SMARTAG SOLUTIONS BERHAD (639421-X)
QUARTERLY REPORT ON CONSOLIDATED RESULTS
Quarterly Report for the Third Quarter Ended 30 June 2011

A: EXPLANATORY NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARDS ("FRS") 134

A1. Accounting policies and methods of computation

The interim financial statements are unaudited and have been prepared in accordance with the Financial Reporting Standards ("FRS") 134 : Interim Financial Reporting, Paragraph 9.22 and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). No comparative figures are available for the preceding year's individual and cumulative corresponding quarter as this is the third interim financial report being announced by the Company.

The interim financial statements should be read in conjunction with the proforma consolidated financial information and the Accountants' Report as disclosed in the Prospectus of Smartag Solutions Berhad ("Smartag" or the "Company") dated 28 March 2011 and the accompanying explanatory notes attached to the interim financial report.

The accounting policies and methods of computation adopted by Smartag, its subsidiaries and its jointly-owned entity ("Group") for these interim financial statements are in compliance with the new and revised FRSs issued by the Malaysian Accounting Standards Board.

A2. Summary of significant accounting policies

Save as disclosed below, the significant accounting policies adopted are consistent with the Proforma Consolidated Financial Information and the Accountants' Report as disclosed in the Prospectus of the Company dated 28 March 2011 and the audited financial statements of the Group for the financial year ended 30 September 2010.

On 1 October 2010, the Group had adopted the following new and revised Financial Reporting Standards, Issues Committee ("IC") Interpretations ("IC Int") and amendments/improvements to FRSs and IC Int mandatory for the financial period beginning on or after 1 January 2010 and 1 July 2010:-

<u>New and Revised FRSs</u>

FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations	1 July 2010
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments : Disclosures	1 January 2010
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing costs	1 January 2010
FRS 139	Financial Instruments : Recognition and Measurement	1 January 2010

Amendments/Improvements to FRSs

FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2010
FRS 2	Share-based Payment	1 January 2010 and 1 July 2010
FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010 and 1 July 2010
FRS 7	Financial Instruments: Disclosure	1 January 2010
FRS 8	Operating Segments	1 January 2010
FRS 107	Statement of Cash Flows	1 January 2010
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2010
FRS 110	Events After the Reporting Period	1 January 2010
FRS 116	Property, Plant and Equipment	1 January 2010
FRS 117	Leases	1 January 2010
FRS 118	Revenue	1 January 2010
FRS 119	Employee Benefits	1 January 2010
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 127	Consolidated and Separate Financial Statements : Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010 and 1 July 2010
FRS 128	Investment in Associates	1 January 2010
FRS 129	Financial Reporting in Hyperinflationary Economies	1 January 2010
FRS 131	Interests in Joint Ventures	1 January 2010
FRS 132	Financial Instruments: Presentation	1 January 2010
FRS 134	Interim Financial Reporting	1 January 2010
FRS 138	Intangible Assets	1 January 2010 and 1 July 2010
FRS 140	Investment Property	1 January 2010

IC Int

IC Int 9	Reassessment of Embedded Derivatives	1 January 2010
IC Int 10	Interim Financial Reporting and Impairment	1 January 2010
IC Int 12	Service Concession Arrangements	1 July 2010
IC Int 11	FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Int 13	Customer Loyalty Programmes	1 January 2010
IC Int 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
IC Int 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Int 17	Distributions of Non-cash Assets to Owners	1 July 2010

Amendments to IC Int

IC Int 9	Reassessment of Embedded Derivatives	1 January 2010 and 1 July 2010
IC Int 15	Construction on Real Estate	30 August 2010

The adoption of the above new and revised FRSs, IC Int and amendments/improvements to FRSs and IC Int did not have any significant effects on the interim financial report upon their initial application, other than as below:

FRS 7 – Financial Instruments - Disclosures

Prior to the adoption of FRS 7, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. Such disclosures will be made in the audited annual financial statements of the Group.

Amendments to FRS 8 - Operating Segments

With the adoption of amendments to FRS 8, Segment Reporting requires a `management approach', under which segment information is presented on a similar basis to that used for internal reporting purposes. As a result, the Group's external segmental reporting will be based on the internal reporting to the chief operating decision maker, who makes decisions on the allocation of resources and assesses the performance of the reportable segments.

The Group concluded that the reportable operating segments determined in accordance with amendments to FRS 8 are the same as the business segments previously identified, there will be no impact on the financial position or results of the Group.

