

**SMR TECHNOLOGIES BERHAD (“SMRT” OR “COMPANY”)
RESEARCH REPORT FOR THE FIRST HALF YEAR ENDING 31 DECEMBER 2007**
1. SUMMARY OF FINANCIAL RESULTS

The summary of financial results of SMRT and its subsidiaries (the “SMRT Group” or “Group”) since its incorporation are as follows:-

	Financial period from 14 July 2004 to 31 December 2004[^] (audited) (RM’000)	FYE 31 December 2005 (audited) (RM’000)	FYE 31 December 2006 (audited) (RM’000)	6 months ended 30 June 2007 (unaudited) (RM’000)
Revenue	1,901	7,937	12,156	7,519
Profit before tax (“PBT”)	800	3,629	5,814	2,721
PBT margin (%)	42.1	45.7	47.8	36.2
Profit after tax and minority interests	800	3,629	5,748	2,681
Gross earnings per share (“EPS”) (sen)	1.14	5.18	6.07	2.72
Net EPS (sen)	1.14	5.18	6.00	2.68

Note:

[^] SMRT acquired its subsidiary SMR HR Technologies Sdn Bhd (“SMRHRT”) on 27 August 2004 to form the SMRT Group. Hence SMRT Group’s audited consolidated results for the financial period ended 31 December 2004 only covers the period from 27 August 2004 to 31 December 2004.

2. FINANCIAL PERIOD UNDER REVIEW

	Unaudited 2nd quarter ended 30 June 2007 (RM’000)	Unaudited 1st quarter ended 31 March 2007 (RM’000)	Unaudited Quarter on quarter (%)	Unaudited 6-months period ended 30 June 2007 (RM’000)	Unaudited 6-months period ended 30 June 2006 (RM’000)	Half year on half year (%)
Revenue	4,142	3,378	22.6	7,519	6,107	23.1
PBT	1,116	1,605	-30.5	2,721	3,149	-13.6
Profit after tax and minority interests	1,076	1,605	-33.0	2,681	3,149	-14.9

Revenue

For the second quarter of 2007, the Group recorded revenue of RM4.1 million, which represents an increase of 22.6% from the immediate preceding quarter.

For the 6-month period ended 30 June 2007, SMRT’s revenue increased by approximately 23.1% to RM7.5 million as compared to RM6.1 million in the corresponding period of the preceding year. The growth in revenue is attributed to robust sales of new products and services both locally and overseas.

Profitability

However, the Group’s PBT of RM1.1 million for the second quarter of 2007 represents a decrease of 30.5% in comparison to the immediate preceding quarter.

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For the 6-months period ended 30 June 2007, SMRT’s profit before tax declined to RM2.7 million as compared to RM3.1 million for the corresponding period of the preceding year. The lower PBT was due to higher initial implementation cost for unbilled projects and higher staff cost due to additional recruitment to strengthen the staff force of SMRT.

The management of the Company has represented that the Group do not foresee any issues in achieving a growth in the profit for the financial year ending 31 December 2007 against financial year ended 31 December 2006 from the existing orders in hand and the potential demand overseas.

3. OUTLOOK

The Group is principally involved in software development, specialising in human capital development and the provision of a comprehensive range of human resource (“HR”) competency and performance management systems and related services.

Outlook of the Global and Malaysian Economy

Going forward, the global economic expansion is expected to be sustained at above 4% in 2007. Despite the moderation in the US economy and ongoing uncertainties such as high oil prices and unstable conditions in the financial markets, favourable growth momentum in the European and Asian regions would sustain global growth over the near term.

Forward looking indicators for Malaysia continued to point towards improved growth performance in the second half-year. The Malaysian Institute of Economic Research (“MIER”) Business Conditions Index rose significantly to 122.1 points in the second quarter (1Q: 105.5 points), indicating improved business sentiment.

The services sector, which grew by 9.2% in the second quarter (1Q: 9.7%), continued to benefit from increased finance and business activity as well as favourable stock market performance and increased demand for computer and professional services. On the sectoral performance, growth is expected to be supported by further expansion in the services sector.

(Source: Bank Negara Malaysia: Quarterly Bulletin Second Quarter of 2007)

Outlook of Malaysia’s ICT market

Malaysia’s ICT market has been fairly soft for most part of 2006 but there has been growth, albeit moderately. Early in 2006, the Association of Computer and Multimedia Industry of Malaysia (“PIKOM”) forecasted a growth of 12 per cent, compared to the estimated growth of 10 per cent in 2005.

