SMARTAG SOLUTIONS BERHAD (639421-X)
QUARTERLY REPORT ON CONSOLIDATED RESULTS
Quarterly Report for the First Quarter Ended 31 December 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"). The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 September 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 audited financial statements of the Group for the financial year ended 30 September 2011.

On 1 October 2011, the Group had adopted the following amendments/improvements to FRSs, new IC Int. and amendments to IC Int. mandatory for the financial period beginning on or after 1 January 2011 and 1 July 2011:-

<u>Amendments/Improvements to FRSs</u>

FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2011
FRS 2	Share-based Payment	1 January 2011
FRS 3	Business Combinations	1 January 2011
FRS 7	Financial Instruments: Disclosure	1 January 2011
FRS 101	Presentation of Financial Statements	1 January 2011
FRS 121	The Effects of Changes in Foreign Exchange Rates	1 January 2011
FRS 128	Investments in Associates	1 January 2011
FRS 131	Interests in Joint Ventures	1 January 2011
FRS 132	Financial Instruments: Presentation	1 January 2011
FRS 134	Interim Financial Reporting	1 January 2011
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2011

IC Int.

IC Int. 4	Determining Whether an Arrangement contains a Lease	1 January 2011
IC Int. 18	Transfers of Assets from Customers	1 January 2011
IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2011

Amendments to IC Int

IC Int. 13	Customer Loyalty Programmes	1 January 2011
IC Int. 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, Prepayments of a Minimum Funding Requirement	1 July 2011

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

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 statements 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 RM16,886 during the financial year ended 30 September 2011, and as of that date, the Company's current liabilities exceeded its current assets by RM41,548 and recorded a capital deficiency of RM24,238. 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.

A8. Dividends

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

A9. Segmental Information

The Group has one reportable segment, which is principally engaged in the distribution, research, design and deployment of the radio frequency identification (RFID) tag and operates predominantly in one country, that is, Malaysia. Accordingly, information by operating and geographical segments on the Group's operations as required by FRS 8 is not presented.

Further information on the Group's revenue is discussed in Section B1.

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 sale and purchase agreements on 21 December 2011 to purchase the following office properties:

(a) No. Petak 211, 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 RM500,000; and
(b) No. Petak 212, 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 RM500,000.

The Company has paid a total deposit of RM100,000 as at the end of the current quarter. The expected completion period is 3 months from the date of the agreements. The office properties will serve as the corporate and operational office of the Company.

A12. Other commitments

There were no material other commitments as at the current financial quarter under review.

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 period ended ("FPE") 31 December 2011, the Group recorded revenue of RM0.678 million, which represents a decrease of RM1.096 million as compared to the revenue of RM1.774 million registered in the preceding year corresponding quarter. The revenue of RM0.678 million for the current quarter was mainly contributed by sales of RFID Solutions for Logistics and Manufacturing which amounted to RM0.568 million, whilst the remaining balance was contributed by sales of Smartware of RM0.080 million, followed by RFID Library Solutions of RM0.022 million and recurring revenue stream of RM0.008 million from RFID Container Management Systems and Security Service in Thailand.

For the current quarter ended 31 December 2011, the Group recorded a loss before taxation of RM0.399 million as compared to a loss before taxation of RM0.321 million for the preceding year corresponding quarter. The higher losses incurred was mainly due to lower sales of RFID solutions in the current quarter as compared to the preceding year corresponding quarter resulting from the level of commitment and resources deployed by the Group in preparation for the commercialisation of the Security and Trade Facilitation System using RFID ("**Customs Project**") in the third quarter of FYE 30 September 2012. The Group incurred selling and distribution, and administrative expenses of approximately RM1.177 million for the current quarter mainly for the commercialisation of the Customs Project and expansion of its staff force for the Customs Project and sales team to secure other RFID solutions projects.

The Customs Project is expected to generate long term recurring revenue for the Group. To-date, 30 key customs checkpoints have been covered under the Customs Project and the management has completed discussions with various parties such as the freight associations and the industry users on the pricing of the service. The management is also in the midst of finalising the regulatory framework and commercial agreement for the commercialisation of the Customs Project with the Royal Malaysian Customs.

During the current quarter ended 31 December 2011, the Group has held awareness workshop and participated in the Hari Inovasi ICT Tahun 2011 organized by the National Audit Department (Jabatan Audit Negara) and Logistics Information Technology Today & Beyond to increase awareness of the Customs Project. The Group has also conducted trainings for the Malaysian customs' personnel. At the same time, the Customs Project was also highlighted in the media, namely the Star newspaper under the article "A Custom Upgrade" on 8 November 2011 and on the website of PC.com entitled "Hassle-Free Logistics" on 22 December 2011. In addition, the Group's Secured Trade Facilitation System was also selected as the Winner of the MSC Malaysia APICTA Award 2011, and subsequently represented Malaysia at the International APICTA Award 2011 in Pattaya, Thailand and won the Merit Winner Award for the Best of e-Logistics.

While the Group focuses on the Customs Project, the Group is also continuing its marketing efforts to secure future projects. The Group has strengthened its sales force from 3 headcount as of 30 September 2011 to 6 headcount as of to-date to pursue and secure other new projects to bolster the Group's performance in the coming quarters. The management will strive to balance between its operational costing and timing of increase in staff size to cater for the current projects and continuous marketing efforts to secure future projects.

