2003, and such other amendments as may be applicable from time to time.	Complied
				The MSC Malaysia Status granted to the MSC Malaysia Status Company shall not be transferable or assignable in any was whatsoever without the prior written consent of MDeC.	
				MDeC may from time to time add to, remove from or vary the above conditions.	

5. BUSINESS OVERVIEW *(Cont'd)*

License / Permits	Approving Authority	Issue date / Expiry period	Issued to	Salient conditions*	Status of Compliance
MITI pioneer status *(Note 1)*	MITI	11.07.2007 to 10.07.2012		Must have obtained MSC Status according to Section 14A of the 'Akta Penggalakan Pelaburan 1986' and comply with conditions for MSC pioneer status. For extension of pioneer status for a further period of five (5) years, an official application is to be submitted to MDec on or before 10 July 2012.	Please refer to the status of compliance for our MSC status above
Applications Service Provider Class license *(Note 2)*	MCMC	02.03.2011/ 26.02.2011-25.02.2012	Smartag Technologies	1. All renewal applications for registration shall be submitted 60 days prior to expiry of this registration. 2. Sole Licence This licence replaces any other licence granted by the Minister and shall be the sole licence held by the licensee in respect of the applications services authorised under this licence. 3. Compliance With The Law The licence shall comply with the provisions of the Communications and Multimedia Act 1998 ("the Act"). The licensee shall comply with the provisions of any subsidiary legislation made, or other instruments, guidelines or regulatory policies issued under the Act. 4. Compliance With Numbering And Electronic Addressing Plans The licensee shall comply with the numbering and electronic addressing plan issued under the Act. 5. Compliance With Consumer Codes The licensee shall comply with any consumer codes registered under the Act which are relevant to the activities of the licensee.	Complied Complied Complied Not Applicable Not Applicable

5. BUSINESS OVERVIEW *(Cont'd)*

License / Permits	Approving Authority	Issue date / Expiry period	Issued to	Salient conditions	Status of Compliance
				6. Indemnity The licence shall indemnify the Minister and the Commission against any claims or proceedings arising from any breaches or failings on the part of the licensee.	Not Applicable
				7. Safety Measures The licensee shall in respect of all apparatus, equipment and installations possessed, operated, maintained or used under the licence, take all proper and adequate safety measures to safeguard life or property, including exposure to any electrical emission or radiation emanating from the apparatus, equipment or installations so used.	Not Applicable
				8. Charging Mechanism The licensee shall take reasonable steps to ensure that the charging mechanism used in connection with any of its network facilities and/or network services are accurate and reliable in all material aspects.	Not Applicable
				9. Access To International Communications Network The licensee shall not in any way whatsoever have access to an international communications network without a Network Service Provider Individual Licence except by way of entering into an arrangement with a Network Service Provider Individual Licence holder for that purpose.	Not Applicable
				10. Compliance With Rules In Relation To Special Rate Regulation Regime The licensee shall observe and comply with the special rate regulation regime as may be determined by the Minister under section 200 of the Act.	Not Applicable

5. BUSINESS OVERVIEW *(Cont'd)*

License / Permits	Approving Authority	Issue date / Expiry period	Issued to	Salient conditions	Status of Compliance
Thailand Foreign Business License	Department of Business Development of Thailand	25.02.2011 / N/A	Smartag Solutions	1. Loans secured for the business must not exceed seven (7) times of the imported capital of the business. 2. The representative office must have at least one manager who is domiciled in Thailand.	To be complied

Notes:-

1) Our Group's ability to retain the MSC Status is dependant on our ability to continuously comply with the salient conditions imposed by the MSC Status. By virtue of the MSC Status, we have been granted the benefit of pioneer status. As disclosed in the salient conditions of the MITI pioneer status, the pioneer status is renewable subject to our Group's compliance with the salient conditions of the MSC Status. We do not foresee any inability to continuously comply with the salient conditions of the MSC Status moving forward. Notwithstanding this, please refer to Section 6.1 (i) of this Prospectus for the corresponding risk factor.

2) The renewal of the license is subject to clause 1 of the salient conditions for the Applications Service Provider Class license.

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5. BUSINESS OVERVIEW *(Cont'd)*

5.12 INTELLECTUAL PROPERTIES

We have filed with the Trade Marks Registry the following trade mark registration applications under the Trade Marks Regulations 1977, Trade Marks Act 1976 to establish our brand names:-

Trade Mark	Date filed	Application Number & Class	Status	Product Description
Smartware™ SMARTWARE™	25.01.2010	2010001356 Class 42	Pending approval	Smartware™ is the product name of our self developed middleware used as a part of a RFID system.
Smartrack™ SMARTRACK	25.01.2010	2010001357 Class 42	Pending approval	Smartrack™ is the product name of our self developed EPCIS compliant and is a back-end repository and data channelling software for use in more complex RFID systems.

The Company has also filed with the Patent Registration Office the following patent registration applications under the Patents Regulations 1986, Patents Act 1983:-

Application Date	Application Number	Invention Description	Status	Function
21.07.2008	20082703	Intermediary processing device utilized in RFID system	Clear Preliminary Examination. The application has fulfilled the requirement of the preliminary examination in accordance with section 29 of the Patents Act 1983.	Functions as a multi-functional intelligent tag which can receive and transmit data.

The patent above is not part of our current range of products and has not been productized.

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5. BUSINESS OVERVIEW *(Cont'd)*

5.13 SALIENT BUSINESS AGREEMENTS, ARRANGEMENTS AND DOCUMENTS

The salient business agreements, arrangements and documents below represent the positive steps that we have taken to strengthen our partnerships and crystallising our future plans which collectively contribute to the readiness of our Land Checkpoint Project commercialisation in Thailand and our Port Project:-

(a) Project Development and Service Agreement dated 20 March 2006 including two (2) supplementary agreements dated 23 April 2009 and 11 February 2010 between our Company and Johor Port Berhad to appoint our Company to implement, facilitate and roll-out a RFID system for greater improvement and efficiency of freight and cargo handling within the Johor Port premises and to act as a RFID technology showcase for potential users of our RFID system. This agreement and subsequent supplementary agreements also entails the following salient terms:-

(i) The set-up of the RFID system involving installation of RFID hardware at various locations and integration of RFID middleware and software applications to the existing Johor Port system shall be performed at no cost to Johor Port Berhad and shall include the scope of work and services defined in the agreement; and

(ii) Johor Port Berhad and our Company hereby agree that there shall be a showcase period for the RFID project. Johor Port Berhad may opt to propose a free trial period to its users for the use of the RFID devices/systems within the showcase period as part of the parties' promotional and awareness exercise. However, charges may be applied during this period to Johor Port users who use the RFID systems for their own commercial purposes.

This agreement led to the development of our site in Johor Port which serves as a proof-of-concept reference point for our Port Project. This allows us to perform live showcases in relation to our RFID container tracking services for potential clients as a way to spread awareness on RFID technology and our brand of services.

We have, to date, maintained a cordial relationship with Johor Port Berhad. Our reference site at Johor Port served as the first initiative to develop the RFID container tracking system for use under the Port Project and Land Checkpoint Project which led to our relationships with SSET, SIPG and Netbay as set out in the agreements below. Through Johor Port, we also have a proof-of-concept site that is ready for commercialisation and can be replicated in other ports and customs checkpoints.

(b) Reciprocal Appointment and Partnership Agreement dated 28 December 2009 between our Company and SSET in respect of the plans to commence the first port-to-port trial between Malaysia and China using SSET's RFID E-Seal. This agreement represents a follow up to the memorandum of understanding signed between SSET and our Company on 13 May 2008 to collaborate and conduct a port-to-port trial between the port of Shanghai and Johor Port using the RFID E-Seal. Thereafter, both parties shall continue to do all things possible for the eventual Chinese Government's plans or policy to implement container tracking service as soon as possible using the SSET's RFID E-Seal to monitor or track containers entering and/or leaving China using an international web-based portal to be designed by our Company with the collaboration of SSET. This agreement also entails the following salient terms:-

(i) The partnership shall continue for the next three (3) years and thereafter there shall be an automatic renewal for another three (3) years upon the same terms and conditions subject to revision on pricing and technology choices as underlined in the agreement;

5. BUSINESS OVERVIEW *(Cont'd)*

(ii) SSET hereby grants to our Company the exclusive right to market and resell as well as to rebrand and distribute any SSET's RFID equipment developed by SSET in South East Asia without any minimum amount in terms of volume or order quantity for the first 18 months. As for other countries outside of China other than South East Asia and other than cases whereby our Company has been referred to by SSET to provide total solutions for RFID E-Seals, we shall not market and resell SSET's RFID E-Seals without SSET's prior written consent and subject to such additional terms and conditions as agreed by both parties; and

(iii) Similarly, our Company hereby grants to SSET the exclusive right to market and resell as well as to rebrand and distribute any software in Shanghai and Zhejiang Province of China without any minimum amount in terms of volume or order quantity for the first 18 months.

This agreement represents our Company's and SSET's intention to work with SIPG in order to establish a RFID system for the purpose of improving port operations and to enable sharing of data in relations to tracking and tracing of shipments. The agreement was also entered into for the supply of SSET's RFID E-Seals which is intended to serve as the RFID tag for the Land Checkpoint Project and Port Project. As our Company is also given exclusivity in this agreement to market and sell SSET's RFID E-Seals within South East Asia, our Group's relationship with SSET can be viewed as a mutually beneficial partnership for both parties.

(c) Collaboration Agreement dated 5 May 2010 between our Company and SIPG to develop a long term implementation plan to carry out the application demonstration in as many ports as may be possible using the Johor Port and Shanghai Port route as the demonstration model based on the completion of 200 TEU Johor Port and Shanghai Port containers RFID trial run. We will follow the agreement to promote the real-time full point to point online container transport tracking including China, whereby:-

(i) SIPG will provide access to *China's container RFID system portal* to all participating users;

(ii) SIPG appoints our Company as one of the Container RFID promotion strategic collaboration partner and we will use the two (2) ports (being Johor Port and Shanghai Port) "point-to-point" Container RFID process as demonstration model to promote to other ports, and to provide containers tracking service for all countries;

(iii) The costs and any related service charges of the RFID solutions including installation of any equipment and related software shall be the business arrangement and responsibility of our Company and the end users, unless otherwise agreed upon by SIPG;

(iv) Continue to improve Johor Port and Shanghai port "point-to-point" operation process, followed by Southeast Asia, between the rest of the ports worldwide, and between other China ports inclusive of Shanghai Port;

(v) Our Company will link the *Malaysian container RFID web portal* developed by us with *China's container RFID system web portal* which was developed by SIPG to establish and take advantage of data and information sharing between both countries; and

(vi) In order to further carry out the promotion and deployment of ISO18186:2010 Container RFID Tag (referred to as RFID E-Seal in this Prospectus) globally, SIPG agree to appoint our Company as the Container RFID Tag system solutions client software provider and strategic partner.

By entering into a collaboration agreement with SIPG, we are can leverage from our links with Shanghai Port as one of the world's busiest ports in terms of cargo TEUs handled to enable us to promote our products and services at a faster rate to the many port stakeholders including port managements, logistics companies and shipping liners.

(d) The RFID Container Tracking Service and Partnership Agreement dated 15 March 2011 signed between our Company and Netbay whereby our Company will implement RFID container tracking systems and services at designated customs checkpoints determined by the Royal Thai Customs with the assistance of Netbay. The fees to be charged will be mutually determined in writing at a later date. This definitive agreement was signed further to a Letter of Intent signed with Netbay on 2 November 2010. The salient terms of this agreement are as follows:-

(i) The term of this agreement will continue for Five (5) Contract Years commencing from 15th March 2011 to 14th March 2016 (the "Initial Term"). Upon completion of the Initial Term, this agreement will automatically renew for successive periods of five (5) Contract Years each upon similar terms and conditions as stated in the Agreement unless there is a prior written notification of three (3) months by one party to the other to discontinue the automatic renewal of the agreement. Either parties may terminate the agreement if the other party breaches the terms of agreement and fails to remedy such breach within six (6) months after receipt of the written notice of breach;

(ii) Our Company shall, with the assistance of Netbay, customize and install RFID readers at all designated customs checkpoints determined by the Royal Thai Customs and integrate the installed RFID infrastructure to the Royal Thai Customs' RFID Server using our Company's middleware and software; and

(iii) Our Company shall provide RFID container tag tracking services to the users of the RFID container tracking systems for documentation submissions to the Royal Thai Customs electronically and rent or sell RFID container tags and related hardware and software for provisioning of the services.

The RFID Container Tracking Service and Partnership Agreement represents our efforts towards commercialisation of our Land Checkpoint Project.

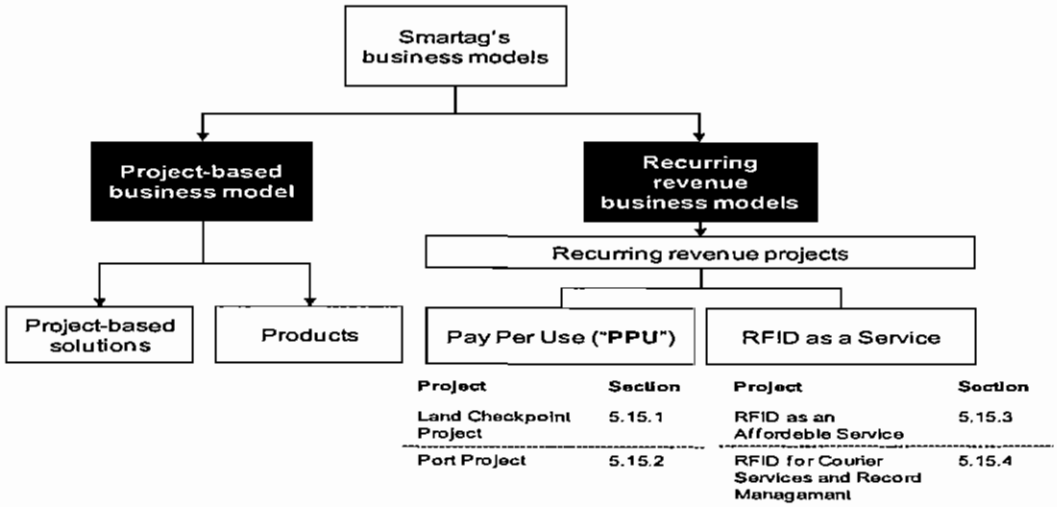
5.14 INTERRUPTIONS TO BUSINESS AND OPERATIONS

Our Group did not experience any interruption in business which had a significant effect on operations during the twelve (12) months period prior to the date of this Prospectus.

5. BUSINESS OVERVIEW *(Cont'd)*

5.15 FUTURE PLANS AND STRATEGIES

Our future plans focuses on building our market share, expanding into new areas of RFID technology and new areas of RFID applications and enhancing our business model to provide us with recurrent income, where possible. Our future plans and strategies will be implemented through the business models as summarised in the diagram below:-



The Land Checkpoint Project and Port Project will be carried out via Smartag Solutions. The RFID as an Affordable Service project and RFID for Courier Services and Record Management project will be mobilised under Smartag Technologies and Sure-Reach Smartag respectively. Please refer to the respective sections of the Prospectus as depicted in the above diagram for further information on the future projects.

5.15.1 RFID Container Management System and Security Solution: Land Checkpoint Project

Transportation of containers whether by land or sea accounts for a huge portion of how exports and imports of merchandises are carried out. The transportation and logistics industry is an indicator of a country's economic performance and therefore improvements in terms of efficiency and security will further drive the necessity of this industry for transportation of goods. Coupled with the risk of pilferage of valuable merchandise that is costly to not only shippers (potential clients comprising of manufacturers, distributors, exporters, etc) but also other stakeholders such as logistics companies, insurance companies and customs authorities, our Company sees this as an opportunity where RFID technology is able to minimise these risks.

Our Land Checkpoint Project enables containers transported via land to be tracked using our RFID system based on ISO18186:2010 standard. The RFID tags are affixed to the containers and are scanned by RFID readers which are set up by us at locations such as customs checkpoints or other gateways to retrieve vital information pertaining to the merchandise stored in the RFID tag. The use of RFID technology aids in improving logistical efficiencies, deters tampering of goods while in transportation, reduces waiting time at customs checkpoints and enhances monitoring of goods in transport. This enhancement of visibility, efficiency and security to our potential clients from the use of our RFID system will be charged competitively as a service.

Our revenue model for this RFID container tracking service to potential clients will be based on the frequency of the tags being read at checkpoints. Our initial commercialisation point for the Land Checkpoint Project is expected to begin in Thailand where the RFID systems and infrastructures have been up at various customs checkpoints, namely at Sadao, Suvarnabhumi and Mukdahan.

5. BUSINESS OVERVIEW *(Cont'd)*

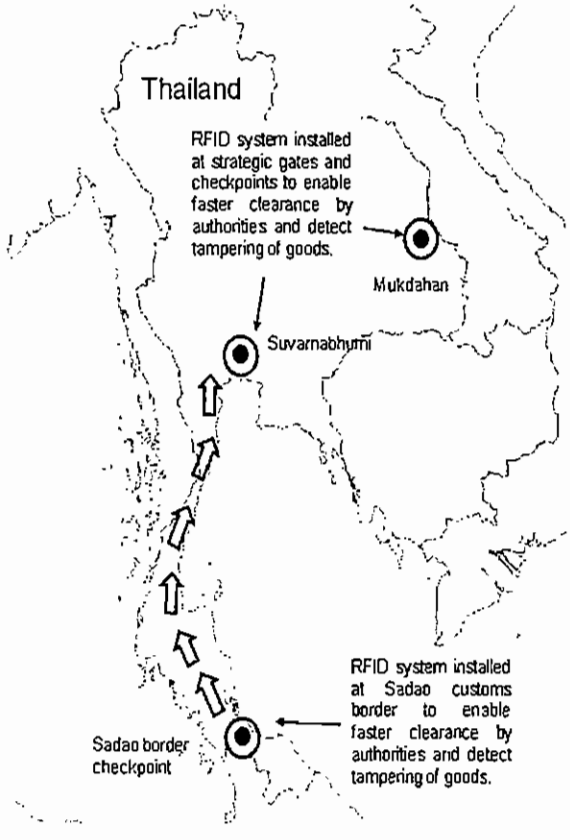
As part of our efforts towards commercialisation of the Land Checkpoint in Thailand, we are collaborating with Netbay as our potential Thailand-based business partner. Netbay is a provider of comprehensive online transaction services in Thailand for consumers, business entities and government entities. Among these services, Netbay is currently responsible for providing online transaction services to users that transport their merchandise across customs checkpoints under the purview of the Royal Thai Customs. Netbay's online services allow the users to conduct the necessary paperwork, license application and also make customs related payment electronically. Our Company has completed commercial trials with Netbay, under the guidelines of the Royal Thai Customs, to link our RFID system to Netbay's existing network system so that the users of Netbay's payment system will be able to subscribe to our service to track and trace the movements of their merchandise. On 15 March 2011, our Company entered into an agreement with Netbay in relations to the implementation of RFID container tracking systems at key customs checkpoints throughout Thailand as part of the Land Checkpoint Project. This agreement is a result of the successful completion of the commercial trials on the RFID system provided by our Company.

To date, we have already set up RFID infrastructures at the Sadao, Suvarnabhumi and Mukdahan customs checkpoints in Thailand and performed commercial trials-runs. The Sadao – Suvarnabhumi route represents the first intended commercialisation phase of our Land Checkpoint Project in Thailand. Suvarnabhumi represents Thailand's new distribution hub for many logistics companies to manage and disseminate goods to their final destination. So far we have extended this RFID-linked route to another customs checkpoint at Mukdahan at the border of Thailand and Laos.

The diagram depicts the route in which the initial phase of the RFID system will cover. We intend to subsequently expand this route into a network of RFID-linked routes which will extend from Malaysia to Thailand, Laos, Vietnam and parts of Southern China, where key customs and border checkpoints are located, using RFID as a track and trace system.

In addition, our Company has applied for a business license to set up a marketing and operational branch in Thailand to enable us to begin commercialisation of the Land Checkpoint Project. On 25 February 2011, our Company received the foreign business license for Thailand to provide container tracking service using RFID in partnership with Netbay.

