SMARTAG SOLUTIONS BERHAD (639421-X)
QUARTERLY REPORT ON CONSOLIDATED RESULTS
Quarterly Report for the Second Quarter Ended 31 March 2012

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:-

Amendments/Improvements to FRSs

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

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

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

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

Save as disclosed below, there are no material events subsequent to the end of the reporting quarter that have not been reflected in the financial quarter under review.

The Company had on 30 April 2012 entered into an agreement with The Government of Malaysia (the "**Customs Agreement**"), which for the purpose of the Customs Agreement is represented by the Ketua Pengarah Kastam of Jabatan Kastam Diraja Malaysia ("**JKDM**" or "**Customs**") in relation to the implementation and operation of the Container Security and Trade Facilitation System using Radio Frequency Identification ("**RFID**") project at JKDM (referred to as the "**RFID System Project**" or "**Customs Project**").

Further details on the Customs Project are disclosed in Section B1.

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 March 2012, the Group recorded revenue of RM1.074 million, which represents a decrease of RM4.614 million as compared to the revenue of RM5.688 million registered in the preceding year corresponding period. The revenue of RM1.074 million for the current period was mainly contributed by sales of RFID Solutions for Logistics and Manufacturing which amounted to RM0.584 million, whilst the remaining balance was contributed by sales of Smartware of RM0.400 million, followed by other RFID products of RM0.045 million, RFID Library Solutions of RM0.029 million, and recurring revenue stream of RM0.016 million from RFID Container Management Systems and Security Service in Thailand.

For the current quarter ended 31 March 2012, the Group recorded revenue of RM0.396 million. The revenue of RM0.396 million for the current quarter was mainly contributed by sales of Smartware of RM0.320 million, whilst the remaining balance was contributed by sales of RFID Solutions for Logistics and Manufacturing which amounted to RM0.016 million, followed by other RFID products of RM0.045 million, recurring revenue stream of RM0.008 million from RFID Container Management Systems and Security Service in Thailand, and RFID Library Solutions of RM0.007 million.

On the back of the lower revenue registered in the current period, the Group recorded a loss before taxation of RM0.486 million for the current period ended 31 March 2012 as compared to a profit before taxation of RM0.445 million for the preceding year corresponding period. The losses incurred were mainly due to lacklustre sales of RFID solutions for the current period. The lower sales level achieved in the current period was mainly due to lower sales secured from other RFID solutions projects, particularly RFID Solutions for Logistics and Manufacturing, resulting from continuous level of commitment and resources deployed by the Group to prepare for the commercialisation of the Customs Project by 1 June 2012.

The Company had on 30 April 2012 entered into the Customs Agreement with JKDM in relation to the implementation and operation of the Customs Project. The implementation of the Customs Project aims to reduce the traffic and container clearance timeframe at the Customs checkpoint locations, and to further assist JKDM to enhance the detection of security threats such as smuggling of illegal immigrants, human trafficking, drugs and weapons smuggling, biological, radioactive and illegal chemical substance smuggling, as well as to ensure revenue and cargo security in respect of goods moved in transit with the data integration between the RFID system and the JKDM's Customs Information System.

Pursuant to the signing of the Customs Agreement, the Company shall be entitled to impose on the users service charges for the usage of the RFID system at the installation sites upon the commercialisation of the Customs Project on 1 June 2012 ("**Commercialisation**"). To-date, 31 sites comprising of 26 customs checkpoints and 5 bonded warehouses that have at least 80% of total goods in transit movement have been installed and covered under the Customs Project. With the Commercialisation, the Board expects the Customs Project to generate long term recurring revenue for the Group, and contribute positively to the Group's future financial performance.

The increase in the Group's property, plant and equipment from approximately RM14.298 million for the FYE 30 September 2011 to RM19.762 million for the FPE 31 March 2012 has been mainly attributed to the capital expenditure incurred to set up the critical equipment at key checkpoints for the Customs Project and also the completion of the Group's purchase of office properties amounting to RM1.0 million in March 2012, which will serve as the corporate and operational office of the Group.

