




EXTOL


ADVANCING EXCELLENCE




nurture with passion
results that benefit



proven technologies
your ideal solution



always on the mark
dependable deliverables



flexible & adaptable
customised approaches

setting new standards in ICT security

Extol MSC Bhd
(643683-U)

Annual Report 2006

Corporate Vision and Values

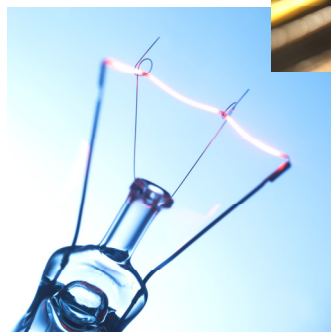
Our vision is to be the most prestigious brand in the Information and Communications Technology (ICT) security field, to be known for our highly secured solutions. We want to be the brand most known for our trustworthiness. We want our brand to be built around integrity and trust.

Essentially, we create value by advancing excellence. Not being satisfied with the status quo, we believe that everything we do, we must do it better, otherwise, we will not embark on the journey. We do this by being productively neurotic, passionate about our work and having a bias for action to deliver groundbreaking results.

In the service industry and information age, the most important competitive factor today is information and more importantly, relevant information. To be able to provide our expertise and solutions, we have to continuously strive to acquire knowledge, have an inquisitive attitude in our research and an unequivocal and passionate quest to discover the unknown. It is only through our collective expertise and knowledge that we are able to produce groundbreaking results.

In providing security solutions, the single most important value we can bring to our clients is the trust and integrity of our solutions and expertise. Through our track record, we are then able to extend our assurance and confidence to our clients.

While we must be firm, precise and scientific, we equally have to balance ourselves with the flexibility and adaptability to customize our solutions to the ever changing needs of the market.





Contents

1	Corporate Information
3	Company Overview
7	Director's Profile
9	Chief Executive Officer's Statement
12	Corporate Governance Statement
17	Audit Committee Report
21	Statement on Internal Control
24	Financial Statements
57	Statistic of Shareholdings
58	List of Thirty (30) Largest Shareholders
60	List of Properties
62	Notice of Annual General Meeting
65	Form of Proxy

CORPORATE INFORMATION

BOARD OF DIRECTORS

Justin Tan Seng Kooi
Chief Executive Officer

Lee Choon Kee
Executive Director

Alex Tan Seng Keng
Executive Director

Kok We Tian @ Kok Wee Tian
Independent Non-Executive Director

Lee Boon Kok
Independent Non-Executive Director

Mohd Fadzli bin Ibrahim
Independent Non-Executive Director

Clairmont Kok Hsiao Kate
Alternate Director to Kok We Tian @ Kok Wee Tian

AUDIT COMMITTEE

Lee Boon Kok (Chairman)
Independent Non-Executive Director

Kok We Tian @ Kok Wee Tian
Independent Non-Executive Director

Mohd Fadzli bin Ibrahim
Independent Non-Executive Director

NOMINATION COMMITTEE

Kok We Tian @ Kok Wee Tian (Chairman)
Independent Non-Executive Director

Lee Boon Kok
Independent Non-Executive Director

Mohd Fadzli bin Ibrahim
Independent Non-Executive Director

REMUNERATION COMMITTEE

Mohd Fadzli bin Ibrahim (Chairman)
Independent Non-Executive Director

Justin Tan Seng Kooi
Chief Executive Officer

Kok We Tian @ Kok Wee Tian
Independent Non-Executive Director

COMPANY SECRETARIES

Wong Wei Fong (MAICSA 7006751)
Lim Lee Kuan (MAICSA 7017753)

REGISTERED OFFICE

Level 14, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel: (603)7725 2888 Fax: (603)7725 7791

HEAD/MANAGEMENT OFFICE

No. 5-5, Jalan USJ 9/5Q
Subang Business Centre
47620 UEP Subang Jaya
Selangor Darul Ehsan
Tel: (603)8024 8166 Fax: (603)8024 6982
E-mail: info@extol.com.my

AUDITORS

C. K. Cheah & Co.
24A, Jalan 21/19, Sea Park
46300 Petaling Jaya
Selangor Darul Ehsan
Tel: (603)7876 6603 Fax: (603)7876 6360

SHARE REGISTRAR

PFA Registration Services Sdn Bhd
Level 13, Uptown 1
No.1 Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel: (603)7725 4888 Fax: (603) 7722 2311