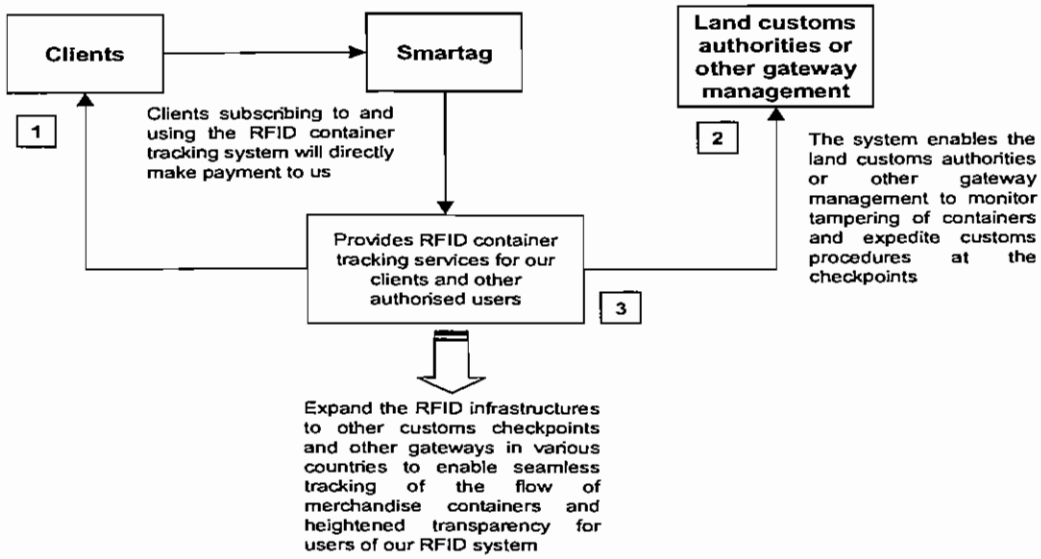
While the checkpoints in Thailand serve as our pilot project, we intend to replicate the Land Checkpoint Project to other countries as and when suitable opportunities arise.



5. BUSINESS OVERVIEW *(Cont'd)*

Business Model

Our Land Checkpoint Project will be based on a PPU revenue model whereby the RFID container tracking service provided to potential clients will be based on the frequency of the RFID tags being read at checkpoints. The diagram below provides a summary of our business model and arrangement for the Land Checkpoint Project:-



1. Under the Land Checkpoint Project, potential clients will be able to subscribe to our RFID container tracking service to track their merchandise that are being transported from factories or warehouse to customs checkpoints and other gateways when moving across borders and trade zones. The potential clients to our Land Checkpoint Project comprise of users such as manufacturers, distributors and traders. These users may subscribe to our RFID container tracking services where RFID tags will be provided for their use and charges for our RFID service will be based on the frequency of the RFID tags being read at each customs checkpoints or other gateways that are equipped with our RFID readers. Our Smartrack™ data repository engine will be used as the system platform to enable the sharing of data among authorised users to obtain updates on the status of the RFID tags affixed to their containers.

   In regards to our Land Checkpoint Project in Thailand, our Company will be able to tap into the existing clients of Netbay which currently utilise Netbay's electronic payment system to make customs related payments for their merchandise that are transported through the customs checkpoints. As we expect most potential users in Thailand to come from Netbay's existing clients, our services will be subscribed through Netbay and payments owing to us in relation to the use of our RFID container tracking services will be transferred to us accordingly by Netbay.

2. As the customs authorities and other gateway management play a crucial role in the operational efficiencies at these checkpoints, our system can also enable these authorised parties to access our RFID system in order to monitor tampering of containers upon their arrival at the checkpoints and expedite customs procedures.

3. With this concept in mind, our RFID system can be expanded to customs checkpoints and other gateways in various countries to enable seamless tracking of the flow of merchandise containers and heightened transparency for the users of our RFID system.

5. BUSINESS OVERVIEW *(Cont'd)*

5.15.2 RFID Container Management System and Security Solution: Port Project

Our Port Project represents an extension of our Land Checkpoint Project as any merchandise intended for export and transported through land will eventually require shipping facilities of the port. Our Port Project is built upon the same business and revenue model as our Land Checkpoint Project where we provide RFID track and trace as a long term service to our clients to ensure recurring revenue.

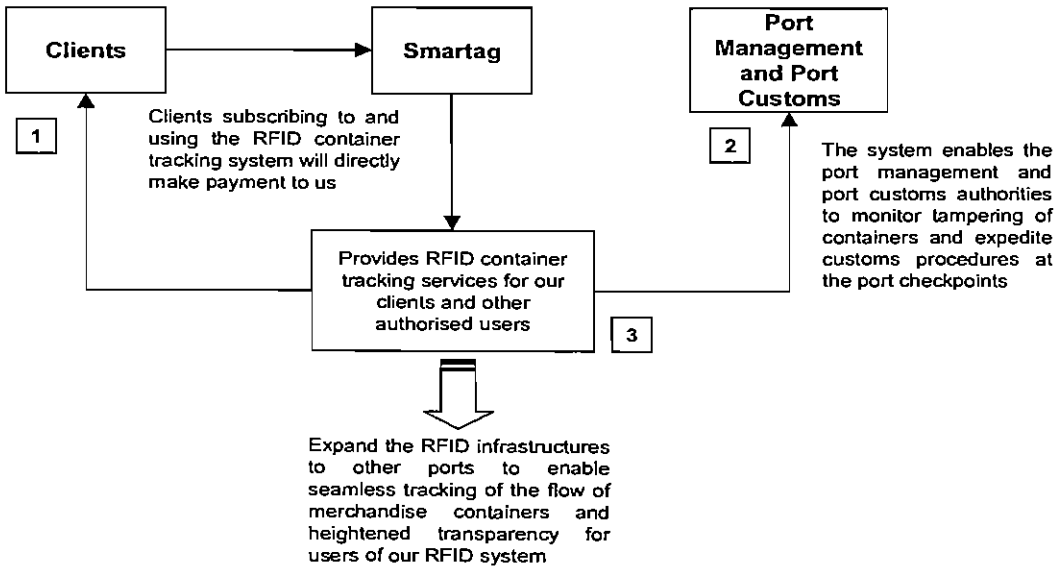
The parties who were involved in the conceptualisation of the Port Project comprised of Shanghai Super Electronic Technology Co. Ltd (SSET), Shanghai International Port Co. Ltd (SIPG), Johor Port Berhad and our Company.

The Port Project begun as a pilot initiative between our Company, Johor Port Berhad, SSET and SIPG to use RFID as a medium to increase the efficiency of shipping containers across various customs and checkpoints at different port destinations. Our Company had been implementing the RFID system at Johor Port since 2006 as part of the Port Project and this proof-of-concept system had been a catalyst in proving our technical capabilities and gaining the interest of various key partners including SSET and SIPG.

We were introduced to SIPG via SSET which had been manufacturing the RFID E-Seals and readers for SIPG to be used in Shanghai Port while our Company subsequently collaborated with SIPG to perform live test trials using RFID technology to carry out point-to-point shipment of containers between Johor Port and Shanghai Port throughout 2008 until 2010. In addition, our appointment as representative to the Malaysia Department of Standards in the *ISO TC104: Freight Container* committee to aid in drafting the ISO18186:2010 standard was a crucial element as this standard will form the framework of the RFID systems used for our Port Project as well as our Land Checkpoint Project. The ISO18186:2010 standard was officially published in July 2010.

Business Model

The business and revenue model of our Port Project is also based on a PPU revenue model, similar to the Land Checkpoint Project, where we provide RFID container tracking services to our clients to ensure recurring revenue. The diagram below provides a summary of our business model and arrangement for the Port Project:-



5. BUSINESS OVERVIEW *(Cont'd)*

1. Under the Port Project, potential clients will be able to subscribe to our RFID container tracking service to track their merchandise that are being transported from factories or warehouses to shipping ports for exportation. The potential clients to our Port Project comprise of users such as manufacturers, distributors and traders who frequently ship their merchandise through sea. These users may subscribe to our RFID container tracking services where RFID tags will be provided for their use and charges for our RFID service will be based on the frequency of the RFID tags being read at each port checkpoints that are equipped with our RFID readers. As many of the potential clients are represented by shipping agents, logistics companies, freight forwarders and shipping liners, we are currently approaching not only potential clients but also these parties to aid in promoting our services via road shows and seminars.

2. As the port management and port customs authorities play a crucial role in the operational efficiencies at shipping ports, our system can also enable the authorised parties from the port management or port customs to access our RFID system in order to monitor tampering of containers upon their arrival at the checkpoints and expedite customs procedures at the port checkpoints.

3. With this concept in mind, as more ports are integrated into this network under the Port Project, many stakeholders including potential users of the system, freight forwarders, shipping liners and port authorities alike stand to benefit from this seamless sharing of data. Subscribers or users of our service will be able to obtain updates on the status of the RFID E-Seals affixed to their containers through Smartrack™ as a platform and mediator for data sharing and will gain better visibility and security of their containers which are shipped between various RFID enabled ports and other destinations.

To date, the port-to-port trials using the RFID E-Seals for containers traveling between Shanghai Port and Johor Port have been successfully completed and we are ready for commercialisation. As a positive step to stimulate interest in our container tracking services provided under the Port Project, we are performing road-shows and seminars to generate awareness among potential users and clients who need to track their merchandise being shipped. By leveraging on our links with Shanghai Port as one of the world's busiest ports in terms of cargo TEUs handled, our products and services can be promoted at a faster rate to potential clients. On 5 October 2010, our Company had signed an MoU with GS1 Malaysia which is formed under the aegis of FMM to promote RFID technology and standards and also our services among the various stakeholders within a supply chain, especially members of the FMM.

We have also set up infrastructures in Penang Port and Klang North Port in Port Klang in May 2010 and October 2010 respectively which are ready for commercialisation. Moving forward we plan to expand this network to other ports in South East Asia.

The commercialisation success of our Port Project will depend on the take-up rate of our RFID tracking service. One of our strategies which may be the critical catalyst to the Port Project is to convince the customs authorities in various countries to adopt RFID as part of their overall operational system and to recognise our RFID E-Seals which potential clients will be using to track their containers. By having customs authorities on board, it would also be easier to convince potential users to subscribe to our RFID tracking service as it will entail improvement in container clearance time at the customs checkpoints. Currently, the RFID systems set up at Johor Port, Penang Port and Klang Northport only enable point-to-point tracking of container movements but do not include integration with the customs' system at the respective. We foresee the utilisation of RFID will have a significant impact on how the future of port operations will run and the many stakeholders who will benefit from this technology.

5. BUSINESS OVERVIEW *(Cont'd)*

5.15.3 RFID as an Affordable Service

As RFID is a relatively new technology in terms of commercialisation, RFID solutions are still considered high premium technologies due to the cost of equipment such as tags, readers and servers required to run such a system. Therefore, most early adoptions were initiated by large organisations with extensive supply chain network and numerous assets that would benefit from the transparency, security and efficiency which RFID technology can provide. Although RFID hardware is becoming more affordable as technology progresses and wider adoption is achieved, many SMEs are still hesitant in adopting RFID due to the cost of implementation exceeding their perceived benefits.

Realising this opportunity to tap into the SME market, we are working to provide RFID service through an affordable subscription basis and leveraging the internet as a platform to achieve this. Some telecommunication service providers have a base of corporate clients in which we can tap into as our potential pool of clients as well. SMEs can subscribe to our services for purposes like asset tracking, stock-takes, personnel tracking and security.

The business and revenue model will be based on a recurring revenue model. Under this model, clients are able to subscribe to our service on a rental basis to utilise our RFID services comprising of the software and hardware aspects for their operations. The provision of our RFID middleware will be charged on a rental basis and instead of direct installation of the software at our client's system, the middleware can be accessed online through the internet where an interface is hosted. Certain hardware such as RFID readers will also be provided based on a rental basis as clients may not frequently require reading of RFID tags to be performed. This would serve as the recurring revenue portion of the service. However, the sales of the RFID tags will be non-recurring as the RFID tags are affixed permanently to the items being read. Nonetheless, as the client's inventory expands more RFID tags may be ordered for tracking.

The service will be mobilised under our subsidiary, Smartag Technologies as the sales and marketing front. On 26 February 2010, Smartag Technologies obtained the Applications Service Provider Class license registered under the Communications and Multimedia Act 1998 issued by MCMC. Under this license, Smartag Technologies is able to provide RFID service using internet communication as a platform. We plan to finalise this service in due course and expect commercialisation by 2012.

5.15.4 RFID for Courier Services and Document Record Management

Another application for RFID that we are currently looking into is courier services in which we are partnering with Sure-Reach Worldwide Express Sdn Bhd to develop the business model and relevant system. We entered into a joint venture agreement with Sure-Reach Worldwide Express Sdn Bhd in 19 May 2010 and as a result Sure-Reach Smartag was formed as a vehicle to provide RFID-based solutions in relation to the courier services and record management industry.

Sure-Reach Smartag is currently undertaking R&D for RFID-based solutions for courier services and document record management industry. However, the results are yet to be commercialised. With the use of RFID, users and other stakeholders of the system will be able to obtain accurate updates of the parcel's delivery status and minimise human error when handling and sorting / distributing parcels. We plan to finalise this service in due course and expect commercialisation by 2012. Our jointly-owned entity being Sure-Reach Smartag Sdn Bhd will be mobilised for this purpose.

6. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) AND RANKED IN ORDER OF PRIORTY BASED ON OUR EVALUATION, THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THE PROSPECTUS, BEFORE INVESTING IN OUR SHARES.

If you are in any doubt as to the information contained in this section, you should consult your stockbroker, bank manager, solicitors, accountants or other professional adviser.

Our Group is principally involved in the provision of RFID based solutions for various applications such as logistics and manufacturing, library solutions, container management system and security services. As such, our Group is subject to certain business risks, risks inherent in the RFID technology industry in general and our business model in particular is dependent on the RFID projects secured.

Although we seek to limit risks relating to our business and specific risks relating to our industry by maintaining prudent management and good working relationships with our customers and suppliers, no assurance can be given that any changes to these inherent factors will not have a material adverse effect on our business.

More details on specific business and industry risks which have an impact on our Group are as follows:-

6.1 BUSINESS RISKS

(a) **Any future inability to continuously secure new projects will lead to fall in revenue and may adversely impair our ability to sustain our business, financial condition and operational results**

Aside from our sales to resellers, our other sales are project-based. We typically do not get repeat clients as the implementation and integration of an RFID system is only done once with subsequent upgrades or expansions to the existing system only when required. There is no assurance that the demand for our products and services will continue in the future and that our Group will continue to be profitable in the future, or that we will achieve increasing or consistent levels of profitability. In the event the demand for our products and services decreases significantly and/or we are unable to secure new projects on terms acceptable to the Group, our performance may be adversely affected.

Nevertheless, our Directors will endeavour to mitigate this risk via, *inter-alia*, the following key development plans:

(i) To explore new projects that are able to leverage on business models which will serve to complement our existing project-based revenue, from such as those discussed in Section 5.15 of this Prospectus;

(ii) To be involved in various R&D activities, business partnerships and relevant organisations to explore new potential areas in which RFID can tap into;

(iii) To increase marketing efforts in order to secure more projects; and

(iv) To keep abreast with the latest technological developments and developing new products and solutions to meet the changing demands of clients.

6. RISK FACTORS *(Cont'd)*

No assurance can be given that the above plans can be implemented successfully and there could be adverse implications should the Group fail to achieve its objectives. The absence of recurring revenue or a new revenue stream may adversely affect profitability and ultimately our financial conditions. However, we believe our experience in the RFID field will help us secure new projects moving forward.

(b) Project risks may pose under-estimation of project costs, delays in project completion and cancellation of projects which may all adversely impact our Company's reputation and affect our business, financial condition and operational results

Our Group's contracts with clients are generally entered into on a project basis. Due to the complexity of the projects that our Group undertakes, the projects are subject to the following risk factors:-

(i) Most of our projects to date are based on a fixed quoted fee. There is a possibility that we may under-estimate the costs involved for a particular project especially when it is procured through tender where information for preliminary assessment may be limited. In such events, our Group may incur cost overruns which will reduce profits or incur losses for such a project;

(ii) Clients may delay or cancel their projects due to unforeseen circumstances. Delays may arise from incomplete specifications or unanticipated difficulties during the project implementation stage. Project delays will affect profit margins as time spent negotiating and resolving issues will delay the recognition of revenues. Additional costs may also be incurred as a result of these delays. Further, any changes in the client's management may also cause cancellation or termination of awarded projects; and

(iii) Failure to implement projects that fully satisfy the requirements and expectations of the clients may lead to claims being made against our Group, which may in turn adversely affect our profits and reputation. This usually arises from staff turnover, human error, misinterpretation of and failure to adhere to specifications and procedures.

However, our Group will continue to conduct studies and thorough planning for each project in order to ensure smooth implementation and minimise cost overruns. As a mitigating factor, we ensure pricing of our services to include certain buffers to allow us to cover any potential unexpected costs but at the same time maintaining a competitive pricing structure. In addition, we reduce risks of cost overruns by outsourcing some low-level technical work that may be time consuming such as set up and installation of hardware and software, therefore helping us to limit our costs and overheads.

However, there are no assurances that such project risk, if occurred, will not have a material adverse impact on our Group's financial performance.

6. RISK FACTORS *(Cont'd)*

(c) Dependency on a few major customers at any point in time and the loss of any customers may materially affect the business, operating results and financial position of the Group

Historically, the composition of our major clients varies from year to year but is generally limited to a few numbers as shown in Section 5.7 of this Prospectus. This is largely due to limitation of our resources at any one point, availability of projects and the relatively long sales cycle of a project which could span over a year. Furthermore, RFID is a relatively new technology where many still perceive it to be costly and are sceptical towards its reliability and ability to improve their business processes. Nonetheless, we were responsible for the implementation of RFID for the Perbadanan Perpustakaan Awam Negeri Pulau Pinang and have been gradually securing other projects from clients such as Danawa Resources Sdn Bhd and other foreign-based clients. Despite our revenue being project-based in nature, there are certain existing major customers which have contributed significantly to our revenue year-on-year. Although there have been to an extent some reliance from these repeat customers as set out in Section 5.7 of this Prospectus, we believe that this level of reliance may gradually decline moving forward as we secure a more diversified client base and achieve sustainable and recurring revenue sources through the commercialisation of our future plans as detailed in Section 5.15 of the Prospectus. Notwithstanding this, the dependency on these major customers is subject to the success of our future plans. Such risk is further discussed in Section 6.1 (d) of this Prospectus.

We believe that our continuous effort to deliver quality products and services will generate more referral jobs and our active participation in road show seminars will increase our Company's profile. As mentioned above, we have also taken steps to mitigate the risk of this dependency on a few clients by diversifying our business model to allow us to generate recurring revenue from a wider clientele base through our Land Checkpoint Project and Port Project as discussed in Section 5.15.1 and 5.15.2 of this Prospectus.

Nevertheless, no assurance can be given that the loss of any of our Group's major clients will not materially and adversely affect our Group's business, operating results and financial position especially in the short to medium term. To date, we have been able to complete all projects secured and the Board will endeavour to maintain this track record. We believe our experience in the RFID field will help us secure new projects moving forward in addition to our plans to diversify our customer base through the Land Checkpoint Project and Port Project.

(d) Any inability to execute our future plans successfully will result in us incurring expenses and resources without corresponding increases in revenue which may adversely affect our business growth moving forward

We have identified several growth plans and diversification in business model in Section 5.15 of this Prospectus to lower our dependency on project-based income or a small pool of major customers. Our Group's proposed future plans and prospects will be dependent upon, amongst others, the development and growth of the overall RFID market, continuous improvement in RFID technology, gradual reduction of RFID related costs to appeal to users, our ability to procure sufficient funds to mobilise our future plans (proceeds of which are expected to be obtained pursuant to the Listing), continuous participation and close relationships with key parties comprising of business partners, authoritative bodies and other stakeholders to enable the realisation of our plans as well as our ability to innovate and improve product and service standards for potential clients.

6. RISK FACTORS *(Cont'd)*

Additionally, despite our Executive Directors and key management having vast experiences in the ICT and RFID industries to manage and oversee the implementation of our proposed business development strategies, the success of our future plans can easily be thwarted due to unforeseen circumstances beyond our control, unexpected complications, economic and political instability, possible competition threatening our market share or loss of vital key personnel.

Although we believe that the eventuality of these events is unlikely, no assurance can be given that the implementation of our future plans will be commercially successful. As we have invested a significant amount of funds thus far amounting to more than RM6.0 million and will be using further proceeds pursuant to the Listing to set up infrastructures for our Land Checkpoint Project and Port Project, failure to successfully commercialise the Land Checkpoint Project and Port Project will result in us incurring expenses and resources without the corresponding increase in revenue which may adversely affect our business growth moving forward. Should, for any reason, both the Land Checkpoint Project and Port Project do not successfully take off, all assets installed at the checkpoint sites that cannot be removed will be fully written-down. The management of the Company estimates that approximately 80% of the assets at these sites can be removed and reused for other purposes such as R&D, other projects or disposal of assets. The assets that can be removed may remain as idle fixed assets subject to future depreciation and impairment review. Under such circumstances, the directors of Smartag Solutions will be required to determine the recoverable amount of the assets based on the intended future use and provide for impairment losses, if any.

Our future plans, specifically the Land Checkpoint and Port Project will be commercialised on a subscription basis where potential users of our RFID container tracking service will sign-up to be able to monitor the status or their merchandise. However, should the take-up rate from potential users prove to be insufficient to generate the revenue to cover operational expenses incurred and also the initial capital costs incurred to set up the infrastructures, these future plans would not be financially viable in the long term.