Revised FRS 101 – Presentation of Financial Statements

FRS 101 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements.

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity, if any, will be presented as a single line labeled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the statement of comprehensive income. The adoption of this standard does not have any impact on the financial position and results of the Group.

FRS 139 - Financial Instruments: Recognition and Measurement

FRS 139 establishes principles for recognition and measurement of the Group's financial instruments. A financial asset or financial liability shall be recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instruments. A financial asset or financial liability is recorded initially at fair value upon initial recognition plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The Group determines the classification at initial recognition and for the purpose of the first adoption of the standard, as at transitional date on 1 October 2010.

<u>Financial Assets</u>

Subsequent to the initial recognition, financial assets are classified as 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables', 'available for sale financial assets ("AFS")' or 'derivatives designated as hedging instruments', as appropriate.

The Group's financial assets include trade and other receivables, cash and short term deposits, which are categories as 'loans and receivables'.

(i) *<u>Loan and receivables</u>*

Prior to 1 October 2010, loan and receivables were stated at gross receivables less provision for doubtful debts. Under FRS 139, loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest rate ("EIR") method. Gains and losses arising from the derecognition of the loans and receivables, EIR amortization and impairment losses are recognised in income statement.

Financial Liability

After initial recognition, financial liabilities are classified as 'fair value through profit or loss', 'amortised cost' or `derivatives designated as hedging instruments', as appropriate.

The Group's financial liabilities include borrowings, trade and other payables.

Prior to 1 October 2010, all financial liabilities were stated at cost. Under FRS 139, financial liabilities are subsequently measured at amortised cost.

Inter-company Advances or Loans

Prior to 1 October 2010, the loans or advances granted from the Company to its subsidiaries were at interest free and were recorded at cost.

Upon the adoption of FRS 139, the advances or loans are classified as Loans and Receivables. As the loan is interest free and only payable at demand, the difference between the fair value and amortised cost of the loan or advance is derecognised.

Revised FRS 3 – Business Combinations

The revised FRS 3 introduces changes to the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period in that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of revised FRS 3 include:-

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;
- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;
- The Group elects, for each acquisition of a business, whether to measure non-controlling interest (previously described as minority interests) at fair value, or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, and this impacts the amount of goodwill recognised; and
- When a business is acquired in stages, the previously held equity interests in the acquiree are re-measured to fair value at the acquisition date with any corresponding gain or loss recognized in profit or loss, and this impacts the amount of goodwill.

Accordingly to its transitional provisions, the revised FRS 3 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition date are before 1 October 2010 are not adjusted.

Amendments to FRS 127 – Consolidated and Separate Financial Statements

Changes in significant accounting policies resulting from the adoption of the amendments to FRS 127 include:-

- A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

According to its transitional provisions, the amendments to FRS 127 has been applied prospectively and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interest, attribution of losses to non-controlling interest, and the disposal of subsidiaries before 1 October 2010. The changes will affect future transactions with non-controlling interest.

A3. Auditors' Report of preceding annual financial statements

The preceding year's annual financial statements were not subject to any qualification.

Notwithstanding this, the financial statement of the subsidiaries comprise the following emphasis of matter paragraph in the auditors' report:-

Smartag International Inc.
"The accompanying financials statements have been prepared assuming that the Company will continue as a going concern. As discussed in notes of the financial statement, the Company has suffered recurring lossess from operations and is dependent upon the continued sale of its securities, obtaining debt financing, or finding a suitable candidate for a business combination for funds to meet its cash requirements. These factors raise substantial doubt the Company's ability to continue as a going concern. The financial statement does not include any adjustments that might result from the outcome of this uncertainty."

Smartag Technologies Sdn Bhd
"Without qualifying our opinion, we draw attention to Note 2 to the financial statements which discloses the premise upon which the Company has prepared its financial statements by applying the going concern assumption, notwithstanding that the Company incurred a net loss of RM51,128 during the financial year ended 30 September 2010, and as of that date, the Company's current liabilities exceeded its current assets by RM33,251 and recorded a capital deficiency of RM7,352. The ability of the Company to continue as a going concern is dependent on the continuous financial support from its holding company to provide adequate funds for the Company to meet its liabilities as and when they fall due."

Despite the abovementioned auditors' reports of Smartag International Inc and Smartag Technologies Sdn Bhd containing emphasis of matter paragraphs on their going concerns, the directors of Smartag are of the view that as Smartag International Inc and Smartag Technologies Sdn Bhd are presently dormant and the losses incurred comprise mainly of statutory expenses incurred, therefore, there would not have any material financial impact on the financial results of the Group.