B2. Comparison To The Results Of The Preceding Quarter

	Current Quarter **31/03/12** **RM'000**	**Preceding Quarter** **31/12/11** **RM'000**
Revenue	396	678
Profit / (Loss) before tax	(416)	* (70)

Note:-

* *The preceding quarter financials has been restated due to reclassification made to capitalise development costs incurred for the software and system development for the deployment of the Customs Project to Intangible Assets. The said development costs amounting to RM0.329 million were previously expensed off under administrative expenses in the preceding quarter.*

Revenue of the Group had decreased to RM0.396 million for the FPE 31 March 2012 as compared to RM0.678 million registered in FPE 31 March 2012 mainly due to lower sales of RFID Solutions for Logistics and Manufacturing during the current quarter. The Group's loss before taxation for the FPE 31 March 2012 was recorded at RM0.416 million, representing an increase of RM0.346 million as compared to the loss of of RM0.07 million incurred for FPE 31 December 2011 mainly due to lower level of sales recorded and slightly higher staff cost as a result of the expansion of its sales team to secure other RFID solutions projects.

B3. Prospects

As the Group prepares for the commercialisation of the Customs Project which is schedule to take place by 1st June 2012, the management expects the Customs Project to contribute to the Group's revenue commencing from the fourth quarter of 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 systems, and it would be an on-going process until all Customs checkpoints nationwide have been installed with the RFID systems 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.

Pursuant to the letter dated 28 March 2012 received on 5 April 2012 from Multimedia Development Corporation Sdn Bhd ("**MDEC**"), the Company shall work closely with MDEC towards the successful implementation of the project on "Establishing A Trusted Mobile Digital Wallet System" ("**Mobile Wallet**"). Subject to further discussions between Smartag and MDEC, and the execution of a contract (if any) by the relevant parties in relation to the Mobile Wallet, the management is of the opinion that the Mobile Wallet is a new business strategy with huge growth potential, which is expected to provide additional recurring revenue stream to the Group in the near future upon its commercialisation.

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 Ended	Current Year to Date Ended
	31/03/12	31/03/12
	RM'000	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 Proposal

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 March 2012 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	363	2,994	Within 24 months
Working capital	3,534	(2) 2,212	1,322	Within 24 months
Estimated listing expenses	1,944	1,905	39*	Within 6 months from listing
Total	**17,670**	**13,315**	**4,355**	

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 Customs 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. The Penang High Court has fixed the GTT(S) suit for Clarification and Decision for Enclosure 34 (i.e. the Defendant's Solicitor to strike out our Writ Summons application) and the Enclosure 1 for Case Management on 6 June 2012.

The Penang High Court has subsequently fixed the GTT(M) suit for Case Management and Mention on 25 June 2012 and also fixed the Full Trial date on 31 January 2013 and 1 February 2013. The JB Sessions Court Summons was transferred from Johor Bahru Sessions Court to Georgetown Sessions Court ("Georgetown Sessions Court Summons") on 1 February 2012 and the Court has fixed the suit for Mention on 15 June 2012.

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 31/03/12	(Restated) Preceding Corresponding Quarter Ended 31/03/11	Current Year To date ended 31/03/12	(Restated) Preceding Corresponding Year To date ended 31/03/11
Net profit / (loss) attributable to ordinary equity holders of the Company (RM'000)	(417)	766	(484)	448
Weighted average number of ordinary shares in issue ('000)	227,000	170,000	227,000	170,000
Basic earnings / (loss) per share (sen)	**(0.18)**	**0.45**	**(0.21)**	**0.26**

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 31/03/12 RM'000	As at 31/12/11 RM'000
Realised	9,503	9,905
Unrealised	(17)	(2)
Retained profit / (loss)	**9,486**	**9,903**

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.

Smartag Solutions Berhad

29 May 2012

BY ORDER OF THE BOARD

Lim Peng Keong

Executive Director

Pulau Pinang