In respect of our Land Checkpoint Project, we have been working with Netbay to perform in-depth studies and operational trials to better understand the logistics and customs processes. We have also successfully set up RFID infrastructures at certain key border and customs checkpoints in Thailand in anticipation of our pilot commercialisation.

On 15 March 2011 we entered into an RFID Container Tracking Service and Partnership Agreement with Netbay for the implementation of, with the assistance of Netbay, RFID container tracking systems and services at designated customs checkpoints in Thailand determined by the Royal Thai Customs.

In addition, we have also incurred expenses for the development of the Fleet Management System with CRUiSE GPS Systems Sdn Bhd and the development of RFID-based solutions for courier services and record management via Sure-Reach Smartag. The outcome of the expenses have not been commercialised and any failure or delay in commercialisation may adversely affect us as the expenditure incurred do not generate corresponding amount of revenue and this may cause a strain in our financial position. There is no assurance that the future plans mentioned in Section 5.15 can be successfully implemented but our Directors have carefully evaluated the risks in association with the future plans and strategies.

6. RISK FACTORS *(Cont'd)*

In the event that any part of our future plans do not materialise as planned, our Directors will carefully evaluate the situation and may reallocate the relevant funding to other business plans, to new projects and/or deposit the funds with financial institutions, so far as it is deemed in the interests of our Group and our shareholders.

(e) Dependency on SSET for their RFID E-Seals to be used in our Land Checkpoint Project and Port Project may materially affect our business, financial condition and operational results should SSET stop supplying, cease to manufacture or for any reasons unable to supply such hardware to us

Our future plans to implement RFID systems at ports around the South-East Asia region and customs checkpoints in Thailand will entail the use of SSET's RFID E-Seals by potential clients to track the movements of the containers being transported.

However, the RFID E-Seals which we intend to provide are currently, to the best knowledge of our Board, manufactured only by SSET as the RFID E-Seals are designed to comply with ISO18186:2010 standard in which our RFID systems are based upon. In addition, the readers installed at each port and border checkpoint in Thailand are also procured from SSET. As such, should SSET stop supplying to us, cease to manufacture or for any reasons unable to supply us the hardware, we may have to incur additional costs and time to look for a new manufacturer that is able to supply such RFID readers and tags. As we understand the design behind the RFID hardware being used and possess knowledge of the ISO18186:2010 standard, it is possible to look for alternative methods to procure similar RFID tags. However, this would require time and resources and may impact our implementation timeline of our Land Check Point Project and Port Project. Hence, it would be more cost effective at this point to obtain the hardware from SSET as they have the technical know-how and relevant experience.

Notwithstanding the above, we are currently enjoying a cordial business relationship with SSET and do not foresee any events that would result in any shortage or halt in supply. SSET has a similar dependency on us as our Company was given exclusivity to market and sell the RFID E-Seals in South East Asia as highlighted in Section 5.13 of this Prospectus. Consequently, our Group's relationship with SSET can be viewed as a mutually beneficial partnership for both parties.

(f) Dependency on major suppliers

For the FYE 30 September 2008, 2009 and 2010 respectively, our major suppliers collectively contributed to 70.26%, 92.11% and 97.46% of total purchases as shown in Section 5.8 of this Prospectus. A significant portion of the supplies purchased and to be used as part of our solutions were sourced from UCH Technology Sdn Bhd, Skycomp Technology Sdn Bhd and recently Vast Base MSC Sdn Bhd. We are to an extent dependent on RFID equipment and other devices sourced from these three (3) companies as we have developed a good business relationship with these companies over the years and have been satisfied with the level of their product quality, customer service and on-time delivery. Should our major suppliers, particularly UCH Technology Sdn Bhd, Skycomp Technology Sdn Bhd and Vast Base MSC Sdn Bhd, stop supplying to us, cease to manufacture or for any reasons unable to supply us the required hardware, we may have to incur additional costs and time to source new suppliers that are able to supply equipment and devices to us.

Although the Company's purchases have been concentrated on a few suppliers, there are various sources of supplies available in the market that are able to serve as alternatives. Furthermore, the sources of supply will depend on the application in which the RFID solution is provided. As UCH Technology Sdn Bhd, Skycomp Technology Sdn Bhd and Vast Base MSC Sdn Bhd are established providers of RFID equipment and also other devices such as biometrics and security related hardware, there would be a higher tendency to acquire the supplies for Smartag's solutions from these suppliers where such hardware is required. Moving forward, we expect our supplier base to increase as the fields of applications in which our solutions are applied to expand.

(g) Our exposure to the foreign exchange currency market and any adverse movements in the foreign exchange currency market may negatively impact our business, financial position and operating results

Historically, our exposure to foreign exchange currency movements have been limited as our only foreign currency transactions from sales of RFID solutions have only been with our Thailand-based customers namely E-Business Plus Co. Ltd, SIN Commercial Co. Ltd and TeamWork Solution Co. Ltd while our purchases were mainly transacted in RM.

Moving forward, we foresee higher exposure to foreign exchange currencies as our RFID E-Seals purchases from SSET for our Land Checkpoint Project and Port Project will be transacted mainly in USD. In respect to these projects, our RFID track and trace service provided will be charged at the currency of the customers' country of operation to encourage initial up-take and as such may expose us to more than one (1) type of foreign currency. Despite this, we believe that our pricing structure will allow sufficient buffer against any adverse foreign currency movements.

We also foresee in the future that some amount of our hardware purchases may be procured from foreign suppliers such as SSET for certain projects. These hardware may comprise of RFID E-Seals, RFID tags, readers, wireless terminals and handheld devices which will be transacted in other foreign currencies.

We cannot guarantee that our profitability will not be impaired should there be any significant movements in the foreign currency exchange market. Therefore, our Directors and key management will deliberate on measures to be taken to mitigate this risk by considering hedging instruments or other mitigating strategies against adverse foreign currency exchange movements when our sales and purchases amount in foreign currencies become material.

(h) Dependency on key personnel may impair our operations and materially affect our business, financial condition and operational results, should they leave their employment with our Group

We believe that our continued growth and future performance will depend on the continued services and efforts of our Executive Directors, key management and technical personnel, as well as our ability to identify, recruit, train and retain qualified employees. Our management team, led by our CEO, Lim Peng Keong, has been instrumental to the development of the Group and is heavily involved in marketing and spreading awareness on the products and services of the business. Our technical and product development has over the past two (2) years been successfully managed by Choong Huck Liang and his role as the CTOO of the Group is critical to the overall growth of our Group. Their vast experience, knowledge and expertise are invaluable assets to our Group.

6. RISK FACTORS *(Cont'd)*

As part of our management succession plan, we have identified middle management personnel to assist the heads of various business divisions in order to facilitate skill transfer and to ensure smooth running and continuity of the operations of our Group. Efforts have also been made to groom younger members of the senior management and senior technical personnel to take on more responsibilities as part of our management succession planning, in particular, for the R&D and business/technical development department as technical know-how is crucial in this industry. For all the various business divisions such as the finance, administration, human resource and sales and marketing departments, should the need arise, we intend to recruit additional qualified personnel to our existing employees. An effective succession plan via a clear organisation structure and descriptive job scopes have been drafted in place according to ISO recommended guidelines which will be monitored and closely practiced.

We currently enjoy a cordial relationship with our employees and remunerate our employees at competitive salaries based on the relevant labour market benchmarks whether in respect of the ICT industry, marketing industry or finance industry. Our Group also believes that the Listing will enhance our profile, which will facilitate employee retention and recruitment.

Notwithstanding the above, there is no assurance that the above measures would be successful in retaining our Directors and key management, or that it will successfully attract and retain additional or replacement personnel with the requisite experience and capabilities for us to operate successfully. Hence, the loss of our existing key management, either due to resignation, health or other reasons, to the extent where we are unable to find suitable replacements, or our inability to attract and retain qualified personnel, will have an adverse impact on the continuity of our business, operating results, financial conditions and further development.

In this regard, we have engaged our CEO, Lim Peng Keong and our CTOO, Choong Huck Liang into service agreements with Smartag Solutions on 9 November 2010 for a further appointment of three (3) years from the date of commencement as part of mitigating such risks. The salient terms of the service agreements are stated in Section 9.2.6 of this Prospectus.

(i) Limited human capital and financial resources will undermine our ability to take on more projects at any one time which may result in loss of opportunities and loss of potential revenue and profits

Our ability to take on more projects at a certain point and our ability to maximise our profitability therein is highly dependent on the extent of the availability of human capital and financial resources. Our contracts with clients are generally entered into on a project basis and each project requires a certain amount of human capital and infrastructure costs. At times, depending on the repayment structure, preliminary expenses need to be incurred from our side to conduct studies before implementation can begin. Should there be human capital and financial limitations, we may have to forego certain potential projects that are occurring simultaneously with our existing projects and thus limiting our revenue and profit growth. Any delays in a certain project would also have adverse repercussions in terms of costs and time restrain on our ability to secure additional projects. Furthermore, we understand that our resources will have to be consciously managed so that we are able to perform any intended R&D studies or product development.

6. RISK FACTORS *(Cont'd)*

With our past experience in various projects, we are able to mobilise quicker implementations, predict potential shortcomings and minimise expenditures. We also typically outsource the low-level set-up and installation work (software and hardware) to service providers so that our key management and technicians can focus their attention on managing other on-going projects as well.

Despite the first few years of our business operations, where funding and manpower were limited, we have been able to strategically manage our resources and have not encountered any limitations in human capital and financial resources and will continue to ensure that manpower and capital are sufficient for the smooth implementation of projects. This will be achieved through proper resource allocation, budgeting and monitoring. However, there are no assurances that we will not encounter such limitations of human capital and financial resources in the future and should such limitations arise, it may result in loss of opportunities and potential revenue and profits.

(j) Our inability to attract and retain qualified personnel will limit our business growth and may adversely affect our business, financial condition and operating results

As our business grows, we will require more skilled personnel ranging from technicians and support personnel to programmers and sales people to bolster our project implementations and provide continuous support and prompt services to our clients and also to realise our R&D plans. As such, our ability to grow successfully depends significantly on our ability to attract and retain qualified personnel especially in new technology fields such as RFID. Employing and retaining qualified and skilled personnel may be challenging as the RFID solutions industry is relatively new and there are few people with the relevant experience for us to immediately capitalise on. Therefore, most employees that we employ whom already have strong foundations in programming or network knowledge will go through additional training to familiarise themselves with RFID.

Our Group shall endeavour to provide greater incentive to our personnel by offering more competitive remuneration packages and learning progression. We believe that our Listing will enhance our profile and expedite our recruitment efforts. This will allow us to source for qualified personnel internationally as well and not limit our recruitment effort to Malaysia only. Currently, we have sufficient qualified personnel. Nevertheless, no assurance can be given that we will be able to recruit or retain sufficient qualified personnel to facilitate our Group's growth.

(k) We may not have sufficient insurance coverage

Presently, our Group has insurance coverage for our basic assets for unforeseen events such as fire, damage and personnel accident. However, we have yet to insure our assets and RFID related infrastructures that we have set up so far for our Land Checkpoint Project and Port Project. We are currently looking for suitable insurance policies to insure these infrastructures and expect to subscribe to an adequate policy by the mid of 2011. Our Group is aware of the adverse consequences arising from inadequate insurance coverage and to mitigate this, we carry out periodic reviews to ensure that our assets are adequately insured. Although reasonable steps have been taken by our Group to ensure that all of our assets are adequately covered by insurance, no assurance can be given that the insurance coverage would be adequate for the replacement costs of the assets of our Group which may disrupt our operations in the future.

6. RISK FACTORS *(Cont'd)*

(l) Non-renewal or loss of our MSC status may result in loss of competitiveness when vying for new projects and also loss of benefits deriving from our pioneer status which may adversely impact our business and financial condition

Our Company was granted MSC status on 11 July 2007. By virtue of the MSC status, we were granted pioneer status for an initial five (5) years period by MITI via an application to MDeC. The approval of our Company's pioneer status can be extended for a further five (5) years upon the expiry of the first five (5) years. This is given at the discretion of MITI with the concurrence of the Ministry of Finance of Malaysia. By virtue of this pioneer status, certain statutory income generated from our pioneer activities (as recognised by MDeC) during the pioneer period is exempted from income tax. Having MSC status also provides our Company with an added advantage when tendering or pitching for a potential project as certain clients would prefer to appoint MSC status qualified companies only.

Presently, all MSC status companies are granted financial and non-financial incentives. The MDeC is the body responsible for monitoring all MSC designated companies. MDeC has the right to revoke any company's MSC Malaysia status at any time if the conditions set for each MSC status license holder are not met. We intend to mitigate this risk by ensuring that all conditions of the MSC and pioneer status are adhered to. To date, our Company has not defaulted and/or will be fulfilling the conditions set out on our MSC pioneer status as disclosed in Section 5.11 of this Prospectus.

Nevertheless, no assurance can be given that we will be able to retain our MSC pioneer status or that our Company will continue to enjoy or not experience delays in enjoying the MSC status and pioneer status incentives, all of which could materially and adversely affect our Group's business, operating results and financial position. There can also be no assurance that the MSC incentives will not be changed or modified in any way in the future. The loss or non-renewal of our MSC status may affect our future after tax earnings due to the loss of income tax exemptions.

(m) Possible infringement of third party intellectual rights may cause substantial costs being incurred and diversion of our management's attention and resources from the business operation which could have a material adverse effect on our business, financial condition and results of operations

Our semi-passive RFID tag, Smartware™ middleware and Smartrack™ repository software engine were internally developed by our key personnel. Our software is widely used in almost all our RFID solutions for our clients as described in Section 5.1.1 of this Prospectus while our semi-passive RFID tag is currently being marketed.

Despite the fact that it is not easy to replicate the programming of another software, there are other companies which are capable of developing similar products and there is still the possibility that some competitors may attempt to replicate our software or hardware products or sell their products under the guise of our product brand names.

Save for our disclosure in Section 5.12 of the Prospectus, we have not applied for other trademarks or other patents for our products nor are we aware if our products had infringed third party patent or other intellectual rights. Should such infringements occur, legal proceedings may be necessary to protect our assets or to defend ourselves from potential infringement claims from competitors. This could result in substantial costs being incurred and diversion of our management's attention and resources from the business operation which could have a material adverse effect on our business, financial condition and results of operations.

6. RISK FACTORS *(Cont'd)*

(n) Material defects in our products and solutions may potentially pose liability issues to our Company which may adversely impact our financial position

The RFID solutions which our Group develops and provides to our customers are important to ensure that the operations of our customers' business are carried out in a smooth manner. There would be potential risks such as loss of clients, adverse reaction from customers towards our Group and our products, negative publicity, additional expenditures to remedy problems and legal claims, should there be any material defects or errors in our Group's products.

The RFID solutions may suffer from various unforeseen problems such as faulty hardware or software, which may result in a disruption to the customers' operations in which event, unless immediately rectified, will result in a reputation risk and financial risk to our Group. We provide our customers with a standard 12 months warranty for software support and technical glitches. Hardware sourced from third party suppliers or manufacturers are covered by the manufacturer's warranty for a typical standard 12 months period as well. To date, we have not encountered any material errors or detrimental issues from our past products and systems that were implemented.

6.2 RISKS RELATED TO OUR INDUSTRIES

(a) Lack of awareness may inhibit greater up-take of RFID technology

RFID adoption is generally lower in Asia Pacific countries compared to the USA and European countries but is gradually picking up mainly through government-driven efforts. There is seemingly less visible initiation from the private sector due to lack of awareness on its benefits and applications. Many end users especially those involved in supply chain management may be familiar with the basic concepts of RFID but are still holding back due to scepticism surrounding the effectiveness of this technology and the relatively high capital commitments that it entails. Currently, most companies which adopt RFID systems are well established or are large enterprises which understand the potential benefits of using RFID to optimise their business processes and information flow.

Our Directors are of the opinion that awareness is a key factor in expanding the market and is a continuous effort by the government and propagators of RFID technologies. Only through more pilot projects, forums and success stories will potential end users be willing to learn and understand how RFID can help their businesses. Our Company has been proactively collaborating with industry-based organisations and government bodies like MCMC, MDeC and FMM to host road-show seminars and participate in international summits to spread awareness about the benefits of RFID to various industry stakeholders which we invite.

We believe that our past project implementation for the Perbadanan Perpustakaan Awam Negeri Pulau Pinang as well as our Land Checkpoint Project and Port Project will serve as a good platform to promote the use of RFID and its application in other areas of businesses. Proof of success and a good track record is a major factor in pushing for more adoption of RFID. Lack of awareness of usage and application will continue to challenge the RFID market in Asia Pacific but is likely to soften in the long term once confidence in the technology is assured.

6. RISK FACTORS *(Cont'd)*

(b) Lack of skilled resources in relation to RFID expertise may inhibit the pace of our business expansion

Due to the fact that the RFID technology is still relatively new in the Asia Pacific region, there is presently a lack of skilled workforce especially in countries where awareness is lower. There is an insufficient number of knowledge workers who possess the know-how and skills required but more importantly the necessary practical experience to integrate RFID into various business processes of companies which may vary between different industries. Companies looking to implement RFID in contrast, would look to those who can offer industry expertise in addition to technology expertise, in order to ensure that the implementation best fits the needs of the company. As such, there will be a gap between customer expectations and market players' ability to employ the requisite talent pool.

In order to overcome the shortage however, a few universities and education centres in certain Asia Pacific countries are already offering courses relating to logistics and supply chain management that also incorporates an introductory syllabus of RFID. However, only a handful is offering courses directly related to the RFID technology itself. Our Company is also much involved in training and transferring industry knowledge to our non-technical and technical employees for them to better understand the RFID technology and business. We continuously source for adequate skilled personnel with at least good programming knowledge in our recruitment process.

Our Directors are aware that the lack of skilled resources will have an impact on market participants. We believe that we currently have adequate skilled resources and expect to employ more personnel and continue to provide on-the-job training and relevant courses to new and existing employees in line with our future plans.

(c) Initial set up costs may delay or deter adoption of RFID technology and growth in the RFID market

As with many new technologies, cost is normally the first barrier that users must overcome. RFID, being a relatively new technology in the Asia Pacific region poses significant initial costs to end users and is a likely deterrent to further growth in the market. These costs are mainly in the form of purchase of hardware and software as well as implementation costs. For now, initial costs represent one of the main factors that prevent end users from implementing full fledged RFID systems into their businesses.

Despite these cost issues, many industry participants are expecting hardware costs to gradually fall in the next few years when volume increases as more end users become aware of the potential benefits of RFID and the significant returns these may bring.

(d) Any future inability to keep up with constant changes in technology advancements and competition may pose challenges for the growth of our Group

There are constant innovations and improvements to RFID hardware technology and increasingly more applications and business processes in which RFID can be applied to. Our key management and technical personnel keeps abreast with the latest technological hardware through market experience and from our trade suppliers where we sometimes purchase sample to conduct tests.

6. RISK FACTORS *(Cont'd)*

Although we believe that we are on par in terms of the technological curve in the industry compared to the general level of RFID technology currently used regionally, we cannot guarantee that we will always be able to constantly update ourselves or utilise the latest technology. Having said that, the ability to compete within this industry does not only lie with the level of technology used but also other factors such as implementation experience in various environments, ability to tailor to client requirements, depth of our technical knowledge and competitive price structuring.

Although the RFID market is relatively nascent in the Asia Pacific region, there are many companies comprising of hardware manufacturers, software developers, system integrators, solution providers, resellers or the combination of these trying to capture more of the market. Our performance and ability to compete with our competitors will depend on our ability to improve and enhance the functions and reliability or our products and services through continuous R&D and to adapt to new industry standards and customer preferences. Any future inability to keep up with critical changes in technology advancement and compete may adversely affect our ability to secure projects and accordingly affect our business, financial condition and operational results.

6.3 OTHER RISKS

(a) Control by Promoters may limit ability of other shareholders to influence the outcome of decisions requiring the approval of shareholders

Upon completion of the IPO, our Promoters will effectively and collectively hold an aggregate of 102,850,000 Shares, which represents approximately 45.31% of the enlarged issued and paid-up share capital of Smartag Solutions and hence will be the controlling shareholders of our Company.

As a result, it is likely that the Promoters will be able to effectively control the outcome of certain matters requiring shareholder's approval, including the constitution of our Board. Depending on how they choose to vote and because of the size of their collective shareholdings, the controlling shareholders will have significant influence over matters requiring the shareholders' approval, unless they are required by law and/or the relevant authorities to abstain from voting.

Nonetheless, our Group's audit committee will ensure that any future transactions involving related parties, if any, are entered into on arms-length basis or on terms favourable to our Group.

(b) Susceptibility to global economic slowdowns and changes to political and legislative developments may materially affect the operations of our Group

Like all other business entities, adverse developments in political, economic and regulatory conditions in Malaysia and other countries may materially and adversely affect the financial condition of the Asian region and could unfavourably affect our results and business prospects. Other political uncertainties that could unfavourably affect us include changes in political leadership, expropriation, nationalisation, acts of war, re-negotiation or nullification of existing sales orders and contracts, changes in interest rates and methods of taxation and currency exchange rules and contracts, especially in those countries in which we operate in.

