

SMARTAG SOLUTIONS BERHAD (639421-X)
QUARTERLY REPORT ON CONSOLIDATED RESULTS
Quarterly Report for the Fourth Quarter Ended 30 September 2013

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

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") 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 2012 and the accompanying explanatory notes attached to the interim financial report.

The Group has adopted the Malaysian Financial Reporting Standard (MFRS) framework issued by MASB with effect from 1 January 2012. This MFRS framework was introduced by the MASB in order to fully converge Malaysia's existing Financial Reporting Standards ("FRS") framework with the International Financial Reporting Standards ("IFRS") framework issued by the International Accounting Standards Board. The transition from the previous FRSs to the new MFRSs has no impact on the Group financial position, financial performance, cash flows and the notes to the financial statements.

The Group has also adopted all the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 October 2012. The adoption of these new and revised MFRSs and IC Interpretations have not resulted in any material impact on the financial statements of the Group.

A2. 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 financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in notes of the financial statements, 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 statements do 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 disclose 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 RM19,321 during the financial year ended 30 September 2012, and as of that date, the Company's current liabilities exceeded its current assets by RM52,864 and recorded a capital deficiency of RM43,559. 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.

A3. Seasonal or cyclical factors

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

A4. Unusual Items affecting assets, liabilities, equity, net income or cash flows

Except as disclosed in Note B1 on the impairment of certain property, plant and equipment of RM6.025million and software assets of RM3.538 million, there were no other unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter under review.

A5. Material changes in estimates

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

A6. Debts and equity securities

There was 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.

A7. Dividends

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

A8. 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 MFRS 8 is not presented.

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

A9. 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.

A10. Capital commitments

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

A11. Other commitments

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

A12. 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.

A13. 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.

A14. 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 year ended (“FYE”) 30 September 2013, the Group recorded revenue of RM1.158 million, which represents a decrease of RM0.183 million as compared to the revenue of RM1.341 million registered in the preceding financial year. The revenue of 1.158 million for the current financial year was mainly contributed by sales of RFID solutions, software solutions and related equipment which amounted to RM0.976 million, recurring revenue stream of RM0.163 million from Secured Trade Project and RM0.017 from RFID Container Security Service in Thailand.

For the current quarter ended 30 September 2013, the Group recorded revenue of RM0.711 million, which represents an increase of RM0.696 million as compared to the revenue of RM0.015 million registered in the preceding year corresponding quarter. The revenue for the current quarter was mainly contributed by RFID and software solutions sales of RM0.486 million, equipment sales of RM0.189 million and recurring revenue stream of RM0.036 million from Secured Trade Project .

The Group recorded a loss before taxation of RM13.596 million as compared to a loss before taxation of RM2.698 million registered in the preceding financial year. The higher losses incurred for the current period was mainly due to impairment of property, plant and equipment related to a container tracking project and software assets amounting to RM6.025 million and RM3.538 million respectively as management had assessed that the future economic benefit generated by these assets are not expected to match with the value of its carrying amount, additional depreciation of RM2.824 million of assets as a result of the readiness and commercialisation of the Secured Trade Project, additional expenses incurred by its subsidiary, Smartag International Inc, US of RM0.388 million to activate it from dormant status, increase in consultancy and technical fee of RM0.280 million, staff cost increased by RM0.642 million due to staff restructuring exercise, lower capitalisation of staff cost of RM0.197 million and reduction in other income of RM0.227 million from FD interest due to lower bank balances.

B2. Comparison To The Results Of The Preceding Quarter

	Current Quarter 30/09/13 RM'000	Preceding Quarter 30/06/13 RM'000
Revenue	711	174
Profit / (Loss) before tax	(11,753)	(1,957)

Revenue of the Group had increased to RM0.711 million for the current quarter ended 30 September 2013 as compared to RM0.174 million registered in the preceding quarter ended 30 June 2013 mainly due to software solutions sales and sales of inventories during the current quarter. The Group’s loss before taxation for the current quarter ended 30 September 2013 of RM11.753 million increased by RM9.796 million compared to preceding quarter ended 30 June 2013 loss before taxation of RM1.957 million, mainly due to impairment of property, plant and equipment related to a container tracking project and software asset, amounting to RM6.025 million and RM3.538 million respectively and expenses incurred by a subsidiary, Smartag International Inc, US to activate it from dormant status.