A4. Seasonal or cyclical factors

The Group's operations are not materially affected by seasonal and cyclical factors.

A5. Unusual Items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter under review.

A6. Material changes in estimates

There were no material changes in estimates in the current financial quarter under review and financial year-to-date.

A7. Debts and equity securities

Save as below, there were no issuance or repayment of debt or equity securities, share buy-backs, share cancellations, share held as treasury shares and resale of treasury shares for the current financial quarter under review.

On 10 November 2010, Smartag International had entered into a settlement agreement with Paul Matthews for the full settlement of a Convertible Note held by Paul Matthews. Pursuant to the said agreement, the outstanding Convertible Note of USD25,000 as at the even date was converted for 500,000 Smartag International Inc.'s common stock as the full and final settlement for the Convertible Note. Following the issuance of additional 500,000 Smartag International common stocks, there was a dilution in Smartag Solutions' equity interest in Smartag International from 98.6% to 94.01%.

A8. Dividends

There were no dividends paid or declared for the current financial quarter under review.

A9. Segmental Information

(a) Analysis of revenue by Geographical area

	Current Quarter Ended 30/06/11 RM'000	**Preceding Corresponding Quarter Ended 30/06/10 RM'000***	**Current Year To date ended 30/06/11 RM'000**	**Preceding Corresponding Year To date ended 30/06/10 RM'000***
Thailand	7	N/A	2,533	N/A
Malaysia	7	N/A	3,162	N/A
Others	-	N/A	7	N/A
Total Revenue	**14**	**N/A**	**5,702**	**N/A**

(b) Analysis of revenue by product categories

	Current Quarter Ended 30/06/11 RM'000	**Preceding Corresponding Quarter Ended 30/06/10 RM'000***	**Current Year To date ended 30/06/11 RM'000**	**Preceding Corresponding Year To date ended 30/06/10 RM'000***
Smartware™ (RFID middleware and Smartware addons)	-	**N/A**	655	N/A
RFID Solutions for manufacturing and Logistics	7	N/A	3,645	N/A
RFID library solutions	-	N/A	395	N/A
RFID container management system and security services	7	N/A	202	N/A
Others	-	N/A	805	N/A
Total revenue	**14**	**N/A**	**5,702**	**N/A**

*No comparative figures are available as this is the third quarterly report to Bursa Securities.

Segment Category	Current Quarter Ended 30/06/11 RM'000	Preceding Corresponding Quarter Ended 30/06/10 RM'000*	Current Year To Date Ended 30/06/11 RM'000	Preceding Corresponding Year To date Ended 30/06/10 RM'000*
Smartware™ (RFID middleware and Smartware addons)	-	N/A	523	N/A
RFID Solutions for Manufacturing and Logistics	(556)	N/A	(467)	N/A
RFID Library Solutions	-	N/A	318	N/A
RFID Container Management System and Security Services	(458)	N/A	(324)	N/A
Others	-	N/A	(123)	N/A
Segment Results	(1,014)	N/A	(73)	N/A
Unallocated Costs	(326)	N/A	(827)	N/A
Interest Income	130	N/A	135	N/A
Profit /(loss) before taxation:	**(1,210)**	**N/A**	**(765)**	**N/A**

*No comparative figures are available as this is the third quarterly report to Bursa Securities.

A10. Valuation of property, plant and equipment

The Company has not carried out valuation on its property, plant and equipment in the current financial quarter under review.

A11. Capital commitments

Save as disclosed below, there were no material capital commitments in respect of property, plant and equipment as at the current financial quarter under review.

The company has entered into the sales and purchase agreement on 17 June 2011 to purchase an office property at No. Petak 49, Tingkat No.4, Bangunan No. M1, Lot No. 2626, Bandar George Town, Section 1, North East District in the state of Penang at a purchase consideration of RM1,300,000. The expected completion period is 3 months from the date of the agreement. The office property will serve as the corporate and operational office of the Company.

A12. Other commitments

A Customised RFID Seal Development and Manufacturing Agreement between the Company and Shanghai Super Electronics Technology Company Limited was signed on 28 June 2011 and will incur a total cost of USD1,917,600. The amount of USD800,000 has been paid upon signing of the agreement and the remaining USD1,117,600 is expected to be incurred in the first quarter of the Group's FYE 30 September 2012 for the purpose of the commercialization of the Security and Trade Facilitation Project with the Royal Malaysian Customs. The costs refers to payment for the supply of customised active RFID tags (or known as RFID Seals) which will be used by our potential customers as part of the Security and Trade Facilitation Project with the Royal Malaysian Customs whereby the RFID tags are affixed to containers and are scanned/read when passing through customs checkpoints that have been installed with our RFID readers and infrastructures.