Some of our Group's current and future projects will be heavily dependent on government policies and consent such as the Land Checkpoint Project and Port Project, which will require the support and approval from the ruling governments to install the necessary RFID infrastructures due to sensitive nature of these places. Should there arise any political instability, a change in the ruling government or policies or nationalisation, our operations may be halted or our assets seized which would directly impact our Group's operational results and financial position.

Furthermore, as these projects are closely linked to the logistics industry, any slowdown in global demand would undeniably affect cross-border trading and consequently the frequency of container shipment. Reduction in container shipments will affect our revenue generation as our business model for our Land Checkpoint Project and Port Project are based on the frequency of containers being shipped across RFID enabled checkpoints. Economic slowdown will also cause companies to scale down on costs and expenses and may delay or cancel their intentions for RFID implementations.

Apart from Malaysia, our business will operate in Thailand and possibly other regional countries in the near future. These countries are governed by their respective corporate laws, regulations and legal systems. Therefore, we are unable to predict future changes to its current laws and regulations and how they might effect our operations as well as our qualification to operate in these countries.

Nevertheless, we continue to foster good relations with our business partners and relevant government officials in countries where we operate and so far have not encountered any adverse political and economic conditions which have affected our operations. Whilst we strive to continue to take other effective measures such as prudent financial management, efficient operating procedures and compliance existing/new laws and regulations, there is no assurance that any adverse political, economic and regulatory factors will not materially and adversely affect us operationally or financially.

6.4 RISKS RELATING TO OUR SHARES AND SHARE PRICES

(a) Failure or delays in the Listing

The occurrence of any one (1) or more of the following events (which may not be exhaustive) may cause a delay in, or non-implementation of, the Listing:-

(i) our Group is unable to meet the public spread requirement, that is, at least 25% of the total number of shares for which the Listing is sought to be in the hands of the public and at a minimum of 200 shareholders at the point of our admission to the ACE Market; or

(ii) KIBB as the Underwriter exercises its rights pursuant to the Underwriting Agreement and discharge itself from its obligations thereunder.

In the event of failure or delay in the Listing, we will return your application monies in full without interest. If such monies are not returned within 14 days after we become liable to repay, the provision of sub-section 243(2) of the CMSA shall apply.

(b) No prior market for our Shares

There has been no prior market for the Shares. There can be no assurance as to the liquidity of any market that may develop for the Shares, the ability of holders to sell their Shares or the prices at which holders would be able to sell their Shares.

Application has been made to Bursa Securities for the listing of and quotation for the entire share capital of Smartag Solutions and subsequent approval obtained. However, there can be no assurance that the Shares will be accepted for trading on the Official List.

In the event that the Shares are not admitted to the Official List within six (6) weeks from the date of this Prospectus, then Smartag Solutions will withdraw its application for listing and monies paid in respect of any application for the Offer Shares will be returned to applicants without interest. If any such monies are not repaid within 14 days after the Promoters becomes liable to repay it, the provision of subsection 243(2) of the CMSA apply accordingly.

The Shares could trade at prices that may be lower than the Issue Price depending on many factors, including prevailing economic and financial conditions in Malaysia, Smartag Solutions' operating results and the markets for similar securities. In addition, the market for securities in emerging markets has been subject to disruptions that have caused intense volatility in the prices of securities similar to the Shares. There can be no assurance that the market for the Shares, if any, will not be subject to similar disruptions. Any disruptions in such market may have a material adverse effect on the holders of the Shares.

(c) The market value of our Shares may be volatile and subject to external factors

The trading prices and volume of our Shares could be subject to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. There is no assurance that the market prices for our Shares will remain at or above the Issue Price as the market prices could be affected by several factors, including:-

- variations in the results of our operations;
- changes in general market, political and economic conditions;
- changes in recommendations by financial and/or industry analysts;
- changes in market valuation of listed companies in general and other companies engaged in a business similar to our Group;
- gain or loss of major customers or contracts;
- additions or departures of key management and key technical personnel; and
- involvement of our Group in material litigation.

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions of the country as well as the growth potential of the various economic sectors. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risk to the market prices of our Shares.

Nevertheless, the profitability of our Group is not dependent on the performance of Bursa Securities as the business activities of the Group have no direct correlation with the performance of securities listed on Bursa Securities.

FROST & SULLIVAN

Independent Market Research on the RFID Market (Global, Asia Pacific, and South East Asia)

EXECUTIVE SUMMARY

March 2011

FROST & SULLIVAN GROWTH CONSULTING

March 2011 Frost & Sullivan

The market research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research, which involves discussing the status of the industry with leading industry participants and industry experts. The research methodology used is the *Expert Opinion Consensus Methodology*. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in the business and industry climate.

This market research was completed in March 2011

This report is prepared for inclusion in the Prospectus of Smartag Solutions Berhad for submission to the Securities Commission Malaysia and other relevant parties.

No part of this research service may be otherwise given, lent, resold, or disclosed to non-customers without our written permission. Furthermore, no part may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without our permission.

Frost & Sullivan has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in the industry. Frost & Sullivan shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies as mentioned in this report or otherwise.

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For and on behalf of Frost & Sullivan Malaysia Sdn Bhd:

Authorised Signatory,

Hazmi Yusof
Director

TABLE OF CONTENT

1. Definition and Segmentation

1.1. Introduction

Radio Frequency Identification (RFID) is an electronic system using radio frequency (RF) signals to identify individually tagged assets (i.e., objects or personnel) using RFID tags without any direct contact or line of sight to the asset for the purpose of identification and tracking. The tagged assets can be inanimate objects such as auto parts and garments or living objects such as livestock and office personnel. The RFID system records the identity of the asset, as well as other pertinent information such as its location and time at that location, what processes it has undergone and whether it was examined by authorised officers. The objective of the system is to store data about the object so that the information can be easily and quickly retrieved. This improved visibility can help improve management decision making related to how its assets are managed and how to reduce operational costs.

While RFID, as a technology, has been around since the 1940s, its use was primarily centered for military purposes. While RFID technology itself has been available commercially since the 1970s, very little commercial work was done with RFID and the progress for making this technology more applicable was minimal and centered across applications such as animal tracking, access control, and electronic toll collection. It was not till the late 1990s, when researches from Massachusetts Institute of Technology began investigating RFID's potential as a wireless track and trace technology, did academicians, companies, private, and government-backed bodies begin investigating and collaborating to ensure that a more robust RFID technology is available for more widespread commercial use, especially for enabling a more efficiently managed supply chain.

RFID is part of the wider automated identification data capture (AIDC) group of technologies. Other AIDC technologies include barcodes, magnetic stripes, biometrics, smart cards, and optical character recognition (OCR), where the purpose is to identify objects automatically by gathering data to be stored and processed in computers without human intervention. Although RFID as a technology consists of various sub-technologies, which differ in operating mechanisms, in essence RFID is simply a track and trace technology that is able to be read without the line of sight, thus enabling data to be delivered in real time.

The RFID system comprises of three primary components, namely tags, readers and middleware. Tags store information about the asset, readers will read the tags to interrogate the information about the asset, and middleware is the system that allows the data to be managed by users of the RFID system.

RFID technology has been commercially available since the 1970s and has several established applications such as security asset tracking and access control, transportation, healthcare, livestock, supply chain management, and others (i.e., record management and securing personal assets and valuables).

In recent years, RFID applications in supply chain management and transportation have been gaining prominence and have among the highest growth rates in the RFID industry.

1.2. RFID Value Chain

The RFID value chain comprises back-end suppliers, front-end or middleware suppliers, solution providers, and the end-users who finally use the RFID system.

Back-end suppliers supply the hardware components such as chipset, integrated circuit (IC) and inlays that are used to make RFID hardware, specifically for the tags and readers. Front end suppliers comprise of tag and reader manufacturers, supporting infrastructure providers and middleware providers. Middleware providers are architects of the application systems that operate the RFID hardware. Infrastructure providers supply supporting hardware to the RFID system such as servers and networks. These front-end suppliers supply to solution providers who then combine the necessary components required to make an RFID solution suitable to meet the requirements of the end-user.

A solution provider combines the different RFID components such as tags, readers and middleware into a complete RFID system. Solution providers can be further broken down into several areas, such as implementation, project management, training and consulting services.

Smartag Solutions Berhad (Smartag) is an RFID solution provider offering total RFID solutions from consultation, planning and implementation of RFID-based solutions. Smartag provides middleware solutions through its Smartware™. In addition to its proprietary middleware, it has also developed Smartrack™, a back-end data repository software engine suitable for applications where data is intended to be shared among different parties residing at different geographical locations. Currently, Smartag bundles Smartware™ as part and parcel of the solutions offered to its clients together with other third party software and hardware.

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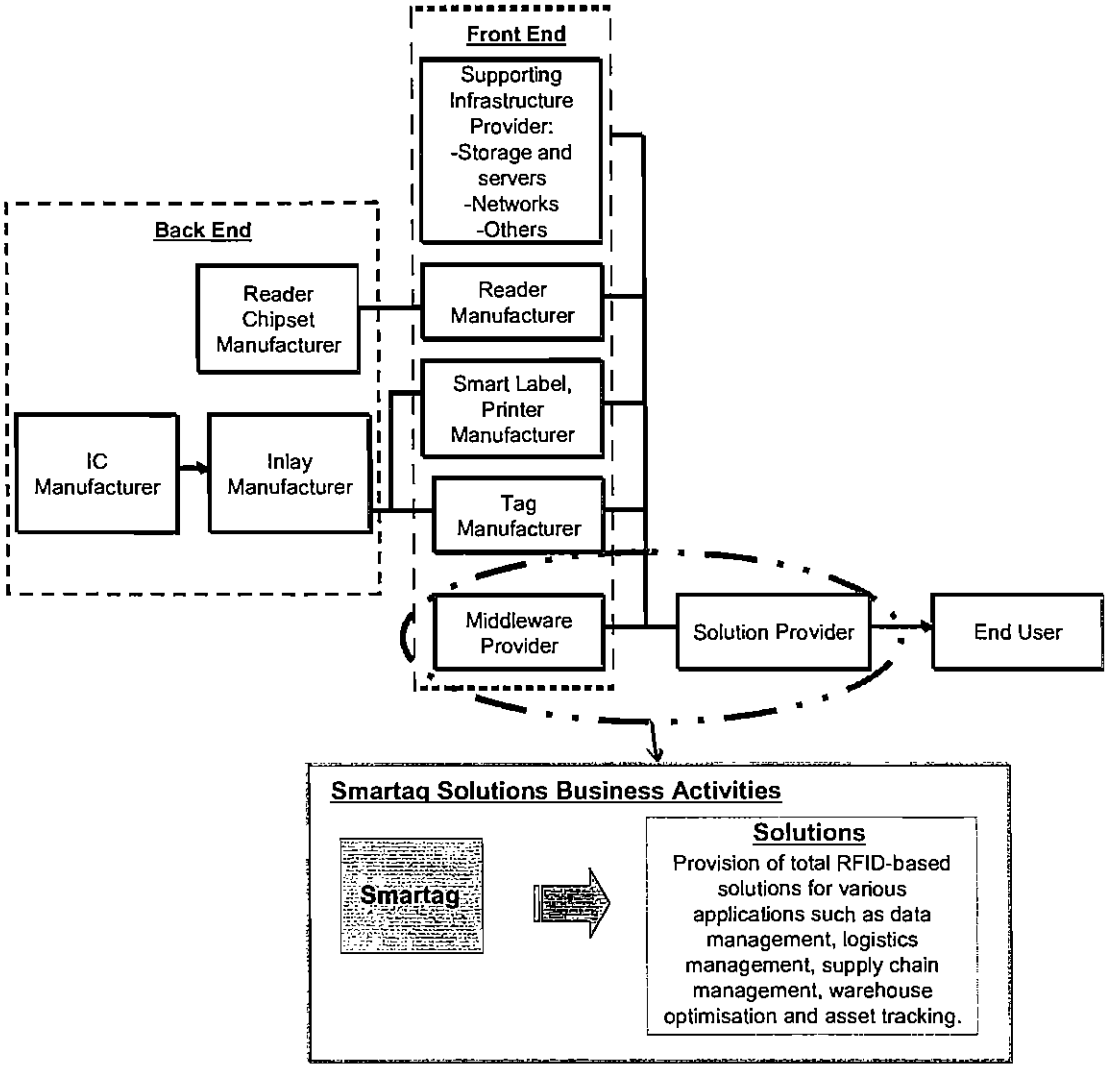
RFID Value Chain and Position of Smartag within RFID Value Chain



Source: Extracted from the IMR report prepared by Frost & Sullivan

1.3. Report Focus

Smartag provides total RFID-based solutions for end users to optimise their business process and data flow using RFID tags, readers, and middleware in various applications such as asset tracking and supply chain management. The company currently generates revenue from Malaysia and Thailand, and intends to expand into other South East Asian (SEA) countries.

This report will focus on the overall global, Asia Pacific and SEA RFID market comprising the hardware (i.e., tags and readers) and middleware markets, but does not include RFID services (i.e., system integration services) due to the fragmented and unascertainable data for reasonable measurement.

Furthermore Section 3 of this report will focus on the market share of the solutions provider market in Asia Pacific and SEA in comparison to Smartag's market share standing. The computation for market share size will comprise of hardware (i.e., tags and readers) and middleware markets, but does not include RFID services (i.e., system integration services) as this segment of the market is difficult to measure.

1.4. Relevant Laws, Regulation and Standards

As its name suggests, RFID systems operate using RF. The utilisation of RF bands is regulated from country to country. These regulations govern users who use RFID technology and in some cases require those users to obtain operating licenses.

RFID operates mainly in four main RF bands. Different countries specify different bandwidths that RFID operators can use in that country according to the bandwidths available in those countries. For example, some manufacturers may have RFID tags operating at a specific bandwidth, but these tags may not be allowed in certain countries that use those bandwidths because they may interfere with systems used in other sectors such as in military or medical devices.

The four bandwidths are Low Frequency ("LF", 125-134 kHz), High Frequency ("HF", 13.56 MHz), Ultra High Frequency ("UHF", 860-960 MHz), and Microwave Frequency (2.45 GHz and 5.8 GHz). RFID solution providers would choose to use different frequency bands depending on the application it will be used for. For example, LF bands would be a better frequency to use in environments with metals and liquids. UHF bands would be used when solution providers require a good balance between reading distance ranges and the ability to read multiple tags at speed.

The frequency spectrum and power of RFID systems are regulated by the telecommunication or information ministries in each respective country. For example, the Australian Communications and Media Authority (ACMA) only allows the use of UHF RFID readers transmitting up to 4 watts effective isotropic radiated power (EIRP) which is more robust and performs better as the power output is increased, and brings the country in line with international practices. This could lead to a significant increase in the adoption of UHF RFID in Australia. In the Philippines, the National Telecommunications Commission (NTC) has assigned the maximum effective radiated power for RFID readers between 500 milliwatts and 2 watts. The Malaysia Communications and Multimedia Commission (MCMC) in Malaysia regulate these frequencies in the country. The operation of RFID equipment operating in the UHF band must be within the 866-869 MHz or 919-923 MHz.

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Examples of UHF Regulations (Asia Pacific)

Country	Frequency	Regulator
Australia	920 to 926 MHz	Australian Communications and Media Authority (ACMA) International Radio-communications
China	840.5 to 868 MHz, 920.5 to 924.5 MHz	Ministry of Information Industry
Hong Kong S.A.R.	865 to 868 MHz, 920 to 925 MHz	Office of the Telecommunications Authority (OFTA) of the Hong Kong S.A.R.
India	865 to 867 MHz	Telecom Regulatory Authority of India
Japan	952 to 954 MHz	International Affairs Department, Telecommunications Bureau
Malaysia	866 to 869 MHz, 920 to 925 MHz	Multimedia Communications and Multimedia Commission (MCMC)
New Zealand	864 to 868 MHz	Ministry of Economic Development
Singapore	866 to 869 MHz, 920 to 925 MHz	InfoComm Development Authority (IDA) of Singapore
South Korea	908.5 to 910 MHz	Korea Communications Commission
Taiwan	922 to 928 MHz	Ministry of Information and Communications (MIC)
Thailand	920 to 925 MHz	National Telecommunications Commission (NTC)
Vietnam	866 to 869 MHz, 920 to 925 MHz	Ministry of Posts and Telematics

Note: This list is not exhaustive.

Source: Extracted from the IMR report prepared by Frost & Sullivan

Thus, RFID solution providers who want to provide systems in different countries will need to ensure that their solutions will be able to operate within the regulated frequency spectrums as controlled by these national telecommunication authorities.

Apart from the laws and regulations that govern the use of RFID systems, there are also standards that have been developed to regulate the deployment of RFID systems.

It needs to be noted that the developers of many of the early RFID solutions deployed these systems using proprietary technologies which may have used a unique method for communication. This lack of standardisation resulted in industry fragmentation, slow adoption, and slower growth of the RFID market. With the lack of standards, compatibility issues have continued to persist and have deterred growth in the industry due to the occurrence of interoperability issues.

To counter the many different ways that RFID can operate, some RFID end-users have begun mandating that their suppliers follow a pre-set operating criteria so that suppliers of RFID systems would be able to communicate with the end-user's systems. For example, in 2008, the global retail corporation Wal-Mart issued an RFID tagging mandate that its suppliers had to follow when shipping products to its distribution centres. Wal-Mart imposes penalties on its suppliers whenever a pallet delivered does not comply with the tagging requirements and potentially delays or disrupts the distribution of goods within the distribution centres. Being a substantial player in the retail industry, Wal-Mart has enough global clout to affect how its suppliers operate.

To correct this practice and allow RFID solutions to gain greater acceptance and adoption, RFID industry players are now rectifying this situation by formalising RFID standards that define the parameters of an RFID system deployment in different application settings. Additionally, standards provide the general parameters of how tags, frequencies, and software can be deployed and operated in different countries, locations, and applications.

These standards are developed and published by several bodies including the International Organisation for Standardisation (ISO), International Electrotechnical Commission (IEC), American Society for Testing and Materials (ASTM), DASH7 Alliance, Electronic Product Code (EPC) Global.

Many RFID companies and organisations continuously work closely with standards bodies to develop a framework for RFID systems, and ensure that issues due to the lack of standards are addressed. These standards are still being developed, and many of these standards are co-developed jointly by several organisations as follows:

Examples of Organisations that Develop Standards (Global)

Organisation	Standard
ISO	Develops standards that deal with the RFID for item management, for example the reference architecture and definition of parameters to be standardised, the standards for RFID air interface communications below 135 kHz and RFID air interface communications at 2.45 GHz.
EPC Global	Developed the EPCGlobal Gen 2 protocol which has been adopted by the ISO 18000-6C which proposes how tags and readers communicate in the UHF spectrum.
EPCIS (EPC Information Services)	EPCglobal leads the development of industry-driven standards framework to support the use of RFID. Among the components of this standards framework is Electronic Product Code Information Services or EPCIS which is a standard that dictates how information is shared through RFID systems. The information shared basically answers the *What, Where, When,* and *Why* of events occurring which relate to time, location, disposition and business step of each event that occurs during the life of the tagged object. Tags, readers and middleware which are EPCIS compliant will be able to seamlessly share information based upon a standard format across organizations and borders. A standard platform for communication provides important capabilities to improve efficiency and visibility in the global supply chain.
DASH7 Alliance	Develops the ISO/IEC 18000-7 standards for wireless sensor networking operating in the 433 MHz frequency spectrum, interoperability of DASH7 devices, and the licensing of DASH7 trademarks.

Source: Extracted from the IMR report prepared by Frost & Sullivan

While these bodies themselves do not enforce the law, many of the published standards do become standard operating norms for many devices and some may eventually be incorporated into the law to regulate industries.

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Below is a list of standards related to RFID technology:

Examples of ISO Standards related to the RFID Industry		
Standard	**General Title**	**Title**
ISO 14223-2:2010	Radiofrequency identification of animals	Advanced transponders
ISO 18185	Freight containers	Electronic seals
ISO 668:1995	Series 1 freight containers	Classification, dimensions and ratings
ISO/DIS 18186:2010*	**Freight containers**	**RFID cargo shipment tag system**
ISO/IEC 18000-1:2008	Information technology	RF identification for item management
ISO/IEC 18000-6:2004	Information technology	RF identification for item management
ISO/IEC 18000-7:2009	Information technology	RF identification for item management
ISO/IEC TR 18046:2006	Information technology	Automatic identification and data capture techniques
ISO/IEC TR 18047-6:2008	Information technology	RF identification device conformance test methods
ISO/TS 10891:2009	Freight containers	Radio frequency identification (RFID)

* Smartag was involved in the drafting of this standard as the Malaysian representative of the Malaysia Department of Standards to the ISO technical committee called TC 104: Freight Containers to participate in discussions and meetings. TC 104 is an international technical committee under ISO to set standards on all aspects relating to freight containers including how the system will work, physical attributes, design, terminologies used, container handling equipment used, container markings and electronic tagging and identification of containers. ISO18186:2010 is an international standard which describes the parameters of RFID-based systems for freight container logistics in order to improve transparency and efficiency of cargo shipment.