The increase in the Group's property, plant and equipment from approximately RM14.298 million for the FYE 30 September 2011 to RM18.389 million for the FPE 31 December 2011 has been mainly attributed to the capital expenditure incurred to set up the critical equipment at key checkpoints for the Customs Project.

B2. Comparison To The Results Of The Preceding Quarter

	Current Quarter 31/12/11 RM'000	Preceding Quarter 30/09/11 RM'000
Revenue	678	196
Profit / (Loss) before tax	(399)	(908)

Revenue of the Group had increased to RM0.678 million for the FPE 31 December 2011 as compared to RM0.196 million registered in FPE 30 September 2011 mainly due to higher sales of RFID Solutions for Logistics and Manufacturing during the current quarter. The Group's loss before taxation for the FPE 31 December 2011 was recorded at RM0.399 million, representing an improvement of RM0.509 million as compared to the FPE 30 September 2011 mainly due to higher level of sales recorded and the absence of listing related expenses incurred for the current period.

B3. Prospects

As the Group prepares for the commercialisation of the Customs Project which is schedule to take place by the third quarter of FYE 30 September 2012, the management expects the Customs Project to contribute to the Group's revenue from the third quarter of its FYE 30 September 2012 onwards. Due to the scale of the Customs Project, the commercialisation of the Customs Project will be on a gradual basis and will cover Customs checkpoints that have been installed with the RFID infrastructure, and it would be an on-going process until all Customs checkpoints nationwide have been installed with the RFID infrastructure and commercialised. Thus, the revenue to be generated from the Customs Project will be realised gradually upon the commercialisation of each Customs checkpoint and is expected to provide long term recurring revenue for the Group.

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 30/09/11 RM'000	Year to Date Ended 30/09/10 RM'000
Current tax expense	*	*
	*	*

* Less than RM1,000

The effective tax rate of the Group remained low 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. Status of corporate proposals

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

B7. 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 31 December 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	(1) 8,835	-	Within 36 months
R & D Expenditure and R&D Related Capital Expenditure	3,357	242	3,115	Within 24 months
Working capital	3,534	(2) 1,836	1,698	Within 24 months
Estimated listing expenses	1,944	1,905	39*	Within 6 months from listing
Total	**17,670**	**12,818**	**4,852**	

Notes:

*** *In view that the actual listing expenses were lower than estimated, the excess will be 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.*

B8. 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.

B9. Off balance sheet financial instruments

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

B10. Material Litigations

Claim against both the defendants being G.T. & T. Engineering (M) Sdn Bhd ("GTT (M)") and G.T.&T. Engineering Pte Ltd ("GTT(S)")

On 14 April 2009 and 17 March 2010, the Company had claimed from GTT (M) and GTT(S) respectively through the Johor Bahru High Court an amount of RM850,000.00 for the supply of 30,000 units of inferior RFID tags to Johor Port Berhad.

GTT(M) had on 13 May 2009 filed a claim against the Company for an amount of RM108,762.32 under the Johor Bahru Sessions Court (formerly in Shah Alam Sessions Court) in respect of damages for replacement of the abovementioned inferior RFID tags (referred to as the "**JB Sessions Court Summons"**). On 8 March 2011, the Company's solicitors had filed its statement of defence and counterclaim, being the claim of RM850,000.00 for the supply of 30,000 units of inferior RFID tags to Johor Port Berhad.

The Company's solicitors then filed an application to transfer all three (3) suits, being the GTT(S) suit, GTT(M) suit and the JB Sessions Court Summons to the Penang High Court and thereafter an Order In Terms (OIT) has been granted to the said applications on 16 November 2011.

On 27 January 2012, the two (2) suits being the GTT(S) and GTT(M) were transferred from Johor Bahru High Court to Penang High Court and subsequently the Penang High Court has registered a new case number for each of the suit and fixed the Case Management date on 23 February 2012 for GTT(S) suit and 27 February 2012 for GTT(M) suit respectively.

On 1 February 2012, the JB Sessions Court Summons has been transferred from Johor Bahru Sessions Court to Georgetown Sessions Court.

The Penang High Court has after having the aforesaid Case Management held on 23 February 2012 for GTT(S) suit and subsequently fixed the Case Management date on 7 March 2012 for the Defendant's Solicitors to reply to the Company's Affidavit.

B11. Dividends

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

B12. Earnings / (loss) per share

	Individual Quarter		**Cumulative Quarter**	
	Current Quarter Ended	**(Restated) Preceding Corresponding Quarter Ended**	**Current Year To date ended**	**(Restated) Preceding Corresponding Year To date ended**
	31/12/11	**31/12/10**	**31/12/11**	**31/12/10**
Net profit / (loss) attributable to ordinary equity holders of the Company (RM'000)	(396)	(318)	(396)	(318)
Weighted average number of ordinary shares in issue ('000)	227,000	170,000	227,000	170,000
Basic earnings / (loss) per share (sen)	**(0.17)**	**(0.19)**	**(0.17)**	**(0.19)**

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

B13. Disclosure of realised and unrealised profit / losses

	As at 31/12/11 RM'000	As at 30/09/11 RM'000
Realised	9,576	9,992
Unrealised	(2)	4
Retained profit / (loss)	**9,574**	**9,996**

B14. 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 27 February 2012

Smartag Solutions Berhad
27 February 2012

BY ORDER OF THE BOARD

Lim Peng Keong

Executive Director

Pulau Pinang