**SPONSOR**

Kenanga Investment Bank Bhd
(formerly known as K & N Kenanga Bhd)
801, 8th Floor Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: (603) 2164 6689 Fax: (603) 2164 6690

PRINCIPAL BANKERS

Malayan Banking Berhad
HSBC Bank Malaysia Berhad

STOCK EXCHANGE LISTING

MESDAQ Market of Bursa Malaysia Securities Berhad
Stock Name: EXTOL Stock code: 0119

CORPORATE WEBSITE

<http://www.extol.com.my>

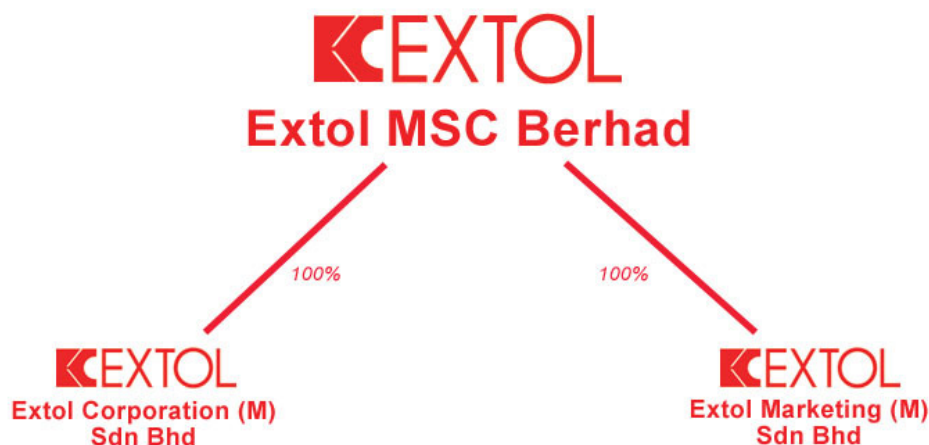
Company Overview

Extol MSC Bhd is a leading ICT security solutions provider offering a comprehensive suite of security solutions to corporations across various industries in Malaysia and beyond. The Company's success lies in the ability to consistently develop industry-leading security solutions that meet the challenges of escalating security threats. From Fraud Detection and Management, Forensics and Incident Response, Anti-Virus Outsourcing and Management, Security Systems Integration, Consultancy Services, Managed Security Services, and Secured Enterprise Applications; organizations depend on Extol MSC Bhd to protect their critical business data and IT infrastructure.

Established in 1984 as a distributor for ICT hardware and software products, Extol Corporation (M) Sdn. Bhd. (a subsidiary of Extol MSC Bhd), evolved in 1992 when it became the first Malaysian company to develop an award winning anti-virus software called Armour. A strategic partnership with Norman DSS (a Norwegian anti-virus software developer) was established for technological exchanges in terms of anti-virus application enhancements.

As part of our business growth and expansion plan, Extol MSC Bhd has identified globalisation as an important agenda to drive the business. This is very much in line with the Government's aspirations to create global Malaysian companies. Responding to global needs and enhancing product value and offerings, the Company has successfully researched and developed neural network/artificial intelligence, threat research, and mobility solutions. These technologies will immediately enhance the Company's product offerings and competitiveness, while laying the future "building blocks" for the Company's future business expansion.

To strengthen our expansion plan into key international markets, Extol MSC Bhd has forged strategic partnerships with global Information Technology leaders in Oracle, IBM, Novell, NetContinuum and Nokia. Leveraging on our partner's extensive market reach and superior technologies, Extol MSC Bhd can accelerate its expansion plan in a more structured and cost effective manner. The strategic partnerships will explore business activities such as co-hosting seminars, co-hosting road shows, co-sponsored events, and product bundles that tap into potential opportunities in the Association of Southeast Asian Nations ("ASEAN"), Middle East, China, and Europe regions.