Note:

ISOs are typically labelled as a series of alphabets to indicate the source of the standard and additional information about the standard. For example, an ISO developed with the IEC is prefixed with "ISO/IEC". A draft standard prefixed with ISO/DIS standards for an ISO that is a draft, namely the "Draft International Standards". The ISO/TS signifies that it is a "Technical Specification". The ISO/IEC TR indicates that it is a "Technical Report" for the ISO/IEC. The ISO number (typically in 5 digits for RFID related standards) may be followed by additional numbers to indicate the version and year of the Standard. For example, the ISO/IEC 18000-7:2009 signifies that this is the 7th part of the ISO/IEC, and that it was published in 2009.

Source: Extracted from the IMR report prepared by Frost & Sullivan

While these standards apply globally, the appropriate ISO would have to be selected for use in different countries according to the regulations that govern the RF spectrum in use in those countries. For example, in Malaysia, all RFID users would have to conform to ISO standards that meet the regulations as set by the Malaysian Communications and Multimedia Commission (MCMC).

1.5. RFID Application

RFID enable users to identify individually tagged assets, to grant access for personnel with tags to authorised areas, and other types of resource management applications. The strength of the technology is that assets tagged with RFID can be tracked and traced without direct contact to the asset. A contactless system makes reading and collection of data substantially quicker compared to traditional technologies such as the barcode system where contact is required between the reader and the tagged asset.

To track an asset means to locate the asset to find out the status of the tracked item, such as its location and time when it reaches a designated location, and keep a record of where it has been in the past (i.e., at authorised or unauthorised places). This is useful when users need to find out if an asset that is being shipped from one location to another reaches a destination on time. To trace an asset means to find out where the asset has been and what processes (e.g., manufacturing, testing, customs clearance, etc.) it has undergone, and whether those processes are planned or unplanned. This track and trace feature on RFID systems thus improves the visibility of the supply chain.

Examples of RFID Applications

Applications	Usage
Security asset tracking and access control	Office/ residential building access control and security, library applications, shoplifting prevention, car immobilisers, vehicle tracking/ identification, license plates, parking, airline baggage
Transportation	Traffic management- electronic toll collection, intelligent transport systems, ticketing, postal and courier
Supply chain management	Inventory management, warehouse management, raw material tracking, finished good tagging, cargo tracking
Healthcare	Medical equipment tracking, patient tracking, drugs tracking
Livestock	Tracking of animals, pets, cattle, meat, seafood
Other applications	Sports timing, prisoner tracking, document/ certificate tracking, cashless transactions in laundromats and gaming industry, public utilities such as street lamps and manholes

Source: Extracted from the IMR report prepared by Frost & Sullivan

RFID can be applied in many settings such as security asset tracking and access control, transportation, healthcare, livestock, supply chain management, and others (i.e., record management and securing personal assets and valuables).

1.6. Benefits of RFID

RFID offers real time asset track and trace capabilities. This translates to greater visibility of these assets in order to heighten security and safety levels to ensure that tagged items are not stolen or misplaced. Potential benefits, include:

Greater speed in product distribution

Companies may use RFID data to accelerate product distribution by identifying sales, tracking inventory, and eliminating distribution bottlenecks to improve business processes, such as reducing processing times through customs at ports of entry and exit. An RFID solution identifies assets just as other traditional identification systems do, such as barcodes. However, the advantage of RFID is that it enables reading of tagged items at long distances and this can be done contactless without the need to have a line of sight between the reader and the tagged object, whereas barcoded assets need to be in close proximity and have a line of sight to a reader, making RFID solutions speedier and more efficient.

Enhanced security

RFID tags help users track goods that move through their supply chain. This enhanced security measure will prevent or reduce theft and tampering, as well as to reduce the overall cost associated with loss prevention.

Better inventory and warehouse management

RFID improves inventory accuracy by reducing the time spent to manually read and scan barcodes on a shipment pallet to determine its content. This improves the overall delivery and reconciliation process.

For example, a business involved in distributing perishable food items may use RFID to better manage its inventory to ensure that perishable food items such as vegetables, seafood and beef are properly kept in cold storage rooms as it should be and to measure the length of time when the food items are out of the cold storage in order to assess the freshness of the food items.

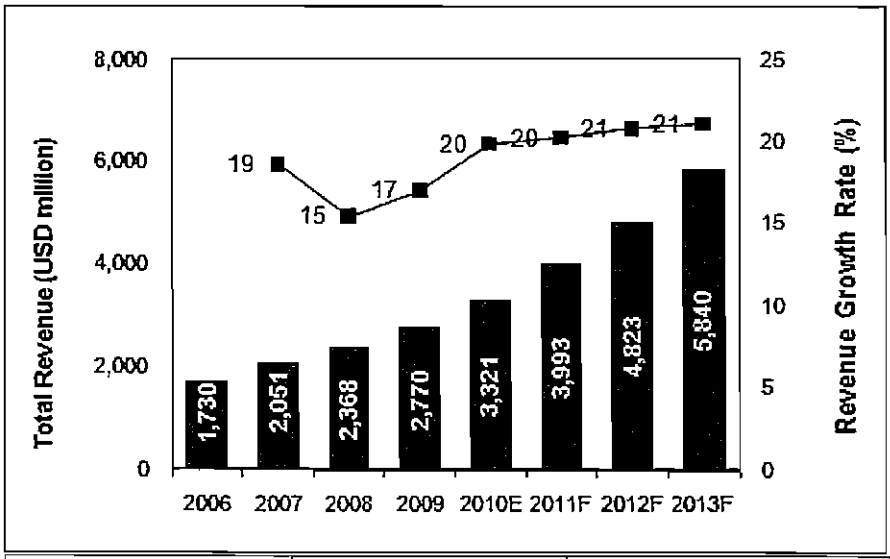
Businesses may also use RFID to determine whether its inventory levels, enabling the purchasing department to detect low inventory levels and automatically place orders for the inventory to be replenished. This maximises business opportunities and potentially increases margins.

2. Analysis of the Global RFID Market

2.1 Market Size and Growth Trends

The world RFID market, comprising tags, readers, and middleware, has grown from 2006 to 2010 with Compound Annual Growth Rate (CAGR) of 17.7 percent over the period. The global RFID market is predicted to continue exhibiting similar growth trends from 2011 to 2013. The global RFID market was valued at USD1.7 billion in 2006 and reached an estimated USD3.3 billion in 2010. The global market is expected to grow to USD5.8 billion in 2013, at a CAGR of 20.9 percent from 2011 to 2013.

RFID Market Size (Global), 2006-2013F.



Year	Revenue (USD million)	Revenue Growth Rate (%)
2006	1,729.5	–
2007	2,051.3	18.6
2008	2,367.6	15.4
2009	2,770.1	17.0
2010 E	3,320.6	19.9
2011 F	3,992.7	20.2
2012 F	4,823.2	20.8
2013 F	5,840.0	21.1
CAGR (2006-2010E)		17.7%
CAGR (2011F-2013F)		20.9%

E : estimated F : forecast

Source: Extracted from the IMR report prepared by Frost & Sullivan

The growth in the global RFID market is attributed to more RFID systems planned for deployment annually over the forecast period as interest and awareness towards RFID systems which enable complete visibility in supply chain management, security, asset tracking, and other application increase. Additionally, scalability of existing projects is getting larger, thus seeing increase in consumption of the tags and readers.

2.2 Market Drivers

The RFID industry is spurred by several market drivers. The main drivers are:

- Strong government support for the technology
- Standardisation of the technology enabling industry players to more systematically develop their solutions, especially in light of globalisation
- A wider range of applications that can use RFID
- Convergence of RFID technology with other automatic data capture techniques for improved security and tracking purposes
- Rising awareness about the technology among the business community and public sectors

Strong government support for the technology

While the North American region sees uptake mostly from the private sector with regards to RFID deployment, the scenario is slightly different in SEA and to a certain extent in the EMEA region.

Governments play a critical role to ensure the growth of RFID adoption. SEA governments directly fund initiatives or provide schemes in proof-of-concepts (i.e., developing prototypes) and pilot projects among end users to drive RFID adoption. Proof-of-concepts and pilot projects are a good way of educating end users on the potential benefits of adopting RFID and stimulating the growth of this technology.

The government plays a critical role to ensure the growth of RFID adoption. Several of these supportive measures include:

- Direct funding for vendor initiatives or subsidies to end users intending to leverage this technology.
- Encouragement schemes in proof of concepts and pilot projects.
- Continuous education that will enable a larger community of people to understand the real value that RFID brings to business enterprises.
- Using RFID for document tracking or asset management based-projects (internally), or for various ministry-run initiatives, such as animal tagging or library tracking.

More government-backed initiatives and deployments in APAC are expected to be rolled out in the next five years as interest in RFID technology grows in the region. Examples of government support can be seen across APAC. The Thai national agency NECTEC

systematically promotes RFID adoption in Thailand to improve animal identification, food tracking, and transportation management. Smartag has in the past few years, been recording healthy revenue from Thailand and in November 2010, signed a letter of intent with Netbay Co. Ltd (Netbay) for the implementation of its RFID solutions in customs land checkpoint in Thailand. Netbay is a provider of comprehensive online transaction services in Thailand for consumers, business entities and government entities. Among these services, Netbay is currently responsible for providing online transaction services to users that transport their merchandise across customs checkpoints under the purview of the Royal Thai Customs. Netbay's online services allow the users to conduct the necessary paperwork, license application and also make customs related payment electronically.

In Malaysia, industry stakeholders collaborated with government bodies to develop a roadmap to introduce RFID technology to end users. The Malaysian Communications and Multimedia Commission (MCMC) and SIRIM Berhad garnered insights from industry stakeholders in order to finalise a National RFID Roadmap at a workshop held in December 2009 that would be used to secure a RFID budget in the 10th Malaysia Plan in 2010. Under the Malaysian Economic Transformation Program launched in October 2010, Smartag was highlighted as one of the companies driving the industry through pilot projects in library and logistics, engaging in global standard-setting process and creating RFID application based on those standards and collaboration with local universities.

Singapore, through the Ministry of Trade and several other government-backed organisations, formed the National RFID Center with a goal to promote RFID innovation, which is aimed at providing end users a subsidised means to initiate RFID-centric projects within their enterprises in bids to further promote this technology's potential. Info-communications Development Authority of Singapore announced the new spectrum allocation and power limits for RFID usage in Singapore in the Ultra High Frequency (UHF) band, the first country in Asia to do so.

Programs have also been established in Japan and South Korea, with both governments promoting extensive research into RFID in order to keep track of their high-value assets. The government of South Korea is active in initiating funding for R&D, and for actual deployments. In Taiwan, cutting-edge products made by high-tech companies are gaining acceptance with increased government focus and an active role played by specialised support organisations such as the Ministry of Economic Affairs.

Considering this technology is still relatively nascent, only continuous education will enable a larger community of people to understand the real value RFID brings to business enterprises.

Efforts toward standardisation

As RFID solutions are being applied for different applications much more quickly than standards are being formalised, especially in light of globalisation, the compatibility of RFID from one solution provider to another continues as a potential issue to be addressed. The on-going

introduction of standards has ensured that solution providers worldwide will be able to follow guidelines defined by the standards to develop their RFID operating systems.

With standardisations taking effect, solution providers globally would be able to coordinate their solutions to follow an agreed upon set of operating parameters to enable their proprietary systems to be better integrated and perform seamless with other proprietary systems, and thus communication with the hardware and software become more structured and enables better interoperability.

Expanding Application Segments

Solution providers are able to adapt RFID technology to create an expanding suite of applications and solutions that are used to improved business processes and ultimately lead to cost-savings.

A host of new applications is increasing, with vendors conducting major research in order to adapt the technology into several applications in a wide range of industry sectors including oil and gas, mining, prisoner tracking, sports timekeeping, monitoring footballers' performance and is placed on many assets including jewellery, street lamps and manholes, casino chips and laundry. The expanding suite of applications demonstrates the adaptability and usability of RFID technology to users which serves as a driver for the adoption of this technology.

In more "traditional" application areas (i.e., security and access control, transportation, inventory management and supply chain management), which continue to grow, RFID is becoming increasingly prominent in track and trace applications for goods and cargo transported through land, sea and air.

Additionally, RFID is being applied in other areas such as patient tracking and drug monitoring. For example, the Balearic Islands Blood and Tissue Bank in Spain, Spanish-based Aifos Solutions, and Finnish-based Nordic ID Oy announced an RFID solution deployment to track and identify frozen blood products in its blood bank. Blood bags are typically labelled using barcodes labels that would need to be scanned individually. Sometimes bags would have multiple barcode labels that identify different characteristics of the blood type (e.g., red blood cell, plasma, platelet, etc.). Each barcode label would have to be scanned individually to identify a suitable blood bag for a patient. Additionally, these blood bags are packed in the thousands in crates that are stored in freezer facilities. Using barcodes to search for a particular blood bag can be time-consuming and does not lend itself well to time critical industries such as hospital care of patients. The system RFID will allow the blood bank to quickly identify the correct blood bag so that it can be sent to the hospital to treat a patient. The blood bags with the correct blood characteristics that a patient needs can be identified without needing to open up crates of blood bags and individually scanning each bag.

Convergence of Technologies

The increased acceptance of RFID depends on its ability to coexist with other automatic data capture techniques. The integration of technologies is increasingly gaining significance, to ensure complete safety and the inclusion of more applications in one system enabling a new set of applications when combined with passive and barcode solutions. This will enable organisations to enhance existing data solutions to use RFID technology.

Integration between CCTV for security and RFID is likely to be used in applications for security. Other integration technologies include convergence of RFID with contactless smart cards which uses the RF to communicate with security systems, the convergence of RFID to the Global Positioning System (GPS) allows the RFID to provide Real Time Location System (RTLS), and other control systems.

Rising Awareness Levels

Many auxiliary bodies and associations are providing training programs in order to educate personnel about the benefits of RFID, especially how RFID technology can improve business processes. Some of these bodies include the RFID Business Association (RFIDba), American RFID solutions, and EPCGlobal, which have a presence in key APAC countries. The Logistics Institute in Singapore and Info-communications Development Authority of Singapore are also among the key bodies promoting RFID.

In Malaysia, the MCMC and Federation of Malaysian Manufacturers (FMM) are also promoting RFID use in Malaysia. For example, the FMM is a member of the GS1 which is an international organisation that promotes GS1 standards of tracking products by RFID and other systems such as barcoding. The GS1 works with EPCGlobal to develop standards for tracking assets using EPC-related standards, which can be used by RFID-technology. The FMM is also working with an international joint trade and industry body called Efficient Consumer Response (ECR) that promotes the removal of unnecessary costs in the retail supply chain, which includes the use of RFID to move trade goods in all sectors[1].

On 5 October 2010, Smartag signed an MoU with GS1 Malaysia which was formed under the aegis of FMM to develop, promote, and sustain the usage of technology standards especially in relations to the EPCIS and RFID among the various stakeholders within a supply chain especially members of the FMM. The Federation of Thai Institutes promotes the use of RFID in Thailand through its association with GS1 Thailand and the RFID Institute of Thailand[2]. Western Digital in Thailand and the Royal Thai Customs has started using RFID system to expedite their shipment customs clearance processes to speed up delivery of their goods As stated earlier, Smartag has signed a letter of intent with Netbay in Thailand for a potential

1 http://www.ecrap2010.org/ - FMM plans to host ECR in Kuala Lumpur at the 12th Efficient Consumer Response Asia Pacific Conference between October 4 and October 6, 2010, at the Crowne Plaza Mutiara, Kuala Lumpur, Malaysia.

2 http://www.fti.or.th/2008/eng/ftiinstitute.aspx?id=25

partnership in providing RFID solutions in key land checkpoints in Thailand. As more RFID pilot programs and solutions, such as this Western Digital operation, are successfully deployed then it serves as a demonstration to other organisations in Thailand and in other countries how RFID can be used to promote better operating efficiencies and more stringent security access in various settings, such as in library management, goods distribution, warehouse optimisation, and livestock management.

As such, it is expected that the private and public sectors in APAC will be gain a wider knowledge of the emerging RFID ecosystem and how this technology can be evaluated and used to benefit their enterprises. With increasing public and private sector investment and rising awareness levels, the RFID market in APAC is likely to show tremendous growth in the future.

2.3 Market Restraints

There are several restraints that impinge upon the industry. The main market restraints are the

- Relatively high cost of RFID compared to simpler tracking systems,
- Back-end integration issues
- Privacy and security concerns

Relatively High Cost of RFID

The initial costs required for hardware (tags and readers) and software may require an enterprise to upgrade its networks and storage infrastructure. The implementation cost also varies from one project to another, depending on the project size and the application for which it is used.

Many companies decide against RFID implementation due to the risk of achieving poor return on investment (ROI). Many enterprises still find investing in this technology challenging due to the initial investment cost, regardless of the benefits they will achieve in the long term. This, coupled with other miscellaneous costs, can be a steep investment for many smaller organisations. Companies need to determine types of services they need and the future ongoing costs, when calculating their RFID budgets.

At present, the cost of tags and readers is high compared to other traditional identification systems, such as barcode. Although the price of RFID hardware has been gradually decreasing, given the volume of the tags and readers used, the cost is still high for many applications. The cost of tags is dependent on the quantity and type of tag. However, other factors, such as the type of IC used, the antenna size and antenna composite materials, manufacturing method, the amount of testing, and whether it is a wet or a dry inlay, also affect overall cost and performance of the tag. The cost of readers also varies based on the read range required, the intelligence of the readers required to read the information on the tags, and

the ability to read multiple tags at one go - be it passive or active tags, while the cost of software solutions will vary depending on the extensiveness of the features to be implemented in the solution.

The overall cost of this technology is likely to require another four to eight years of reduction due to economies of scale for SMEs to consider widespread RFID deployment. Before vendors and retailers can adopt the technology, uncertainty regarding standards, high capital costs, and system integration issues need to be addressed.

Back-end Integration Issues

Although there have been significant improvements in the field of RFID with regards to standards and innovations to make this technology more robust to meet the various needs of the end user, its integration with back-end systems still poses a challenge. Integration issues exist when tying RFID systems with the existing legacy back-end system, such as enterprise resource planning (ERP), customer relationship management (CRM), and warehouse management system (WMS), especially in medium- and large-scale deployments.

The major reasons for the lack of compatibility of RFID technology with the various back-end systems is the requirement of a very high level of technical competency to ensure seamless integration is achieved. To resolve or minimise issues related to integration with back-end systems, companies have begun developing ERP, WMS, CRM and other such systems with RFID-supporting capabilities. Likewise, solution providers deploying RFID projects have improved their overall skill-sets with added experience and exposure of past projects, besides enhancing their technical competency by attending specialised trainings or hands-on sessions conducted by training institutions focused in RFID-related technical training. Similarly, several certifications such as the CompTIA RFID+ have been introduced in recent times to promote and acknowledge technical competency among the RFID workforce.

Additionally, some middleware modules or applications still lack proper scalability potential, and this is likely to be a challenge for end users and solution providers to integrate the system with a back-end system as the scale of the project grows.

Privacy and Security Concerns

The privacy concerns raised by people will slow down the implementation of RFID in consumer products. Many companies intending to embark on an RFID deployment are apprehensive about the data integrity or lack of security present in protecting data from unauthorised personnel.

While privacy and security-related issues pose a genuine threat to RFID deployment, there actually have been several innovations in recent times to protect end users and the public alike. The major one is the password protection feature with higher encryption levels, which makes it more difficult for unauthorised personnel to gain access to confidential information.

Moreover, most of the general tags used in the market have been designed to hold limited useful information with a unique identification (ID), which is similar in concept to a car number plate. Without having access to the back-end database system, a unique ID does not hold much value to the information it carries.

Other features include the 'kill' feature that makes the tag totally inoperable once it passes the point of sale. In order to strengthen the networks transferring the information, RFID stakeholders have additionally developed protocols such as the EPCIS with aims of securely transferring RFID data or information in real-time among business partners. This is especially useful for open loop systems where suppliers, manufacturers, distributors, and third-party logistics (3PL) providers may transfer RFID information among themselves.