For more information on the Security and Trade Facilitation Project with the Royal Malaysian Customs, please refer to B1 of the explanatory notes.

A13. Changes in the composition of the Group

There were no material changes in the composition of the Group for the current financial quarter under review.

A14. Contingent assets or liabilities

The Directors are of the opinion that the Group has no contingent liabilities which, upon crystallisation would have a material impact on the financial position and business of the Group as at reporting date.

A15. Material events subsequent to the end of the quarter

There are no subsequent material events to the end of the financial quarter under review.

A16. Significant related party transactions

There are no related party transactions during the current financial quarter.

B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE ACE MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of the performance of the Group

For the current financial quarter ended ("**FPE**") 30 June 2011, the Group recorded revenue of RM0.014 million and loss before tax of RM1.210 million. The sales of RM0.014 million were mainly contributed by our operations in Thailand where our customers, DHL Express International (Thailand) Limited, and TNT Express Worldwide (Thailand) Company Limited have started using our RFID system for their customs clearance procedures between the Sadao and Suvarnabhumi customs checkpoints. The revenue from our Thailand operations had only started to flow in on 1 April 2011 after our Group obtained the Foreign Business License in Thailand on 25 February 2011 as certain steps thereafter such as setting up the tax account and banking account for our Thailand operations needed to be completed. For the FPE 30 June 2011, revenue from the Thailand operations had amounted to RM0.007 million. The remaining revenue contribution to our FPE 30 June 2011 was attributed to work done for an existing on-going project in Malaysia.

Our loss before tax of RM1.210 million for the FPE 30 June 2011 was mainly due to our operational expenses totalling RM1.328 million which comprised of day-to-day expenses such as staff cost, travelling expenses and other expenses. Other expenses include costs incurred for our initial public offering ("**IPO**") amounting to RM0.310 million.

Our lacklustre sales for the FPE 30 June 2011 was due to our heightened commitment for the commercialisation of the Security and Trade Facilitation System with the Royal Malaysian Customs which we had announced on 19 April 2011 pursuant to our Company being named as the Government's Economic Transformation Programme (**"ETP"**) project owner to provide a security and trade facilitation system for the Royal Malaysian Customs at all customs checkpoints throughout Malaysia under the ETP initiative by the Performance Management & Delivery Unit ("**PEMANDU**"). Subsequent to the announcement of the project on 19 April 2011, our Company signed a Memorandum of Understanding (**"MoU"**) with the Royal Malaysian Customs on 12 May 2011 which eventually defined and set the scope of work required and the timeline for the trial run from 1 June 2011 to 31 August 2011. Thus far, work done for this project and during the trial run comprise of development of the integrating system, installation of crucial infrastructures at customs checkpoints as well as public roadshows to various potential customers on the project. As a result, due to the level of commitment required for this project, most of our resources were diverted towards its commercialisation which is expected to generate long term recurring revenue for the Group. Additionally, other potential projects that were in negotiations and were expected to be secured within the FPE 30 June 2011 did not materialise or were delayed. We are continuously pursuing these sales leads and consciously increasing our staff force in light of the project for the Royal Malaysian Customs and to step up on our marketing and project implementation efforts for our other projects.

Despite our Group's setback due to the level of resources being put to ensure the success of the Security and Trade Facilitation System project with the Royal Malaysian Customs, as at 30 June 2011, our Group's financial position is still favourable with a zero gearing position, RM21.581 million in cash and cash equivalent from sales collection and the IPO proceeds and RM10.903 million in retained earnings.

The Group's loss before taxation for the year-to-date period ended 30 June 2011 was recorded at RM0.765 million, representing a decrease of RM1.210 million from a profit before taxation of RM0.445 million for the year-to-date period ended 31 March 2011 due to lacklustre sales during the FPE 30 June 2011 as discussed above. Our year-to-date period ended 30 June 2011 operational expenses amounted to RM3.114 million, out of which RM0.732 million have been attributed to the cost incurred for our initial public offering and other costs such as professional advisory fees and also RM0.271 million which was attributed to realised loss on foreign exchange. We are taking cautionary measures to monitor our day-to-day expenses in light of our relatively low sales level. Expenses incurred have been mainly related to our efforts towards commercialising the Security and Trade Facilitation System project with the Royal Malaysian Customs and also expanding our staff size and marketing efforts to cater to the work demand of both this project and other RFID projects.