History Chart

- 2006 Extol MSC Bhd achieved ISO27001 2005 Certification.
- 2006 Extol MSC Bhd listed on the MESDAQ Market of Bursa Malaysia Securities Bhd.
- 2005 Extol Corporation (M) Sdn Bhd awarded the SMI - Maybank Rising Star from SMI Recognition Award Series 2004.
- 2004 Extol MSC Bhd granted MSC-status by Multimedia Development Corporation (MDeC).
- 2004 Extol MSC Bhd has made its own Managed Security Solutions Services (MSS) operational inclusive of 24x7 remote surveillance systems and a wide-range of security services.
- 2002 First to host a Capture the Flag event in Asia.
- 2002 Recipient of outstanding sales achievements of Checkpoint internet security solutions.
- 2001 Extol Corporation (M) Sdn Bhd launches its comprehensive anti-virus services, CAViS, a first initiative in providing security services.
- 2000 Appointed as authorized reseller partner for Symantec, Nokia, Checkpoint, Ubizen, Sun and Hewlett Packard.
- 1999 Extol Corporation (M) Sdn Bhd selected as one of the most Strategic 100 IT Companies that matters most to Asia Pacific under MIS Asia 1999.
- 1998 Extol Corporation (M) Sdn Bhd listed as one of the MOST Strategic 100 IT Companies that matters most to Asia Pacific under MIS Asia 1998.
- 1998 Armour anti-virus selected as the official anti-virus solution for the Kuala Lumpur 98-XVI Commonwealth Games.
- 1997 Extol Corporation (M) Sdn Bhd honored with the prestigious IT achievement 'Persatuan Industri Komputer' awarded by PIKOM.
- 1997 Extol Corporation (M) Sdn Bhd awarded Top Channel Partner and Top New Channel Partner of supplying Hewlett Packard system by Sapura Systems Malaysia.
- 1996 Introduced enterprise-wide license of Armour anti-virus to the U.S Department of Energy through Norman.
- 1996 First in Malaysia to introduce security assessment, security policy review and design to Telekom Malaysia Berhad.
- 1995 The US Department of Defense purchased 1.5 million units of Armour through our technology partner, Norman.
- 1994 Formed strategic alliance with Norman as its technology partner for bi-directional technology transfer of anti-virus solutions.
- 1993 Awarded 'Best Reseller' for Trend AV by Trend Microsystems.
- 1992 Development of "Armour" anti-virus software.
- 1989 Appointed sole distributor for Trend AV.
- 1984 Inception of Extol Corporation (M) Sdn Bhd

Why Extol?

1) Customer Intimacy

Our mission emphasizes on delivering quality and innovative security solutions to meet your customised requirements on ICT security infrastructure.

We strive to provide greater value added propositions in our security solutions. With our international technology partners, and strong associations within the local computer hardware industry, we are capable of providing you security solutions in the most effective manner to suit all your requirements, without compromising on security features.

2) Unprecedented Support

Our team of engineers provides you with optimum support products and network environments including our own range of managed security services for pre-implementation, implementation, post-implementation and support and maintenance stages of security network services, 24 hours a day, 7 days a week.

3) Comprehensive Solutions

We are your ideal preference and this translates into direct advantages:

- a) Our timely and efficient implementations minus the hassle of incompatibilities.
- b) Your own personal support and maintenance team ensuring standards are met and maintained.
- c) Simple and hassle-free evolution and scalability of your required network through our proven integration capabilities.

4) Dedicated Account Management

A dedicated account manager, just for you, is responsible for monitoring your account and dealing with all aspects of your maintenance contract. This ensures all issues are dealt with expediently. Our focus is a continued and a mutually successful partnership with our customers.

5) Commitment to Standards

In compliance with international standards we are certified with the ISO 27001:2005, the Information Security Management Standard (ISMS) certification, a risk management plan defining the management standard approach to security issues and measures. This certification incorporates the security framework standards set out in ISO17799 and BS7799 and involves setting up proper management corporate governance to monitor and control internal security infrastructure, minimizing business risk and ensuring the security infrastructure continues to fulfil customers' and legal requirement.

6) Quality Assurance

Our quality assurance is designed with standards and methodology which make us stand out from among our competitors :

- a) Objectivity: implementing all that is necessary to complete your assignment successfully;
- b) Assurance: ensuring your assignment surpasses your expected requirements;
- c) Timeliness: making certain your assignment is completed in stipulated time;
- d) Cost: ensuring your assignment is completed within budget;
- e) People: setting the right people in the right place;
- f) Strategic Partnerships: determining the right business partners to effectively match your assignment's requirements;

g) Communication: establishing accurate and appropriate generation and dissemination of your assignment information.

7) Large Customer Track Record

Throughout the years, we take pride in our large customer base. Two thirds of the Malaysian financial institution markets choose us for their peace of mind, protecting networks of up to 20,000 users.