Going into 2007, PIKOM foresees the market to perform slightly better but the pace will remain moderate. Growth is expected to be around 13 per cent, with the Government sector expected to remain the main driver. There will be plenty of opportunities in the public sector given the fact that allocation for ICT projects under the Ninth Malaysian Plan is double the figure in the Eighth Malaysian Plan.

(Source: 2006 Year-ender and 2007 ICT Market Outlook, PIKOM, 15 December 2006)

4. BUSINESS DEVELOPMENT PLAN & FINANCIAL IMPACT

SMRT was listed on the MESDAQ Market of Bursa Malaysia Securities Berhad on 13 March 2006. The vision of SMRT Group is to be recognised as Asia’s premier technology company in human resource development.

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The objective of the SMRT Group is to provide a one-stop digital centre for human capital development in the digital age through two (2) key initiatives which are as follows:-

- (i) To develop human capital competency development and performance management software and a web-based on-line learning management system; and
- (ii) To provide related services such as implementation consultancy, web services and HR outsourcing.

In order to realise its vision and objective, the Group has laid down its business strategy in its business development plan as set out in the Company’s prospectus dated 22 February 2006. The key business strategies in pursuing its business development plan during the first half of the financial year ending 31 December 2007 is outlined below:-

Strategy

Business strategy : The Group’s success in the HRD and competency software development sector of the human resource management stems from its business and revenue models and its modus operandi.

The Board of SMRT recognise that continuous R&D plans are crucial for the Group to compete effectively. The Group’s R&D activities are set out in Section 5 below.

Marketing strategy : The recent Asia HRD Congress 2007 held at Sunway Pyramid Convention Centre from 23 to 25 July 2007 which attracted 600 participants and 40 exhibitors with over 25% of the delegates coming from 17 countries worldwide had provided SMRT the opportunity to market its products and services to capture the attention of targeted and potential users.

During the year, UMS Link Holdings Sdn Bhd had agreed to promote SMRHRT’s competency-based Human Resource Development tool, HRDPower™ as a teaching tool to University Malaysia Sabah, Sabah State Public Service Training Institute and state Government agencies.

The Group plans to set up an office in Dubai in the near term to explore the potential in the Middle East market.

Furthermore, the recent signing of the Strategic Partnership, Software Licensing And Distribution Agreement between SMRT and Smartha, Inc on 24 July 2007 for the exclusive distributorship of SMRT Group’s software in North America would assist the Group to penetrate the North America market with minimal investment.

Retention strategy : The Group’s products and services are well received by its customers which is evidenced through its growth in sales. The Group recognises the importance to retain as well as to acquire new customers to expand its customer base in order to establish a strong presence and remain competitive in the market.

In this respect, the Group continues to focus on strengthening customer relationships and experiences as well as developing customer orientation amongst all employees to achieve world class standards.

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Strategy

In addition, installation and upgrading of web server data management system, customer relation management systems, web-based management tools and accounting system to improve communications and efficiencies are in progress to cater to customer needs.

Future marketing strategy : The Group’s specific marketing directions for achieving higher sales are as follows:-

- (i) Direct marketing;
- (ii) Advertising and promotion;
- (iii) After sales customer servicing and maintenance strategy;
- (iv) Strategic alliances;
- (v) On-line marketing; and
- (vi) Government and industrial association initiatives.

The Board of Directors of SMRT is of the view that the Group’s business plan has been carried out as planned and its implementation is expected to contribute positively to the Group’s earnings and financial position in the near future.

5. RESEARCH AND DEVELOPMENT (“R&D”)

As at 30 June 2007, the Group had fully utilized RM1.3 million of its initial public offering proceeds that was allocated for R&D initiatives. A total of RM4.5 million was invested in R&D and intellectual property rights for the financial year ended 31 December 2006. The Company’s management had represented that the Group’s strategy is to plough back at least 20% of its yearly profits into R&D. The capital outlay for the R&D has been planned and is not expected to have any significant or unforeseen financial impact of the Group. The Board of Directors of SMRT is of the view that the R&D expenditure and future allocation for R&D is not expected to have any material or unforeseen financial impact on the Group as it is able to fund its research & development activity from internally generated funds.