During the FPE 30 June 2011, our Group had conducted roadshows with GS1 Malaysia, an international body that develops and promotes standards including standards for RFID to spread awareness of our services and the benefits of RFID technology. Additionally, we had participated in various trade shows and forums such as NEPCON Malaysia 2011, the National Information Communication Technology Conference 2011, FMM National Customs Conference and the Economic Transformation Programme Public Roadshow.

B2. Comparison To The Results Of The Preceding Quarter

	Current Quarter **30/06/11** **RM'000**	**Preceding Quarter** **31/03/11** **RM'000**
Revenue	14	3,914
Profit / (Loss) before tax	(1,210)	766#

Restatement due to a reclassification of certain IPO expenses to be offset against the share premium account.

Overall, the revenue of the Group had decreased to RM0.014 million for the FPE 30 June 2011 as compared to FPE 31 March 2011. The Group's loss before taxation for the FPE 30 June 2011 was recorded at RM1.210 million, representing a decrease of RM1.976 million as compared to the FPE 31 March 2011 mainly due to low sales records for the period and higher overall expenses incurred during the FPE 30 June 2011. The main increase in expenses were due to IPO related expenses amounting to RM0.310 million during the FPE 30 June 2011 compared to RM0.108 million incurred during the FPE 31 March 2011 and overall increase in staff costs from approximately RM0.195 million to RM0.290 million due to our expanded staff size from 17 personnel as at 31 March 2011 to 24 personnel as at 30 June 2011, in light of the heightened workforce demand to cater to the Security and Trade Facilitation System project with the Royal Malaysian Customs and also our marketing efforts to secure other projects. Other expenses incurred were higher sales and distribution expenses related to our marketing activities, stamp duty costs for purchase of our operational and corporate office and higher general administrative expenses due to increased use of resources.

B3. Prospects

The trial runs for the Security and Trade Facilitation System project with the Royal Malaysian Customs will be completed come 31 August 2011 in accordance with the MoU that was signed between our Company and the Royal Malaysian Customs on 12 May 2011. Barring unforeseen circumstances, our Group expects the commercialisation of the Security and Trade Facilitation System to be within the first half of 2012. This project is expected to provide long term recurring revenue for the Group and positively contribute to the performance of the Group.

Aside from this, we expect continuous revenue stream as well from the use of our RFID system in Thailand. However, the current amount generated is relatively immaterial as our existing customers comprise of only DHL Express International (Thailand) Limited and TNT Express Worldwide (Thailand) Company Limited covering only one (1) route between the Sadao customs checkpoint and Suvarnabhumi customs checkpoint. We are working with the Royal Thai Customs to gradually commercialise more critical checkpoints in stages and conducting roadshows to potential customers on our RFID system. Our Group believes that the commercialisation of the Security and Trade Facilitation System project in Malaysia will be a catalyst in encouraging more subscribers for our system in Thailand. To date, we have only invested approximately RM0.033 million in terms of capital expenditure in our Thailand operations but expect this amount to increase in tandem with the growth in revenue.

In addition, our marketing and operational teams are stepping up efforts to secure more projects for the remaining FYE 30 September 2011 to bolster our recent lacklustre in sales. We are currently pursuing various sales leads and are hopeful in securing these projects in the coming quarter and for the FYE 30 September 2012. As at 15 August 2011, we have secured approximately RM0.176 million worth of new project orders.

Resulting from the Group's focus on building the recurring revenue business model (particularly the Security and Trade Facilitation System project with the Royal Malaysian Customs) to augment our project-based revenue model, our marketing efforts to secure other projects were limited. As our Company would still need to complete the trial runs up to the end of 31 August 2011, resources will still need to be focused and expanded towards the commercialisation of the project, and barring any unforeseen circumstances, we expect this project to contribute only in the FYE 30 September2012.

B4. Profit forecast and profit guarantee

The Group has not issued any profit forecast or profit guarantee for the current financial quarter under review or in any public documents.

B5. Taxation

	Current Quarter 30/06/11 RM'000	**Year to Date Ended 30/06/10 RM'000**
Current tax expense	*	*
	*	*

* Less than RM1,000

The effective tax rate of the Group remained low due as the company was accorded the MSC (Multimedia Super Corridor) status and was granted Pioneer Status on 11th July 2007 which exempts 100% of its eligible statutory business income for a period of five (5) years, which can be extended for a further period of five (5) years.

