

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

There are no material events subsequent to the end of the reporting quarter that have not been reflected in the financial quarter under review.

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”) 30 June 2012, the Group recorded revenue of RM1.326 million, which represents a decrease of RM4.376 million as compared to the revenue of RM5.702 million registered in the preceding year corresponding period. The revenue of RM1.326 million for the current period was mainly contributed by sales of RFID Solutions for Logistics and Manufacturing which amounted to RM0.793 million, whilst the remaining balance was contributed by sales of Smartware of RM0.423 million, followed by other RFID products of RM0.057 million, RFID Library Solutions of RM0.029 million, and recurring revenue stream of RM0.024 million from RFID Container Management Systems and Security Service in Thailand.

For the current quarter ended 30 June 2012, the Group recorded revenue of RM0.252 million. The revenue of RM0.252 million for the current quarter was mainly contributed by sales of RFID Solutions for Logistics and Manufacturing of RM0.209 million, whilst the remaining balance was contributed by sales of Smartware which amounted to RM0.023 million, followed by recurring revenue stream of RM0.008 million from RFID Container Management Systems and Security Service in Thailand and other RFID products of RM0.012 million.

On the back of the lower revenue registered in the current period, the Group recorded a loss before taxation of RM1.344 million for the current period ended 30 June 2012 as compared to a loss before taxation of RM0.765 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 Smartware and 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 Container Security and Trade Facilitation System using RFID project (“**Secured Trade Project**”).

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 Secured Trade Project at JKDM. Further thereto, the Company had on 8 August 2012 entered into a supplemental agreement with JKDM (“**Supplemental Agreement**”) to amend the commencement date of the commercialisation of the Secured Trade Project from 1 June 2012 to 1 September 2012, the commencement date for the calculation of the Key Performance Indicator from 1 September 2012 and the agreement shall be for the period of two (2) years commencing from 1 September 2012 to 31 August 2014. The delay in the commercialisation of the Secured Trade Project was the request by JKDM to streamline the customs procedures and to ensure the customs officers are ready for the implementation of the RFID systems.

The Board expects the commercialisation of the Secured Trade Project to generate long-term recurring revenue to the Group, which is expected to 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 RM20.69 million for the FPE 30 June 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	Preceding Quarter
	30/06/12	31/03/12
	RM'000	RM'000
Revenue	252	396
Profit / (Loss) before tax	(858)	(416)

Revenue of the Group had decreased to RM0.252 million for the FPE 30 June 2012 as compared to RM0.396 million registered in FPE 30 June 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 30 June 2012 was recorded at RM0.858 million, representing an increase of RM0.442 million as compared to the loss of RM0.416 million incurred for FPE 31 March 2012 mainly due to lower level of sales recorded, higher depreciation of assets and higher operational cost as a result of the expansion of its operations workforce to support the Customs project by stationing staff at strategic locations nationwide.

B3. Prospects

Despite the delay in the commercialisation of the Secured Trade Project pursuant to the Supplemental Agreement, the management expects the Secured Trade Project to provide recurring revenue to the Group in the long term. The commercialisation of the Secured Trade Project will be done on a gradual basis starting from the existing Customs checkpoints that have already been installed with the RFID systems.

The management has also been working closely with Multimedia Development Corporation Sdn Bhd ("MDEC") since obtaining the letter dated 28 March 2012 received on 5 April 2012 on the implementation of the project on "Establishing A Trusted Mobile Digital Wallet System" ("Mobile Wallet"). The Mobile Wallet project is based on the Near Field Communication technology 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
	30/06/12	30/06/12
	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 30 June 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	523	2,834	Within 24 months
Working capital	3,534	⁽²⁾ 2,563	971	Within 24 months
Estimated listing expenses	1,944	1,905	39*	Within 6 months from listing
Total	17,670	13,826	3,844	

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 and subsequently were consolidated on 24 July 2012. The Penang High Court has now fixed the consolidated suits of GTT(S) and GTT(M) for Case Management on 28 August 2012. The Penang High Court has also fixed the Full Trial date for the consolidated suits 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 plaintiff’s solicitors has now filed an application to transfer the Georgetown Sessions Court Summons to Penang High Court which to be heard together with the cases of GTT(S) and GTT(M).

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	
		(Restated) Preceding		(Restated) Preceding
	Current Quarter Ended	Corresponding Quarter Ended	Current Year To date ended	Corresponding Year To date ended
	30/06/12	30/06/11	30/06/12	30/06/11
Net profit / (loss) attributable to ordinary equity holders of the Company (RM'000)	(856)	(1,209)	(1,340)	(761)
Weighted average number of ordinary shares in issue ('000)	227,000	216,233	227,000	185,298
Basic earnings / (loss) per share (sen)	(0.38)	(0.56)	(0.59)	(0.41)

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 30/06/12 RM'000	As at 31/03/12 RM'000
Realised	8,658	9,503
Unrealised	2	(17)
Retained profit / (loss)	8,630	9,486

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

24 August 2012

BY ORDER OF THE BOARD

Lim Peng Keong

Executive Director

Pulau Pinang