B3. Prospects

The Group will continue to engage with stakeholders on the usage of the Secured Trade.

In relation to the Mobile Payee Gateway Agreement entered into between the Company and Celcom eCommere Sdn Bhd, as announced on 31 May 2013 in relation to the provision of mobile payment cloud service which interconnects Celcom Aircash to worldwide merchants, the Company is exploring to implement similar business model with other mobile telecommunication providers.

In respect of the Memorandum of Understanding (“MOU”) between the Company with Malaysian Electronic Clearing Corporation Sdn Bhd (“MyClear”) for the development of a Near Field Communication (“NFC”) ecosystem for Malaysia, the Company and MyClear had mutually agreed not to extend the MOU. Nevertheless the Company is now part of a workgroup entrusted for the same purpose. The development of the NFC ecosystem is still at the early stage.

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 30/09/13 RM'000	Current Year to Date Ended 30/09/13 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 has been 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 September 2013 are as follows:-

	Proposed Amount as Disclosed in the Prospectus	Amount Utilised as at 30.09.2012	Amount Unutilised as at 30.09.2012	Revision as announced on 10.12.2012	Revised Balance Amount	Amount Utilised as at 30.09.2013	Amount Unutilised as at 30.09.2013	Initial Timeframe for Utilisation of IPO Proceeds from Date of Listing	Extension of time- frame for Utilisation of IPO Proceeds from Date of Listing
Purposes	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)		
Project Related Capital Expenditure	8,835	⁽¹⁾ 8,835	-	-	-	-	-	Within 3 years	Within 3 years
Research & Development (R&D) Expenditure and Research & Development Related Capital Expenditure									
▪ R&D Expenditure	1,330	1,330	-	600	600	600	-	Within 2 years	Within 3 years
▪ R&D Related Capital Expenditure	2,027	415	1,612	(1,412)	200	102	98	Within 2 years	Within 3 years
	3,357	1,745	1,612	(812)	800	702	98		
Working capital	3,534	⁽²⁾ 2,976	558	812	1,370	1,370	-	Within 2 years	Within 3 year3
Estimated listing expenses	1,944	1,905	39*	-	39*		39	Within 6 months	*
Total	17,670	15,461	2,209	-	2,209	2,072	137		

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 17 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 30th September. 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) suit, 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") was granted to the said applications on 16 November 2011.

On 27 January 2012, the two (2) suit 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 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 then 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). On 28 August 2012, an OIT was granted to the said application.

On 30 October 2012, an appointment/meeting for an amicable settlement was held between the Company, Johor Port Berhad, GTT(S) and GTT(M) together with their solicitors. This amicable settlement is currently at the stage of negotiation between the parties and targeted to be resolved prior to the Full Trial date.

On 12 November 2013, the Penang High Court has fixed the aforesaid suit for Full Trial to be held on 5th, 6th and 7th of May 2014 in the Penang High Court.

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 30/09/13	Preceding Corresponding Quarter Ended 30/09/12	Current Year To date ended 30/09/13	Preceding Corresponding Year To date ended 30/09/12
Net profit / (loss) attributable to ordinary equity holders of the Company (RM'000)	(11,733)	(1,352)	(17,108)	(2,694)
Weighted average number of ordinary shares in issue ('000)	227,000	227,000	227,000	227,000
Basic earnings / (loss) per share (sen)	(5.17)	(0.60)	(7.54)	(1.19)

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 30/09/13 RM'000	(Audited) As at 30/09/12 RM'000
Total retained profits of the Company and its subsidiaries		
- Realised	(14,777)	2,436
- Unrealised	53	(26)
	(14,724)	2,410
Total share of retained profits of a jointly controlled entity		
- Realised	(19)	(13)
- Unrealised	-	-
	(14,743)	2,397
Add: Consolidation adjustments	4,912	4,879
Total retained profits	(9,831)	7,276

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

22 November 2013

BY ORDER OF THE BOARD

Chang Junn

Chief Financial Officer

Selangor