B6. Sales of unquoted investment and property

There were no changes in the unquoted investment and property in the current financial quarter under review and financial year-to-date.

B7. Quoted securities

There were no purchases or disposals of quoted securities during the current financial quarter under review and financial year-to-date.

B8. Status of corporate proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

B9. Status of utilisation of proceeds

The Company was listed on 18 April 2011 on the ACE Market of Bursa Securities. The status of utilisation of the gross proceeds of RM17.67 million from the public issue by the Group as at 30 June 2011 are as follows:-

Purposes	Proposed Amount RM' 000	Amount Utilised RM' 000	Amount Unutilised RM' 000	Timeframe for Utilisation
Project Related Capital Expenditure	8,835	940 [1]	7,895	Within 36 months
R & D Expenditure and R&D Related Capital Expenditure	3,357	80 [1]	3,277	Within 24 months
Working capital	3,534	483 [2]	3,051	Within 24 months
Estimated listing expenses	1,944	1,897	47*	Within 6 months from listing
Total	**17,670**	**3,400**	**14,270**	

Notes:

* *In view that the actual listing expenses were lower than estimated, the excess have been utilised for working capital purposes.*

1. *Related to expenditures to set up equipment and infrastructures for the Security and Trade Facilitation System project with the Royal Malaysian Customs such as RFID readers, fibre optics cables, pole structures, computers, network equipment and servers.*
2. *Working capital expenses related to selling and distribution and administrative expenses.*

B10. Group borrowings and debt securities

The Group does not have any borrowings and debt securities in the current financial quarter under review and financial year-to-date.

In terms of inter-Group borrowings, on 17th March 2009, the Company entered into a Revolving Promissory Note (the "Secured Note") with Smartag International Inc. Under the terms of the Secured Note, the Company agreed to advance to Smartag International Inc. from time to time amounts up to an aggregate of USD200,000. The Secured Note is renewable from year to year and all advances are interest free and shall be paid on or before 31st December. The purpose of the Secured Note is to enable Smartag International Inc. to settle any statutory and administrative expenses such as audit fees, filing expenses, secretarial expenses and corporate exercise fees as and when incurred.

B11. Off balance sheet financial instruments

As at the reporting date, the Group does not have any off balance sheet financial instruments.

B12. Material Litigations

Claim against both the defendants being G.T. & T. Engineering (M) Sdn Bhd

On 14 April 2009, the Company had claimed from G.T.&T. Engineering (M) Sdn Bhd an amount of RM850,000.00 for the supply of 30,000 units of inferior RFID tags to Johor Port Berhad.

G.T.&T. Engineering (M) Sdn Bhd had later filed a claim against the Company for an amount of RM108,762.32 in respect of damages for replacement of the inferior RFID tags. On 8 March 2011, the Company's solicitors had filed its statement of defence and counterclaim and are now awaiting the Plaintiff to file their reply to the Company's counterclaim, being the claim of RM850,000.00 for the supply of 30,000 units of inferior RFID tags to Johor Port Berhad.

The above matter was fixed for Hearing and Case Management on 7 September 2011.

B13. Dividends

The Board of Directors does not recommend any dividends for the current financial quarter under review.

B14. Earnings / (loss) per share

	Individual Quarter		**Cumulative Quarter**	
	Current Quarter Ended 30/06/11	**Preceding Corresponding Quarter Ended 30/06/10**	**Current Year To date ended 30/06/11**	**Preceding Corresponding Year To date ended 30/06/10**
Net profit / (loss) attributable to ordinary equity holders of the Company (RM'000)	(1,209)	N/A	(761)	N/A
Weighted average number of ordinary shares in issue ('000)	216,233	N/A	185,298	N/A
Basic earnings / (loss) per share (sen)	**(0.56)**	**N/A**	**(0.41)**	**N/A**

Diluted earnings per share is not disclosed herein as it is not applicable to the Group.

B15. Disclosure of realised and unrealised profit / losses

	As at 30/06/11 RM'000	**As at 31/03/11 RM'000**
Realised	10,903	12,389
Unrealised	-	(277)
Retained profit / (loss)	10,903	12,112

B16. Authorisation for issue

The interim financial statement were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 18 August 2011.

Smartag Solutions Berhad
18 August 2011

BY ORDER OF THE BOARD

Lam Voon Kean

(MIA 4793)

Company Secretary

Pulau Pinang