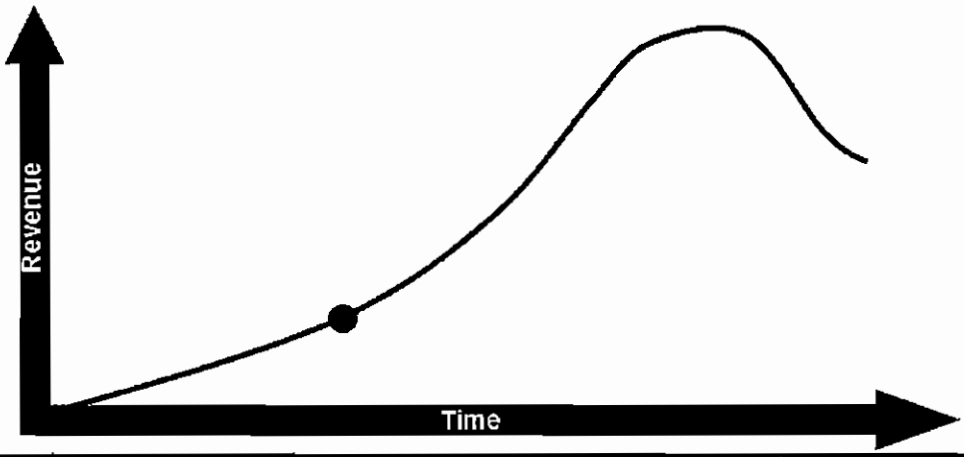
Additionally, the EPCIS protocol, which Smartag has adopted, was released to help companies to securely transfer RFID related data in real time among business partners located along the supply chain but with enhanced security for end users. As RFID becomes more pervasive, stakeholders will need to ensure that privacy and security is always a top priority.

2.4 Industry Lifecycle

The market lifecycle of the RFID hardware and middleware technology is in its early to middle stages of growth, whereby RFID technology has proven itself to be a practical solution that can be applied to various applications and traction of the technology is expected in the near future. Globally, the growing RFID market is led by North America, followed by Europe. The market in Asia Pacific is still in its early growth stages.

The success of the RFID market is reliant on the successful deployment of RFID solutions by solution providers to meet the needs of the end users in a cost-effective manner. Price sensitivity, especially in Asia Pacific, is high considering there are a considerable number of vendors in this relatively nascent and small market, particularly for hardware such as tags and readers. Price sensitivity is expected to increase over time with more vendors entering this market to support this growing demand, with many vendors looking at this region as a potential hot-bed for RFID initiatives over the coming years. However, the provision of services such as middleware is less susceptible to price competition.

Industry Lifecycle of the RFID Market (Global), 2010.



	Introduction	Growth	Maturity	Decline
Users/ buyers	Few – Trial of early adopters	Growth adopters – trial of product/ service	Growing selectivity of purchase	Saturation of users Drop-off in usage
Competitive Conditions	Few	Entry of competitors Fight for market share Undifferentiated products/services	Likely price cutting for volume gain Shake-out of weakest competitors	Fight to maintain share Difficulties in gaining/taking share Emphasis on efficiency/low cost Exit of some competitors

Source: Extracted from the IMR report prepared by Frost & Sullivan

Customer satisfaction and loyalty will develop as solution providers differentiate themselves by being able to deploy their RFID solutions successfully, gain a reputation for reliability, demonstrate cost improvements in business operations of the RFID deployment, display scalability in their solutions, and continue to improve the features and functionalities of their solutions.

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2.5 Product Substitution

RFID is without doubt technologically superior to similar tracking technologies, such as barcodes, as it offers greater levels of security, readability, data capture and wide scale deployment. While RFID technology per se has no direct substitute, but the functional applications of the RFID technology in keeping track of assets and reducing shrinkage may be indirectly substituted by other products such as barcodes and biometric technology.

Barcodes have been used as a relatively basic and cheaper form of tracking assets, despite its limitation compared to RFID technology which can incorporate better features to enhance the overall tracking performance of an asset with faster read rates, read and write capability, security and durability. The number of companies that have a preference for substitute technology such as barcodes is still relatively high due to its is relatively cheaper price. As the cost to implement RFID technology reduces over time, it is expected to be adopted as the technology of choice among end users in the key application segments.

Contactless smart cards can also serve as substitutes to RFID in applications such as transportation and physical access control, where interaction between the smart card and the reader is limited to 10cm.

2.6 Reliance and Vulnerability to Imports

An RFID system consists of tag, reader and middleware. There are many companies operating in SEA that manufacture or resell components of the RFID system. These resellers and manufacturers include Malaysian players such as (in alphabetical order) Auto ID Technology Sdn. Bhd. which is a reseller of tags, readers, antennae, and UHF inlays, EA MSC Sdn. Bhd., (manufacturer of tags and readers) and MAYALYS Sdn. Bhd. (R&D and marketing of active RFID technology for e-payment systems).

Since there are many suppliers for RFID hardware in the region, these components are therefore widely available in Malaysia, Singapore, Thailand and other SEA nations. Hence, the reliance on imports into the region is insignificant.

In the event that a specially designed RFID component might need to be imported into the region by a solution provider, then any supply disruptions would only be temporary and cause delays in deployment time because the design of the RFID component may be given to another component manufacturer and replace the previous supplier.

2.7 Technology Trends

There are several trends observed in the RFID industry, namely in tag technology, standards development, and frequency ratification.

Research in technology is increasing battery lifespan that allows smaller batteries to generate more power in active tags. There is also increasing convergence in different tag types where tags can operate on multiple frequency bands, use multiple protocols, and be used as active and passive tags.

With regards to standards development, several standards have been approved such as the ISO18000-7 for active tags and ISO 18186 that aims at improving compatibility and interoperability between different hardware and software, specifically, it describes how "freight container logistic transparency can be improved through the use of an RFID cargo shipment tag system and an Internet-based software package"[3]. The ratification of the use of specific frequency bandwidths in different countries is also helping RFID industry players better set up the operational parameters within their RFID solutions so that their solutions can operate in multiple countries.

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[3] ISO/DIS 18186

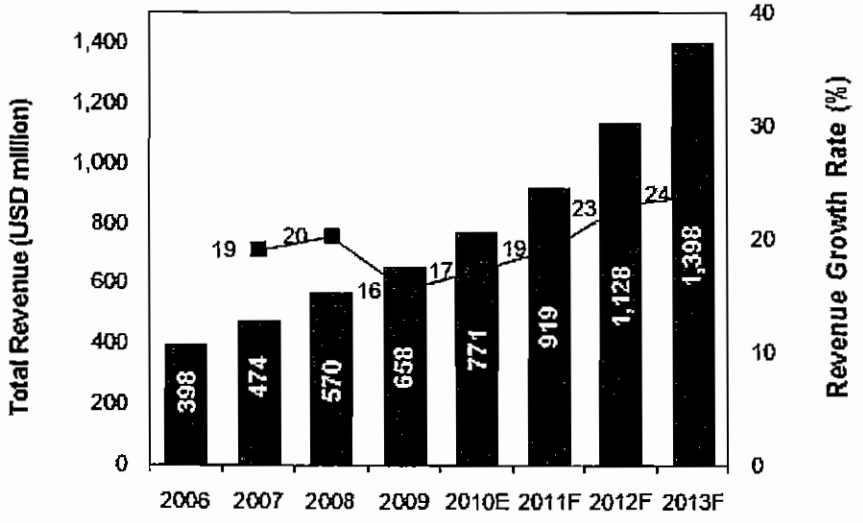
3. Analysis of the RFID Market in Asia Pacific

Market Size and Growth Trends

The APAC RFID market was estimated at USD398.1 million in 2006 and grew at a CAGR of 18.0 percent to reach an estimated USD771.4 million in 2010. The market is expected to grow to approximately USD1,398.2 million by 2013 with a CAGR of 23.3 percent between 2011 and 2013.

Moving forward, the market is expected to continue to improve, despite lower growth rate in 2009 as industry players took measures to protect themselves from the economic slowdown due to the global financial crisis as many end users were forced to tighten budgets on technology-related investments, including RFID.

Estimated RFID Market Size (APAC), 2006-2013.



Year	Revenue (USD million)	Revenue Growth Rate (%)
2006	398.1	--
2007	473.9	19.0
2008	569.7	20.2
2009	658.3	15.5
2010E	771.4	17.2
2011F	919.0	19.1
2012F	1,128.2	22.8
2013F	1,398.2	23.9
CAGR (2006-2010E)		18.0%
CAGR (2011F-2013F)		23.3%

E : estimated F : Forecast

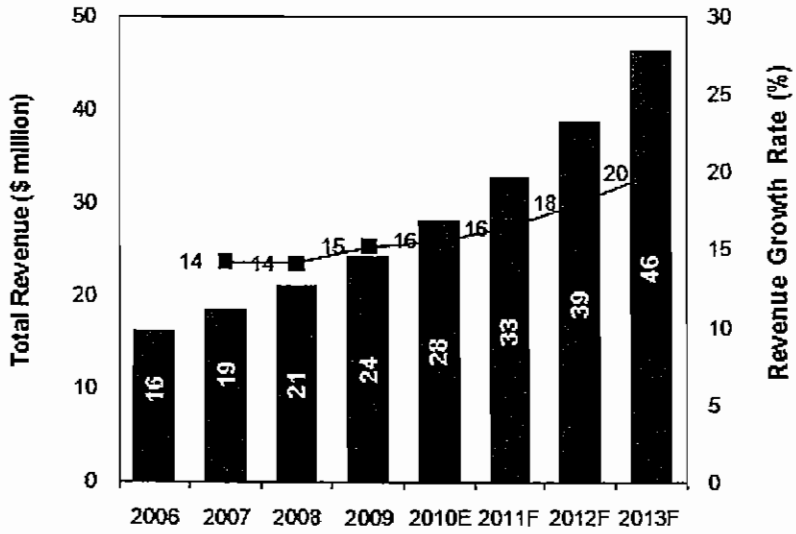
Source: Extracted from the IMR report prepared by Frost & Sullivan

4. Analysis of the RFID Market in South East Asia

Market Size and Growth Trends

The RFID market in SEA has been growing steadily over the last four years. Historical growth rate was mainly spurred by government initiatives. The market grew from approximately USD 16.2 million in 2006 to an estimated USD 28.1 million in 2010, at a CAGR of 14.8% during this period.

Estimated RFID Market Size (SEA), 2006-2013.



Year	Revenue (USD million)	Revenue Growth Rate (%)
2006	16.2	--
2007	18.5	14.2
2008	21.1	14.1
2009	24.3	15.2
2010E	28.1	15.6
2011F	32.7	16.4
2012F	38.6	18.0
2013F	46.3	20.0
CAGR (2006-2009)		14.8%
CAGR (2011-2013) F		19.0%

E : estimated F : Forecast

Source: Extracted from the IMR report prepared by Frost & Sullivan

Future growth in SEA is expected to outstrip historical growth as research and development for new applications is also a driver for market growth, and pushes annual revenue growth rates higher than it was between 2006 and 2010. The anticipated CAGR for RFID in SEA is expected to be approximately 19.0% from 2011 to 2013, and industry revenue reaching an estimated USD 46.3 million at the end of this period. The private sector is expected to contribute more heavily to the future growth of the industry in SEA with the respective governments having paved the way for this technology much of the last decade. The key application segments in SEA are in security and access control, transportation and supply chain management.

There is high potential for the development of newer RFID applications, where vendors need to show uniqueness and innovation as well as provide appropriate solutions to end users. A key area of growth in RFID in SEA is security, supply chain management and transportation applications. The success of RFID pilot programs will encourage greater deployment of RFID systems across SEA. To continue improving this trend, companies need to work with IT experts to develop more cost-effective ways to manage data and integrate it with back-end systems.

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5. Analysis of the RFID End User Applications

5.1 Introduction

Globally, the key end-users of RFID technology include supply chain management security and access control, and transportation. Other smaller but growing application areas are in sports and payment solutions.

In 2009, Security, Asset Tracking, and Access Control applications comprised of the largest application with revenues totalling USD 207.7 million in APAC totalling 31.6% of the total market size in tags, readers, and middleware. The CAGR of between 2006 and 2009 is estimated to be approximately 13.4 percent. The market size of this application is expected to reach USD337.4 million by 2013.

Transportation RFID applications was estimated to have grown from USD88.8 million in 2006 to USD140.7 million in 2009, and forecast to reach approximately USD271.1 million in 2013, with a CAGR of 16.6 percent between 2006 and 2009, and a stronger CAGR of 19.0 percent between 2010 and 2013. This segment captured about 21.4 percent of the total RFID market in 2009.

The market of RFID applications in supply chain management systems is the fastest growing application segment in the market, recording a CAGR of 25.2 percent between 2006 and 2009, with a stronger CAGR forecast of 37.1 percent between 2010 and 2013. The market size for RFID in supply chain management applications grew from about USD36.3 million in 2006, more than doubled in 2009 to reach approximately USD71.2 million and is expected to reach USD234.7 million in 2013.

The use of RFID in healthcare and livestock applications are relatively small compared to the size of the other applications, capturing 8.3% and 12.6% of the total RFID market respectively in APAC in 2009.

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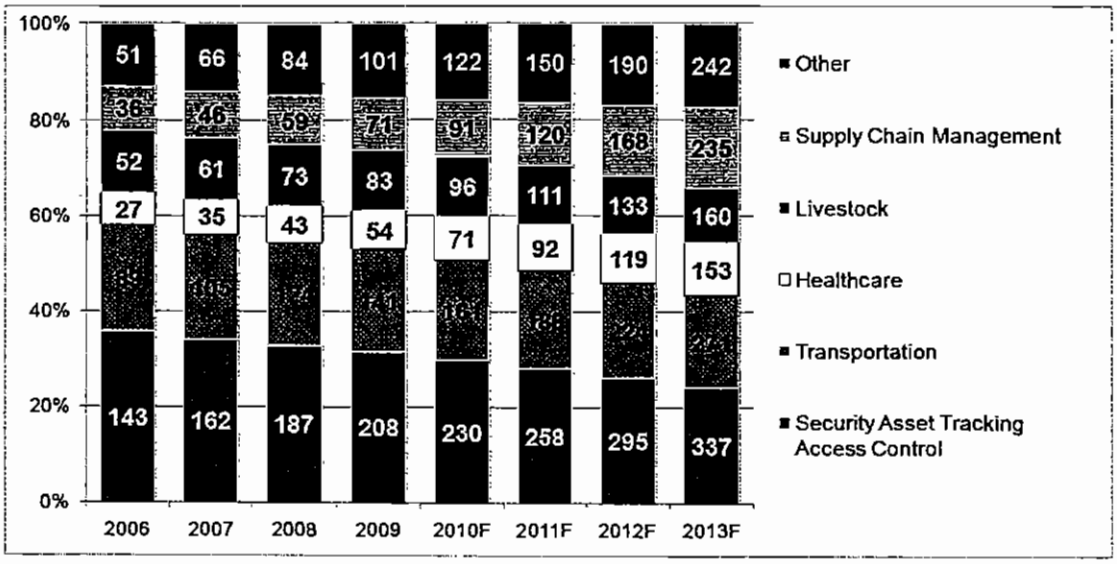
Estimated Percentage of Revenues by Application (APAC), 2006-2013.



Year	Revenue (USD million)						
	Applications	Security Asset Tracking Access Control	Transportation	Healthcare	Livestock	Supply Chain Management	Others
2006		142.5	88.8	27.3	52.0	36.3	51.1
2007		161.8	104.6	34.8	61.0	45.8	66.0
2008		187.2	123.7	43.3	72.6	58.7	84.3
2009		207.7	140.7	54.4	82.9	71.2	101.3
2010F		230.0	160.8	71.2	96.1	91.1	122.2
2011F		257.6	188.0	91.5	111.4	120.1	150.2
2012F		295.0	223.9	118.6	132.7	167.8	190.3
2013F		337.4	271.1	152.9	160.2	234.7	241.9
CAGR (2006-2009)		13.4%	16.6%	25.8%	16.8%	25.2%	25.6%
CAGR (2010-2013) F		13.6%	19.0%	29.0%	18.6%	37.1%	25.6%

Note: Figures include RFID tags, readers and middleware. Excludes system integration services.

Source: Extracted from the IMR report prepared by Frost & Sullivan

5.1.1 Security, Access Tracking, and Access Control

Today, RFID technology is perhaps most widely used in security and access control applications. It is expected to continue exhibiting strong growth in Asia, but has started to show signs of saturation in North America and Europe where future growth will be relatively stable. It is used largely for building access, employee identification and home security. Government sectors such as the US Department of Defence have deployed RFID to track shipments of military supplies to enhanced national defence and border security.

Several pilot programs are also being launched in airports and sea ports to heighten security measures from terrorist threats. Other areas of security include the prevention of misplaced and tampered baggage as well as theft.

Globally, there is always an increasing need for security globally for government, private enterprises, airports and other institutions. Hence, this application will continue to register steady growth in the future, mainly driven by private enterprises on the need of employee IDs for access control.

The APAC RFID market revenue for security, access tracking and access control application was approximately USD 142.5 million in 2006, increased to approximately USD 207.7 million in 2009, with a CAGR of 13.4 percent in the same period.

5.1.2 Transportation

The various usages in transportation applications include electronic toll collection, traffic management, cargo tracking, loading docks, and postal and courier services. Transportation is deemed to be one of the most important RFID applications because it speeds up cargo traffic, distribution and delivery of goods. For example, RFID is being used worldwide in toll collection due to the rapid increase in toll lane capacities. The ITS (Intelligent Transportation Systems) in the United States and Canada are in the efforts of standardising interoperability which aims to improve toll collection efficiency and road safety.

The APAC RFID transportation market was estimated to be worth approximately USD88.8 million in 2006 and expected to reach USD140.7 million in 2009, at a CAGR of over 16.6 percent between 2006 and 2009.

5.1.3 Livestock

The use of RFID technology for animals, food, and farming will benefit the food supply chain in a number of ways, including livestock disease control and merchandising prepared food. The market is mature in Australia and New Zealand. The governments in these countries have also been very active in mandating tags for all cattle and pets, with the application being mainly tag intensive. The National Livestock Identification System (NLIS), which is an enhancement of the tail tag and the National Vendor Declaration (NVD)

system that were used earlier, is an animal identification system allowing individual animals to be traced from birth to slaughter.

Designed to improve traceability, enhance food safety, and ensure product integrity, it also helps to allow and sustain international market access. A centralised database, maintained by Meat & Livestock Australia (MLA), contains all individual animal trace-back records for the entire country. RFID technology also assists in the prevention of diseases such as SARS and mad cow, the reduction of the overall costs of controlling the diseases and at the same time increasing consumer confidence with the products. Another livestock tagging trial in Hunan Province in China includes tagging pigs where the market potential is 500 million pigs, triple that of any other nation. RFID tags are to be mandatory as of April 2009 in South Korea, following current pilots by the local governments. They will be injected into the pet's' skin, and will contain information about the animal, as well as its owner.

The APAC RFID market revenue for livestock applications was worth approximately USD 44.5 million in 2006, estimated to reach USD 72.6 million in 2009, and is forecast to reach approximately USD 132.7 million in 2013, with a CAGR of 16.8 percent in the 2006 to 2009 period, and a CAGR of 18.6 percent between 2010 and 2013.

5.1.4 Supply Chain Management

RFID is becoming more popular in this application as it generates interest among retailers because of its benefits. RFID tagging can replace manual labour that might have been spent on inventory counting from retail shelves and stockrooms. As a result, RFID ROI is much higher especially for retailers that deal with large volume of goods. As RFID is used, the potential ROI improvements from productivity improvements lead to reductions in labour cost and supply chain errors. Giant retailers such as Wal-Mart, Tesco, Target, and Marks and Spencer have even instructed their key suppliers to begin tagging goods with RFID at different levels for supply chain optimisation, and this cascades RFID use down the retail industry.

RFID in this application enables retailers, suppliers and distributors to have visibility over their inventory and shipment process and location. The growth in RFID usage in supply chain management application is promising, driven by demand for more efficient processes and accuracy in inventory and materials management control.

The market is the fastest growing application segment in the APAC RFID market, recording a CAGR of 25.2% between 2006 and 2009, with a stronger CAGR forecast of 37.1% between 2010 and 2013. The market size grew from about USD36.3 million in 2006, reach approximately USD71.2 million in 2009 and is forecast to reach USD234.7 million in 2013.

Smartag is actively involved in the implementation of RFID solutions in supply chain management, positioning itself well in the fastest growing segment of the RFID market in APAC.

5.1.5 Other Applications

The other applications in this context refer to sports timing, automatic data collection, payment data collection, record labels and many more. Sports timing application is used for timing athletes during a sports event. For instance tags are embedded onto an accessory worn by the athlete (shoe laces/anklets) whereby readers are placed to check respective ID of the players from the tag and provides information on the time the players reach the finish line. Netherland-based company ChampionChip is a prominent RFID player in this application. RFID can also be used in credit cards as well whereby the tag in the payment card will hold an ID that will be read by the reader and passed onto the payment application.

The other RFID applications market in APAC recorded revenues of approximately USD39.6 million in 2006,was estimated achieve a revenue of USD84.3 million in 2009, and is forecast to reach USD190.3 million by 2013, at a CAGR of approximately 25.6 percent between 2006 and 2013.

5.2 Overview of the Supply Chain Management and Logistics Industry

The global supply chain and logistics industry involves the movement of goods from one location to another by air, land, and sea transportation.