The Group’s R&D activities aim to reinforce the Group’s position in global HRD and competency management. The Group’s R&D goal is to develop new products, modify existing products and innovate new functionalities to meet the needs of the market. The Group continues to focus on enhancements and improvements of products’ features, timeliness in delivery to its customers, good technical service and after sales support to ensure continuous acceptance of products. The Group has lined up eleven new products for 2007. The development of the new products for 2007 are as follows:-

	Products	Expected Launch Date/Launch Date	Existing stage of completion
1.	HRDWebvarsity	1 st Quarter 2007	Available in the market.
2.	Trainers VirtualCampus	1 st Quarter 2007	Available in the market.
3.	HRDPortal	3 rd Quarter 2007	This system is undergoing test marketing.
4.	Competency Power	1 st Quarter 2007	Available in the market.
5.	LearningPower.Net	4 th Quarter 2007	This system is presently in the planning stage and should be ready for internal testing by the 4 th quarter of 2007.
6.	EMPower	4 th Quarter 2007	This system is presently in the planning stage and should be ready for internal testing by the 4 th quarter of 2007.
7.	EpayPower	3 rd Quarter 2007	This system is presently in the planning

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	Products	Expected Launch Date/Launch Date	Existing stage of completion
8.	SuccessPower	4 th Quarter 2007	stage and should be ready for internal testing by the 3 rd quarter of 2007. This system is presently in the planning stage and should be ready for internal testing by the 4 th quarter of 2007.
9.	PayrollPower	2 nd Quarter 2008	Due to market demands, this project has been accelerated from 2008. This system is presently in the planning stage and should be ready for internal testing by the 2 nd quarter of 2008.
10.	MLearning	3 rd Quarter 2008	This HRD Power™ software system is presently in the planning stage and should be ready for internal testing by the 3 rd quarter of 2008.
11.	MEvaluation	4 th Quarter 2008	This HRD Power™ software system is presently in the planning stage and should be ready for internal testing by the 4 th quarter of 2008.

The Group is currently developing two new products lines as follows:-

- (i) eLearning and knowledge management for teaching and research; and
- (ii) ecommerce applications for the HRD community.

These two product lines expedite knowledge acquisition and promote lifelong learning.

The total R&D team of the Group as at 30 June 2007 is 10 persons. The R&D team was strengthened with the arrival of new staff which provided SMRT with an added advantage in enhancing its existing products and developing the next wave of products.

6. FINANCIAL FORECAST

The Group has not disclosed any profit forecast in respect of the financial year ending 31 December 2007.

7. TOP 10 SHAREHOLDERS OF SMRT

The details of the top 10 securities holders having the largest number of securities in SMRT according to the Record of Depositors as at 29 June 2007 are as follows:-

No.	Name of shareholders	No. of shares held	%
1.	SPECIAL FLAGSHIP HOLDINGS SDN BHD	41,999,980	42.00
2.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD EXEMPT AN FOR KUMPULAN SENTIASA CEMERLANG SDN BHD	13,220,000	13.22
3.	PALANIAPPAN A/L RAMANATHAN	11,431,090	11.43

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No.	Name of shareholders	No. of shares held	%
	CHETTIAR		
4.	PALANIAPPAN A/L RAMANATHAN CHETTIAR	3,000,020	3.00
5.	CHHOA KWANG HUA	1,700,000	1.70
6.	ECM LIBRA AVENUE NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE CHONG EU	1,501,600	1.50
7.	AMANAH RAYA BERHAD SBB DANA AL-FAIZ	822,400	0.82
8.	CHAN CHOON WAI	800,000	0.80
9.	TANG KAM KEW	723,900	0.72
10.	ANG ENG HONG	423,00	0.42

8. UTILISATION OF PROCEEDS

The Company’s entire issued and paid-up capital of 100,000,000 ordinary shares of RM0.10 each were listed on 13 March 2006 on the MESDAQ Market of Bursa Malaysia Securities Berhad. The details of the utilization of proceeds raised from its initial public offering as at 30 June 2007 are as follows:-

	Proposed utilisation (RM’000)	Actual utilisation (RM’000)	Deviation *	
			RM’000	%
Capital investment	4,700	3,983	717	15.3
Working capital	2,400	1,833	567	23.6
R&D	1,300	1,300	-	-
Listing expenses	1,500	1,500	-	-
Total	9,900	8,616	1,284	13.0

Note:-

* *The Company expects to fully utilise the balance of the listing proceeds in 2007.*

9. FUTURE PROSPECTS

The current trend of strong sales growth achieved in United States of America and the Middle Eastern countries supports the Group’s strong potential in the demand for their products and services in these regions. With SMRT various strategic partnership abroad, SMRT is able to compete more effectively and deliver more efficiently their products and services globally.

Barring any unforeseen circumstances, the Board is of the opinion that the performance of the Group for the financial year ending 31 December 2007 will remain favourable.