The volume of goods flowing between the Americas, APAC, and Europe exceeds a billion tons a year and the movement of these goods is tracked whether it travels by air, land, or sea. In APAC, the volume of goods is expected to increase from about 210 million TEUs in 2006 to about 327 million TEUs by 2013 (CAGR 2006-2013: 6.5%).

The busiest 15 APAC container ports in 2009 includes Singapore, Shanghai (China), and Hong Kong (China SAR) as well as Busan (South Korea), Klang (Malaysia), Tanjung Pelepas (Malaysia), and Laem Chabang (Thailand). The top 15 ports in APAC recorded about 160 million TEUs in 2006 and is estimated to increase to about 248 million TEUs by 2013 (CAGR 2006-2013: 6.4%).

When transportation and logistics is efficient, then supply chain management can be improved. Supply chain managers move their goods through containers worldwide.

6. Competitive Landscape Analysis (APAC)

6.1 Competitive Landscape

Many RFID solution providers provide several RFID services including hardware and middleware. Middleware in an RFID system is generally considered as software for the system. The basic role found in all middleware systems is to filter and manage tag data. Extended functionality varies from different middleware solutions and can include the business logic applications, analysing data in some way, sensor and device management of assets, event processing, and simulation.

There are over 30 companies in APAC with some form of expertise in developing middleware solutions. This number includes companies with pure software expertise or solution providers that have the capability to develop their own middleware solutions but also provide hardware or other front-end or back-end services.

To compete in this highly dynamic environment, solution providers that provide middleware need to continuously develop solutions that have sufficient features and functionalities to support not only simple RFID systems but also more complex systems in bids to remain profitable and sustainable over the long term. These systems need to be flexible, adaptable and be able to function with the variety of readers and tags available in the market, and also to provide the necessary after-sales support to ensure good service. Companies that are not able to offer sufficient capabilities in their middleware portfolio are expected, eventually, to be phased out considering that competition is increasing over time. In order to reach a wider market pool, middleware solutions vendors are likely to look at means of strengthening their partnerships with system integrators in different locations. Considering RFID in APAC is still relatively new, much of the middleware market still remains untapped.

Companies that only deal with developing middleware solutions, however, are likely to differ from those they tie-up with as many solution providers in the region claim they offer RFID system integration services but may lack necessary competencies or experience to undertake a project in its entirety.

The degree of competition in the APAC RFID industry is increasing with many solution providers looking at this region as a potential market for RFID projects over the next few years.

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These are selected players in the industry in APAC and their regional office indicated, arranged alphabetically:

- Alien Technology Corporation (China, Japan, South Korea)
- Avery Dennison Corporation (Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand)
- CBS Technology Bhd. (Malaysia)
- EA Holdings Bhd. (Malaysia)
- EcoSensa Technologies Sdn. Bhd. (Malaysia)
- Grand-Flo Solution Bhd. (Malaysia)
- Invengo Information Technology Co., Ltd (China)
- Netrack Technologies Sdn. Bhd. (Malaysia)
- Origine IT Sdn. Bhd. (Malaysia)
- Smartag Solutions Berhad (Malaysia)
- Zebra Technologies (China, Singapore, India, Hong Kong, Japan and Korea)

* This list shows selected RFID solution providers in APAC and is not exhaustive

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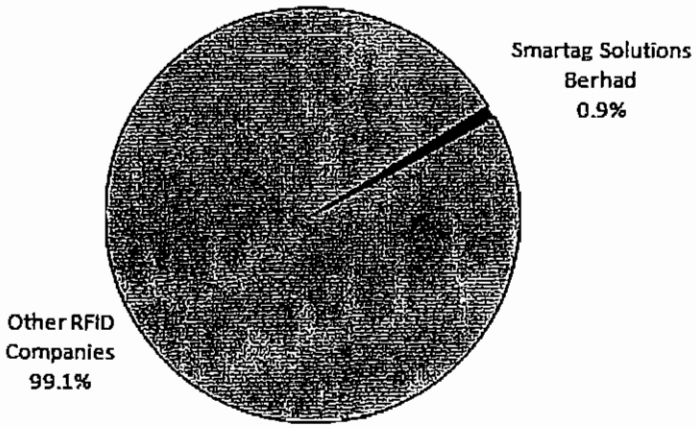
6.2 Market Share

The market share for Smartag in 2010 is estimated to be about 0.9% of the RFID market for tags, readers and middleware in APAC. This is based on Smartag's FY2010 revenue (derived from RFID tags, readers and middleware) and the total market size for RFID tags, readers and middleware in APAC.

RFID Market Share for Tags, Readers and Middleware (APAC), 2010.



Source: Extracted from the IMR report prepared by Frost & Sullivan

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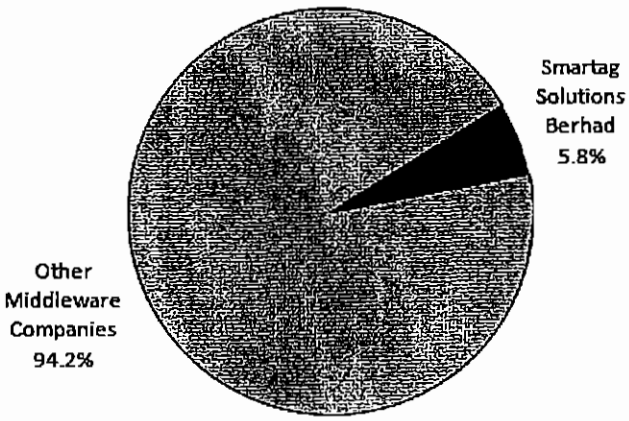
The market share for Smartag in 2010 for middleware is estimated to be about 5.8% of the RFID middleware market in APAC. This is based on Smartag's FY2010 revenue (derived from middleware) and the total market size for RFID middleware in APAC

RFID Market Share for Middleware (APAC), 2010.



Source: Extracted from the IMR report prepared by Frost & Sullivan

6.3 Risk and Challenges

The risk for RFID market is technology obsolescence due to competing technologies. The risk that RFID manufacturers face is the increasing popularity of alternative security technologies such as Biometrics that can provide more stringent security features. Biometrics is an automated measurement of biological traits for verification purposes on a living being. These traits on a human can be fingerprint, facial, hand geometry and iris. Biometrics may inhibit RFID growth due to the stricter security features compared to tags. The demand for biometrics authentication is not only based on tight security needs, but also on the costly obstacles of fraud.

Although this technology is still in the development phase, it is becoming more popular in the access control application segment as well as in hospitals, manufacturing and offices. The key advantage of biometrics is the fact that no password or physical key is required. However, the drawback of biometrics is that it applies on biological assets only and not physical assets.

7. Outlook and Prospects for RFID

Observing the many applications that RFID can be deployed in, there is great potential for this industry to grow. Standardisation is expected to help spur growth in the RFID market as the operating parameters with which industry players can set their systems to function are agreed upon thereby allowing different industry players to create different solutions in different countries that can operate using interchangeable RFID components that may be made from different manufacturers. Thus standardisation provides a guideline that RFID solution providers and end-users can use when deploying new RFID systems in different application settings.

The global RFID market was valued at USD1.7 billion in 2006 and reached an estimated USD3.3 billion in 2010. The global market is expected to grow to USD5.8 billion in 2013, at a CAGR of 20.9 percent from 2011 to 2013. The APAC RFID market, estimated at USD398.1 million in 2006 and growing at a CAGR of 18.0 percent from 2006 to 2010, is estimated to reach USD771.4 million in 2010. The market is expected to grow to USD1.40 billion by 2013 with a CAGR of approximately 23.3 percent between 2011 and 2013. The market in SEA grew from approximately USD 16.2 million in 2006 to USD 28.1 million in 2010. The anticipated CAGR for RFID in SEA is expected to be approximately 19.0 percent from 2011 to 2013, and industry revenue reaching USD46.3 million at the end of this period.

Smartag provides RFID solutions for supply chain management and security, asset tracking, and access control applications in port settings to support supply chain management in Malaysia and Thailand. There is a potentially high demand for RFID systems to be put in place in ports to manage the high container throughput being moved through ports in APAC. The APAC container throughput is estimated to be about 240 million TEUs in 2009 and expected to reach 327 million TEUs in 2013. The RFID supply chain management applications market enjoyed a CAGR of 25.2 percent between 2006 and 2009 growing from approximately USD36.3 million in 2006 to approximately USD71.2 million in 2009, and is expected to show a CAGR of 37.1 percent between 2010 and 2013 growing to an estimated USD234.7 million by 2013. The increase in RFID applications market and rising container throughput that could potentially use RFID supply chain applications solutions bodes well for Smartag.

Solution providers that can provide RFID solutions that are reliable, can be deployed in a variety of environments, is able to work seamlessly with other data capture systems, and offers a high level of service and skillset to meet the customer requirements are expected to enjoy growth and profitability in the industry.

8. FINANCIAL INFORMATION

8.1 FINANCIAL HIGHLIGHTS

The proforma consolidated financial statements have been prepared based on the audited financial statements of our Company, its subsidiary companies and our jointly controlled entity. **The financial information presented in this section is for illustrative purpose only and on the assumption that the group structure had been in existence throughout the financial years under review.**

The information summary below is extracted from and should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' letter in Section 14 of this Prospectus.

8.1.1 Proforma Consolidated Income Statement

The proforma consolidated and audited income statements of our Group for the three (3) financial years ended 30 September 2008, 30 September 2009 and 30 September 2010 are set out below:-

	<Proforma>		<Audited>
	<FYE 30 September>		
	2008	2009	2010
	RM'000	RM'000	RM'000
Revenue	23,915	34,558	22,769
Cost of sales	(14,516)	(26,346)	(9,808)
Gross profit	9,399	8,212	12,961
Other income	36	59	1,406
Other expenses	-	-	(8)
Selling and distribution expenses	(42)	(233)	(375)
Administrative expenses	(968)	(1,532)	(3,615)
Operating profit	8,425	6,506	10,369
Finance costs	-	-	(9)
Share of result of a jointly controlled entity	-	-	(12)
PBT	8,425	6,506	10,348
Taxation	-	(7)	(1)
PAT	8,425	6,449	10,347
EBITDA	8,440	6,618	10,484
Effective tax rate (%)	-	*0.11*	*0.01*
Gross profit margin (%)	*39.30*	*23.76*	*56.92*
Pretax margin (%)	*35.23*	*18.83*	*45.45*
Profit after tax margin (%)	*35.23*	*18.81*	*45.44*

8. FINANCIAL INFORMATION *(Cont'd)*

	<——Proforma——>		<—Audited—>
	<——FYE 30 September——>		
	2008	2009	2010
	RM'000	RM'000	RM'000
*Number of ordinary shares assumed to be in issue of RM0.10 each ('000) **	*170,000*	*170,000*	*170,000*
Gross Earnings per Share ("EPS") (sen)	*4.96*	*3.83*	*6.09*
Net EPS (sen)	*4.96*	*3.82*	*6.09*

Notes:-

* *Number of Smartag Solutions' ordinary shares in issue after the Bonus Issue.*

Basis of Preparation for FYE 30 September 2008, FYE 30 September 2009 and the FYE 30 September 2010

The proforma consolidated income statements of our Group are prepared for illustrative purposes only and have been prepared based on the audited financial statements of our Group and on the following basis:-

FYE 30 September 2008	Combined income statements of Smartag Solutions for the FYE 30 September 2008, Smartag Technologies for the ten (10) months FPE 30 September 2008 and Smartag International for the FYE 31 December 2008, after adjusting for the reclassification of Smartag Solutions' revenue of RM0.975 million in the FYE 30 September 2007 to the FYE 30 September 2008 in order to facilitate the elimination of inter-company sales to Smartag Technologies of which Smartag Technologies had recognised the related revenue and costs in its FYE 30 September 2008 upon the completion of the said project. Amount billed by Smartag Solutions in the FYE 30 September 2007 was recognised as work-in-progress by Smartag Technologies in its FYE 2007. The reclassification of Smartag Solutions' cost of sales amounting to RM0.269 million from FYE 30 September 2009 was due to late billings in order to match with the related revenue recognised during the FYE 30 September 2008.
FYE 30 September 2009	Combined income statements of our Company for the FYE 30 September 2009, Smartag Technologies for the FYE 30 September 2009 and Smartag International for the FYE 31 December 2009, after adjusting for the reversal of administrative expenses incurred by Smartag International for the financial period from 1 October 2009 to 31 December 2009 of USD4,772 (equivalent to RM16,809), and the reclassification of our Company's cost of sales from FYE 30 September 2009 to FYE 30 September 2008 as mentioned above. The audited financial statements of Smartag International were prepared for the FYE 31 December 2009 and the twelve (12) months financial period from 1 October 2009 to 30 September 2010 and as such, there was an overlapping period from 1 October 2009 to 31 December 2009 which gave rise to the adjustment of expenses.
FYE 30 September 2010	Based on the audited consolidated income statement of the Smartag Group for the FYE 30 September 2010.

8. FINANCIAL INFORMATION *(Cont'd)*

(a) The proforma consolidated income statements for the financial years under review have been prepared based on the audited financial statements of our Company and our subsidiaries which have been prepared at the different financial year ends and certain audited financial statements have been prepared for a period less and/or more than twelve (12) months.

(b) The proforma consolidated income statements for the financial years under review have been prepared based on accounting policies consistent with those adopted in the preparation of the audited consolidated financial statements of our Group for the FYE 30 September 2010.

(c) There were no exceptional items in all the financial years under review.

(d) The issued and paid-up share capital our Company of 170,000,000 Shares prior to the Public Issue.

(e) The gross EPS is computed as profit before taxation over the number of our Company's ordinary shares prior to the Public Issue.

(f) The net EPS is computed as net profit for the financial years over the number of our Company's ordinary shares prior to the Public Issue.

(g) No diluted earnings per share is shown as there were no potential dilutive shares in issue during the financial years under review.

(h) All significant inter-company transactions are eliminated on consolidation and the consolidated results reflect external transactions only.

(i) There were no share of results by the minority interest during the financial years under review as the losses applicable to the minority in Smartag International have exceeded the minority interest in the equity of Smartag International.

(j) There was share of results of a jointly controlled entity based on first set of audited financial statements for the period 11 March 2010 (since date of incorporation) to 30 September 2010.

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8. FINANCIAL INFORMATION *(Cont'd)*

8.1.2 Proforma Consolidated Balance Sheets as at 30 September 2010

The following table sets out the summary of the proforma consolidated balance sheets of our Group as at 30 September 2010, and assuming that the Public Issue and utilisation of the proceeds had been effected as at that date:-

	Audited Consolidated Balance Sheet as at 30 September 2010	Adjusted Audited Consolidated Balance Sheet as at 30 September 2010	Proforma I After the Public Issue	Proforma II After Proforma I and the Utilisation of Proceeds
	RM'000	RM'000	RM'000	RM'000
Assets				
Non-Current Assets				
Property, plant and equipment	7,316	7,316	7,316	16,151
Investment in a jointly controlled entity	5,003	5,003	5,003	5,003
Intangible assets	4,232	4,232	4,232	7,589
	16,551	16,551	16,551	28,743
Current Assets				
Trade receivables	11,611	11,611	11,611	11,611
Other receivables, deposits and prepayments	43	43	43	43
Inventories	63	63	63	63
Fixed deposits placed with a licensed bank	18	18	18	18
Cash and bank balances	943	943	18,613	4,477
Total current assets	12,678	12,678	30,348	16,212
Total Assets	29,229	29,229	46,899	44,955
Equity and Liabilities				
Equity attributable to equity holders of the Company				
Share capital	17,000	17,000	22,700	22,700
Share premium	-	-	11,970	11,173
Foreign currency translation reserve	6	6	6	6
Retained earnings	11,573	11,650	11,650	10,503
Shareholders' equity	28,579	28,656	46,326	44,382

8. FINANCIAL INFORMATION *(Cont'd)*

	Audited Consolidated Balance Sheet as at 30 September 2010	Adjusted Audited Consolidated Balance Sheet as at 30 September 2010	Proforma I After the Public Issue	Proforma II After Proforma I and the Utilisation of Proceeds
	RM'000	RM'000	RM'000	RM'000
Non-Current Liabilities	-	-	-	-
Current Liabilities				
Trade payables	40	40	40	40
Other payables and accruals	610	533 [1]	533	533
Tax payable	*	*	*	*
Total Current Liabilities	650	573	573	573
Total Liabilities	650	573	573	573
Total Equity and Liabilities	**29,229**	**29,229**	**46,899**	**44,955**
Number of ordinary shares of RM0.10 each ('000)	170,000	170,000	227,000	227,000
Net assets (RM'000)	28,579	28,656	46,326	44,382
Net assets per Share (sen)	16.81	16.86	20.41	19.55
Net tangible assets (RM'000)	24,347	24,424	42,094	36,793
Net tangible assets per Share (sen)	14.32	14.37	18.54	16.21

Notes:-

* *Negligible.*

(1) Adjustment made for conversion of a convertible note that was issued by Smartag International to a third party. For further information, please refer to the Proforma Consolidated Financial Information in Section 14 of this Prospectus.

Basis of Preparation

The proforma consolidated balance sheets of our Group as at 30 September 2010 is prepared based on the audited consolidated balance sheets of our Group as at 30 September 2010, adjusted for the full conversion of a convertible note for shares in Smartag International.

The proforma consolidated balance sheets of our Group has been prepared based on the accounting policies consistent with those adopted in the preparation of the audited consolidated financial statements of our Group for the FYE 30 September 2010.

8. FINANCIAL INFORMATION *(Cont'd)*

8.1.3 Proforma Consolidated Cash Flow Statement for the FYE 30 September 2010

The following sets out the proforma consolidated cash flow statement of our Group for the FYE 30 September 2010 before the Public Issue:-

	FYE 30 September 2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	10,348
Adjustments for:	
Depreciation expenses	142
Foreign currency reserve	8
Deposit written off	13
Goodwill written off	864
Interest expense	8
Property, plant and equipment written off	24
Share of result of a jointly controlled entity	12
Unrealised loss on foreign exchange	85
Interest income	(6)
Operating profit before working capital changes	11,498
Changes in Working capital:-	
Inventories	51
Receivables	18,305
Payables	(14,463)
	15,391
Tax paid	7
NET CASH FROM OPERATING ACTIVITIES	**15,398**
CASH FLOWS FOR INVESTING ACTIVITIES	
Products development costs incurred	(3,447)
Interest received	6
Purchase of property, plant and equipment	(6,608)
Investment in a jointly controlled entity	(5,015)
NET CASH FOR INVESTING ACTIVITIES	**(15,064)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Interest paid	(8)
NET CASH FROM FINANCING ACTIVITIES	**(8)**

8. FINANCIAL INFORMATION *(Cont'd)*

	FYE 30 September 2010 RM'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**326**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	**635**
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	**961**
ANALYSIS OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	943
Fixed deposits placed with a licensed bank	18
	961

Basis of Preparation

The proforma consolidated cash flow statement of our Group is prepared for illustrative purposes only, to show the effects on the audited consolidated cash flow statement of our Group for the FYE 30 September 2010, adjusted for the full conversion of a convertible note for shares in Smartag International but before the Public Issue.

The proforma consolidated cash flow statement of our Group for the FYE 30 September 2010 is prepared based on the audited consolidated cash flow statement of our Group for the FYE 30 September 2010.

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8. FINANCIAL INFORMATION *(Cont'd)*

8.2 CAPITALISATION AND INDEBTEDNESS

The following table summarises our cash and cash equivalents, capitalization and indebtedness:-

(i) as at 30 September 2010 based on our consolidated proforma balance sheet; and

(ii) as adjusted for the net proceeds arising from the Issue Shares pursuant to the Public Issue and the utilization of proceeds.

	Audited as at 30 September 2010 RM'000	Proforma after Public Issue and utilisation of proceeds RM'000
Cash and cash equivalent	961	4,495 *
INDEBTEDNESS		
Short Term	-	-
Long Term	-	-
Total	-	-
Secured and guaranteed	-	-
CAPITALISATION		
Total shareholders equity / capitalisation	28,579	44,382
Total capitalisation and indebtedness	**28,579**	44,382

Note:-

* *Inclusive of fixed deposits and proceeds for working capital.*

On 17 March 2009, Smartag International issued a non-interest bearing Revolving Promissory Note to our Company. Under the terms, our Company agreed to advance to Smartag International, from time to time and at the request of Smartag International, amounts of up to an aggregate of USD200,000 until 31 December 2010. This Revolving Promissory Note is renewable annually on 31 December of each year.

As Smartag International is currently dormant and does not generate any revenue or cashflow, the purpose of the Revolving Promissory Note is to enable Smartag International to settle any statutory and administrative expenses such as audit fees, filing expenses, secretarial expenses and corporate exercise fees as and when incurred. As at 30 September 2010, a total amount of USD91,452 (ringgit equivalent of RM282,357 at the conversion rate of USD1:RM3.0875 as at 30 September 2010) has been drawn-down and there is a sum of USD108,548 (ringgit equivalent of RM335,142 at the conversion rate of USD1:RM3.0875 as at 30 September 2010) remaining to be drawn-down. Further details of the Revolving Promissory Note is disclosed in Section 4.2.2 (f) of this Prospectus.

As at 30 September 2010, our Group does not have any borrowings. Our trust receipts facility has an approved drawdown limit of up to RM2.00 million for the purpose of our trade requirements, of which RM0.99 million had been drawn-down as at 31 January 2011. There are no other contingent liabilities as at the LPD which has become enforceable or is likely to become enforceable, which in the opinion of our Directors, will or may substantially affect the ability of our Group to meet our obligations as and when they fall due.

8.3 MANAGEMENT'S DISCUSSION AND ANALYSIS ON FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis by our Board and management should be read in conjunction with the proforma consolidated financial information from Section 8.1 for the past three (3) FYE 30 September 2008, FYE 30 September 2009 and FYE 30 September 2010. Further details of the proforma consolidated financial information should be referred to the Reporting Accountants' letter and the related notes thereon in Section 14 of this Prospectus.

This discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involve risks and uncertainties and reflect our current views with respect to future events and financial performance. Our actual results may differ from these projected or forward-looking statements. Factors that may cause future results to differ significantly include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in the "Risk Factors" section set out in Section 6 of this Prospectus.

Overview of Our Revenue Model

Currently, the revenue model for our products and services are as follows:-

(i) RFID Product

Our core product currently consists of our internally developed RFID middleware known as Smartware™. Our Smartware™ is used in all our RFID solutions or can be sold individually to potential customers such as resellers who are typically system integrators who use our Smartware™ middleware as part of their RFID solutions for their own clients. Our Smartware™ is either priced according to individual software license sold where the installation and use is limited to one equipment or device only or priced by enterprise-wide use where the Smartware™ is installed into a central server that can be accessed by multiple computers and devices. Sales of our products represent one-time sales for the software license without any annual license fees attached.

(ii) RFID Solutions

Our core activity is providing total RFID solutions using our Smartware™ middleware and other third party components to enable filtering and processing tasks to generate useful data that can be used for timely decision making. Our solutions are customised and implemented on a project basis for our clients. Additionally, our solutions are also sold to resellers who are typically system integrators who procure our RFID solutions for their own end-user clients. The solutions provided are also tailored to these system integrators' specifications. Based on our past deployment of solutions for our direct clients or resellers, we have categorised our revenue stream in the following broad applications:-

- RFID Application for Logistics and Manufacturing
- RFID Library Solutions
- RFID Container Management System and Security Services

Moving forward, revenue from our Land Checkpoint Project and Port Project will be categorised under our RFID Container Management System and Security Services solutions and will feature the use of our Smartrack™. Using our Smartrack™, our clients are able to share crucial data between their business units at different locations and with their business partners, customers and/or suppliers who are given the appropriate level of authority to access these data.

8. FINANCIAL INFORMATION *(Cont'd)*

(iii) Others

Refers to miscellaneous trading of ICT hardware products at the request of certain clients which forms a minor portion of our revenue.

8.3.1 Group Segmental and Past Proforma Performance Review

(a) Revenue

The following is the segmental analysis of our revenue for the past three (3) FYE 30 September 2008, 2009 and 2010 ("**Financial Years under Review**"). The segmental results are segmented by companies, products/solutions and geography as set out below:-

By Companies

	<——Proforma——>				<——Audited——>	
	<——FYE 30 September——>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Smartag Solutions	22,655	94.7	34,558	100.0	22,769	100.0
Smartag Technologies	[1] 1,260	5.3	-	-	-	-
Smartag International	-	-	-	-	-	-
Total	**23,915**	**100.0**	**34,558**	**100.0**	**22,769**	**100.0**

Note:-

1) The revenue relating to our RFID implementation for the libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang during the FYE 30 September 2008 that was captured under Smartag Technologies.

Majority of the Group's total revenue for the Financial Years under Review was contributed by Smartag Solutions as the main operating company of the Group. Our main sources of revenue consist of solutions sold to our resellers and also RFID project implementations for clients. The RFID implementation for the libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang was a project which was undertaken by our Group but was partly accomplished through Smartag Technologies and partly through Smartag Solutions. Further explanation on this project is provided in the next section. For FYE 30 September 2009 and FYE September 2010, all revenue was recognised under Smartag Solutions. Sure-Reach Smartag is our Group's jointly-owned entity which does not form part of the Group's revenue but profits/losses are shared with the joint-owner, Sure-Reach Worldwide Express Sdn Bhd.

8. FINANCIAL INFORMATION *(Cont'd)*

By Product and Solutions

	<Proforma>		<Audited>			
	<FYE 30 September>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Products						
Smartware™	1,500	6.3	7,205	20.9	8,090	35.5
RFID Solutions for						
RFID Applications for Logistics and Manufacturing	18,053	75.5	27,312	79.0	11,452	50.3
RFID Library Solutions	[1]3,168	13.2	-	-	185	0.8
RFID Container Management System and Security Services	821	3.4	-	-	-	-
Others	373	1.6	41	0.1	3,042	13.4
TOTAL	**23,915**	**100.0**	**34,558**	**100.0**	**22,769**	**100.0**

Note:-

(1) The total revenue of approximately RM3.17 million comprise of the provision of solutions for improving library management amounting to RM3.06 million and also solutions for a bank for the purpose of improving its document and record management system amounting to RM0.11 million. Our RFID Library Solutions which was used in the implementation for the libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang was undertaken by our Group through Smartag Technologies and Smartag Solutions.

Historically, our revenue generated are project-based and even sales to resellers (comprising of system integrators) are dependent on projects that they secure from their clientele. As a result, our revenue would depend substantially on the availability of projects secured and their respective value thereof. Recognising this fact, we are moving towards RFID applications in which we can diversify our business model to generate recurring revenue. Further discussions on risks of project related sources of revenue are set out in Section 6.1(a) and 6.1(b) of this Prospectus.

Due to the nature of our revenue which is project-based, the composition of our revenue, whether segmented by products or solutions, may not have a consistent trend historically. Nonetheless, our overall sales of our products and solutions have been increasing except for sales of RFID solutions during the FYE 30 September 2010 for reasons which will be explained later.

Our *RFID Applications for Logistics and Manufacturing* category represents the largest contributor in revenue for our solutions category during the Financial Years under Review as the logistics and manufacturing industry encompass a wide scope for RFID implementation. More details on our sales of products and solutions to our various clients are set out in the rest of this section.

8. FINANCIAL INFORMATION *(Cont'd)*

By Geography

	<Proforma>				<Audited>	
	<FYE 30 September>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Malaysia	13,554	56.7	20,904	60.5	15,309	67.2
Thailand	10,361	43.3	13,654	39.5	-	-
Indonesia	-	-	-	-	7,460	32.8
TOTAL	**23,915**	**100.0**	**34,558**	**100.0**	**22,769**	**100.0**

For our revenue segmented by geography, there were only three (3) jurisdictions, namely Malaysia, Thailand and Indonesia with no particular trend since revenue sources are project-based. During the Financial Years under Review, our revenue was significantly contributed by foreign clients from Thailand and Indonesia in relation to solutions provided under the *RFID Applications for Logistics and Manufacturing* solutions category.

Our historical proforma revenue comparison for the Financial Years under Review (save for the FYE 30 September 2007 which is presented for additional information purposes) is as follows:-

FYE 30 September 2007

For FYE 30 September 2007, we secured a major project which required us to provide RFID solutions for the tracking of Danawa telecommunication related assets. The project contributed to more than 90% of our Group's total revenue of approximately RM1.92 million during the FYE 30 September 2007.

Our asset tracking solutions was provided to Danawa in order to track its valuable telecommunications equipment in Cambodia, Indonesia and Malaysia. With the use of RFID technology, our client was able to identify the proximity of their assets and keep track of the movements of these assets without the hassle and complications of keeping manual records. The total value of the project amounted to approximately RM3.99 million which was progressively billed according to its milestones throughout FYE 30 September 2007 amounting to RM1.80 million and the remaining RM2.19 million during the FYE 30 September 2008.

There were sales under the *RFID Container Management System and Security Services* category which included implementation of our RFID solutions with regards to access and security management systems into the existing port management system of Johor Port. This transaction is a separate sale of our solution to Johor Port Berhad and does not represent part of our Port Project initiative. Other revenue includes sales of ICT hardware.

FYE 30 September 2008 as Compared to FYE 30 September 2007

For FYE 30 September 2008, our total revenue increased by approximately RM22.00 million or 1,145.8% from RM1.92 million to RM23.92 million due to new RFID projects, sales of our Smartware™ licenses, continuity of our project for Danawa which commenced during the FYE 30 September 2007 and sales of our RFID solutions to our resellers (comprising of system integrators).

During the FYE 30 September 2008, sales of our Smartware™ middleware licenses amounted to RM1.50 million which contributed to approximately 6.3% of our Group's total revenue. The sales were made to a foreign group of companies, whereby our Smartware™ was sold as part of its total solution to its end clients.

Revenue from our *RFID Applications for Logistics and Manufacturing* solution were provided to *a* number of local and foreign clients with total value of approximately RM18.05 million or 75.5% of our total Group revenue. We secured a project to implement RFID warehouse management and vehicle tracking solutions for S.I.N. Commercial Co. Ltd's several warehouses around Thailand. Majority of the project revenue was derived from the bundling of various RFID and other ICT hardware at the request of the client. Other revenue was generated from sales of our RFID solutions to our Malaysian-based and our Thailand-based resellers. The solutions sold were mainly for the purpose of security and access related systems and point-of-sales management systems. Solutions provided to our resellers are delivered and tailored to their specifications. The project continuity for Danawa also formed part of our revenue under this category for provision of RFID solutions.

Additionally, we successfully secured a project in Penang under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang to implement *RFID Library Solutions* as the technology to capture data in an efficient manner and improve library operations. The project work involved tuning our Smartware™ middleware, developing software modules for the library system, tagging the library books with passive RFID tags, setting up RFID readers and other ground-work implementations. This project was done in phases throughout 2008. We also implemented document management solutions for a bank to improve its document and record management system. The total revenue from these projects amounted to approximately RM3.17 million, representing 13.2% of our total sales for the FYE 30 September 2008 and is captured under our *RFID Library Solutions* category. From the total revenue of RM3.17 million, approximately RM3.06 million was attributed to the revenue from solutions implemented for the libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang while the remaining RM0.11 million was attributed to the provision of document management solutions for a bank.

We continued our implementations at Johor Port under our *RFID Container Management System and Security Services* solution. Although, we have incurred capital expenditures to implement RFID systems and infrastructures at Johor Port as a showcase for our RFID container tracking services to potential clients, we have also made sales of RFID solutions to Johor Port Berhad for certain aspects of their operations. Our other sales mainly relate to ICT hardware sales.

FYE 30 September 2009 as Compared to FYE 30 September 2008

For FYE 30 September 2009, our total revenue increased by approximately RM10.64 million or 44.5% from RM23.92 million to RM34.56 million due to higher sales volume of our Smartware™ middleware licenses, continuity of the project implemented for S.I.N. Commercial Co. Ltd and continuous sales of solutions to our resellers.

Sales value of Smartware™ licenses increased by approximately RM5.70 million or 380.3% from RM1.50 million to RM7.20 million due to an increased demand for our Smartware™ middleware licenses from our existing customers. The continuity of sales for our solutions during the FYE 30 September 2009 amounted to RM27.32 million compared to RM18.05 million in FYE 30 September 2008, representing a 51.3% increase in revenue under our *RFID Applications for Logistics and Manufacturing* solutions.

Most of the continuous sales attributable to project implementations under the *RFID Applications for Logistics and Manufacturing* category during the FYE 30 September 2009 are mainly hardware related as projects implemented by our resellers (system integrators) for their own clients in FYE 30 September 2008 will eventually lead to hardware installation and system integration at the final stages. These sales have been completed in FYE 30 September 2009.

Our other sales were mainly related to sales of IT hardware products which are not RFID related to support the customers at their request.

FYE 30 September 2010 as Compared to FYE 30 September 2009

For the FYE 30 September 2010, our total sales value of RM22.77 million was lower than the FYE 30 September 2009 of RM34.56 million due to lower sales value of RFID solutions. The increase in sales of our Smartware™ middleware to RM8.09 million for the FYE 30 September 2010 from RM7.21 million for the FYE 30 September 2009 (representing a 12.2% increase) was due to stronger demand from our existing and new customers. The sales made under our *RFID Library Solutions* were in relation to provision of more RFID hardware for the libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang.

Under our *RFID Applications for Logistics and Manufacturing* solutions category, we managed to secure new projects from our existing clients and a new client from Indonesia namely PT Andira Citra Mandiri Utama with a project value of approximately RM7.46 million. The solution provided to PT Andira Citra Mandiri Utama under this category consists of RFID components which integrate with security control and monitoring systems and devices. Another portion of our sales to PT Andira Citra Mandiri Utama was recorded under our *Others* revenue category as it involves the sales of GPS equipment amounting to approximately RM2.91 million. The provision of GPS solutions is an area which we plan to venture into in line with our collaboration with CRUiSE GPS Systems Sdn Bhd. However, at this point, the development of the fleet management system has not completed and the sales to PT Andira Citra Mandiri Utama only involved hardware sales. Nonetheless, the overall sales value for our solutions under the *RFID Applications for Logistics and Manufacturing* category fell from RM27.31 million in the FYE 30 September 2009 to RM11.45 million for the FYE 30 September 2010.

The reason for the fall in our revenue pertaining to sales of our RFID solutions, particularly the *RFID Applications for Logistics and Manufacturing* solutions, was attributable to the change in our strategy when providing RFID solutions to clients by bundling RFID software with only the essential RFID hardware and specialised hardware required as part of our solution sales. In the past, our solutions were bundled together with other hardware (which may not necessarily include RFID hardware) at the request of our client's requirements. However, the purchase of these non-RFID hardware are costly and may easily amount to millions of ringgit, resulting in higher cost of sales and restrictions on our resources until the repayment of the sales amount is made by our clients. Furthermore, the profit margins for sales of hardware are low due to the competitive prices of hardware available in the market. The effective results of this strategy are seen in our gross profit margins.

8. FINANCIAL INFORMATION *(Cont'd)*

(b) Cost of Sales

The following is the segmental analysis of our cost of sales for the Financial Years under Review. The segmental results are segmented by companies, products / solutions and geography and are provided for illustrative purposes only:-

By Companies

	<Proforma>		<Audited>			
	<FYE 30 September>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Smartag Solutions	14,247	98.1	26,346	100.0	9,808	100.0
Smartag Technologies	269	1.9	-	-	-	-
Smartag International	-	-	-	-	-	-
Total	**14,516**	**100.0**	**26,346**	**100.0**	**9,808**	**100.0**

Majority of the cost of sales were attributable to Smartag Solutions, being the operational Company. Cost of sales incurred under Smartag Technologies was due to the sales of RFID hardware during FYE 30 September 2008.

By Product and Solutions

	<Proforma>		<Audited>			
	<FYE 30 September>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Products						
Smartware™	-	-	-	-	-	
RFID Solutions for						
RFID Applications for Logistics and Manufacturing	13,182	90.8	26,312	99.9	6,808	69.4
RFID Library Solutions	311	2.1	-	-	120	1.2
RFID Container Management System and Security Services	694	4.8	-	-	-	-
Others	329	2.3	34	0.1	2,880	29.4
TOTAL	**14,516**	**100.0**	**26,346**	**100.0**	**9,808**	**100.0**

The increase in our cost of sales over FYE 30 September 2008 and FYE 30 September 2009 was due to bigger projects secured and sales of total solutions to our resellers which entailed the supply of more hardware for these RFID systems. The subsequent decrease in cost of sales by 62.8% for the FYE 30 September 2010 as compared to the FYE 30 September 2009 was due to our shift in strategy when providing RFID solutions to clients by bundling RFID software with only the essential RFID hardware and specialised hardware required as part of our solution sales as previously explained.

Our cost of sales mainly consists of either hardware or any outsourcing costs for our projects undertaken but does not include salary expenses. Our staff costs are captured as indirect costs as our personnel are involved in multiple projects and activities in which their time cannot be allocated specifically to the individual projects or activities. There is typically no cost of sales incurred for sales of our Smartware™ middleware as sales of our products only involve minimal tuning in accordance with specifications from our customers.

By Geography

	<Proforma>				<Audited>	
	<FYE 30 September>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Malaysia	5,621	38.7	13,144	49.9	2,942	30.0
Thailand	8,895	61.3	13,202	50.1	-	-
Indonesia	-	-	-	-	6,866	70.0
TOTAL	**14,516**	**100.0**	**26,346**	**100.0**	**9,808**	**100.0**

Our cost of sales are segregated between Malaysia, Thailand and Indonesia in line with the sales records.

(c) Gross Profit and Gross Profit Margin

The following is the segmental analysis of our gross profit and gross profit margin for the Financial Years under Review. The segmental results are segmented by company, products/solutions and geography and are provided for illustrative purposes only:-

Gross Profit by Companies

	<Proforma>				<Audited>	
	<FYE 30 September>					
	2008		2009		2010	
	RM'000	%	RM'000	%	RM'000	%
Smartag Solutions	8,408	89.5	8,212	100.0	12,961	100.0
Smartag Technologies	991	10.5	-	-	-	-
Smartag International	-	-	-	-	-	-
Total	**9,399**	**100.0**	**8,212**	**100.0**	**12,961**	**100.0**

8. FINANCIAL INFORMATION *(Cont'd)*

Gross Profit Margin by Companies

	<——Proforma——>		<—Audited—>
	<——FYE 30 September——>		
Gross Profit Margin	***2008***	***2009***	***2010***
	%	*%*	*%*
Smartag Solutions	*37.1*	*23.8*	*56.9*
Smartag Technologies	*78.7*	-	-
Smartag International	-	-	-
Average Gross Profit Margin	***39.3***	***23.8***	***56.9***

Our Company achieved relatively high gross profit margins for the FYE 30 September 2010 but relatively lower margins below 40% during the FYE 30 September 2008 and FYE 30 September 2009. A major portion of our sales during FYE 30 September 2008 and 2009 were attributed to project implementations for a Thailand-based client and sales of solutions to our Thailand-based resellers. The solutions provided to these clients were bundled with various RFID and ICT hardware which provided slim margins and thus made up a higher proportion of our cost of sales. During the FYE 30 September 2010, sales of our solutions were focused on providing essential RFID hardware and specialised hardware only with our software product.

Smartag Technologies' sales in FYE 30 September 2008 was in relation to the provision of our *RFID Library Solutions* for the libraries under the Perbadanan Perpustakaan Awam Negeri Pulau Pinang which was partly implemented by Smartag Technologies and Smartag Solutions.

Gross Profit by Product and Solutions

	<——Proforma——>				<——Audited——>	
	<——FYE 30 September——>					
	2008		**2009**		**2010**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Products						
Smartware™	1,500	16.0	7,205	87.8	8,090	62.4
RFID Solutions for						
RFID Applications for Logistics and Manufacturing	4,871	51.8	1,000	12.2	4,644	35.8
RFID Library Solutions	2,857	30.4	-	-	65	0.5
RFID Container Management System and Security Services	127	1.4	-	-	-	-
Others	44	0.4	7	*	162	1.3
TOTAL	**9,399**	**100.0**	**8,212**	**100.0**	**12,961**	**100.0**

Note:-

* *Negligible.*

8. FINANCIAL INFORMATION *(Cont'd)*

Gross Profit Margin by Products and Solutions

	<Proforma>		<Audited>
	<FYE 30 September>		
Gross Profit Margin	***2008***	***2009***	***2010***
	%	*%*	*%*
Products			
Smartware™	*100.0*	*100.0*	*100.0*
RFID Solutions for			
RFID Applications for Logistics and Manufacturing	*27.0*	*3.7*	*40.5*
RFID Library Solutions	*90.2*	*-*	*35.1*
RFID Container Management System and Security Services	*15.5*	*-*	*-*
Others	*11.8*	*17.1*	*5.3*
Average Gross Profit Margin	***39.3***	***23.8***	***56.9***

Gross Profit by Geography

	<Proforma>				<Audited>	
	<FYE 30 September>					
	2008		**2009**		**2010**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**
Malaysia	7,933	84.4	7,760	94.5	12,367	95.4
Thailand	1,466	15.6	452	5.5	-	-
Indonesia	-	-	-	-	594	4.6
TOTAL	**9,399**	**100.0**	**8,212**	**100.0**	**12,961**	**100.0**

Gross Profit Margin by Geography

	<Proforma>		<Audited>
	<FYE 30 September>		
Gross Profit Margin	***2008***	***2009***	***2010***
	%	*%*	*%*
Malaysia	*58.5*	*37.1*	*80.8*
Thailand	*14.2*	*3.3*	*-*
Indonesia	*-*	*-*	*8.0*
Average Gross Profit Margin	***39.3***	***23.8***	***56.9***