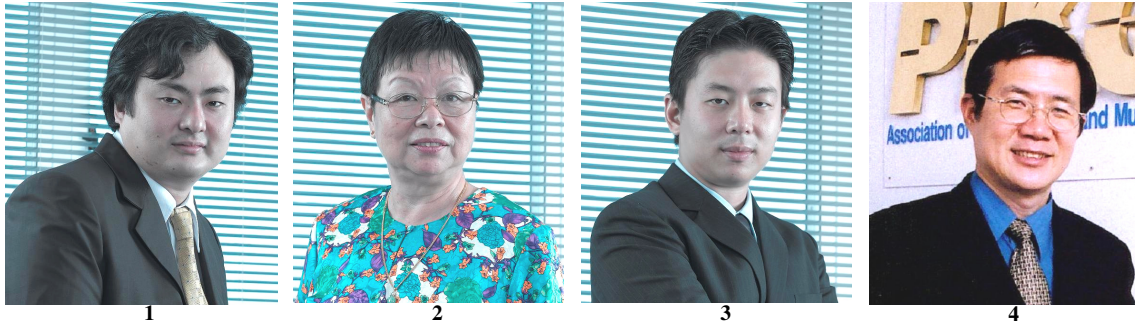
As an innovator with strong local presence and excellent support, we are the integrator of choice for your critical security implementation and incident response, offering meticulous service, satisfaction guaranteed.

Customer benefit is our sole endeavour at Extol MSC Bhd. Our professional expertise is reflected through the depth of experience of our engineers, who promptly and efficiently counsel, manage, maintain and support your security infrastructure:

- a) System Integrity Monitoring
- b) Plan Development
- c) Vulnerability Probe and Assessment
- d) Patch Management
- e) Infrastructure Review
- f) Internet Gateway Management
- g) Threat Profile
- h) Forensics and Incidence Response
- i) Advisory and Consultancy



Director's Profile



1. Justin Tan Seng Kooi

*35 years of age, Malaysian
Chief Executive Officer*

Justin Tan joined Extol Group (Extol MSC Bhd and its subsidiaries) in 1995 as a system engineer and was appointed as its Technical Director in 1998. His responsibilities as Technical Director were to lead the Company's product commercialization activities and to oversee its technical innovation. In 2003, Justin assumed the role of Chief Executive Officer and his key responsibilities include setting the direction of the Company and formulating strategies to achieve these goals. Justin, together with the management team, oversees the operations of the Company and plans research and development (R&D) activities and projects. Together with the Chief Financial Officer, Justin also oversees the planning of funds for projects and other aspects of the Company's expenditures. Justin holds a BSc (Hon) in Electronics and Computer Science from the University of London. He has chaired various local technical working groups such as WG3 (Working Group 3) (as elaborated below) and is actively involved in reviewing, assessing, developing and adopting national and international security standards through SIRIM's participation with international organizations such as ISO and IEC. Justin is currently the chairman of WG3 under the technical committee (TC5), which is commissioned by SIRIM to oversee information security. TC5 is part of the working group commissioned to review and evaluate information security standards with two (2) main objectives; the first is to review and adopt international standards for Malaysia and the second is to review and comment on international security standards produced by the ISO/IEC before these standards are formally adopted. Justin has also participated as a key speaker in many international conferences including the Cyberspace

Security Seminar in Kuala Lumpur in 2000, the e-Security Conference & Exhibition in Singapore in 2001 and the Hack-In-the-Box Conference in Kuala Lumpur in 2002, where he presented many interesting ideas with regards to ICT security, such as threat profiling and forensic techniques. On 27 March 2007, Justin was awarded Key Industry Leader Award by PIKOM.

Justin Tan was appointed to Extol MSC Bhd's Board on 20 December 2005

2. Lee Choon Kee

*63 years of age, Malaysian
Executive Director*

Lee Choon Kee is the co-founder of Extol Group and the Head of Human Resource and Administration of Extol MSC Bhd. She holds a Master in Business Administration (MBA) from De Montfort University of United Kingdom ("UK").

Mdm. Lee had more than 25 years of working experience under the Ministry of Health as a radiographer; more than 10 of those years were in a managerial and administrative capacity.

To encourage the staff in the Company to excel and continuously improve themselves, Mdm. Lee had initiated the Toastmaster Club in Extol - a chapter which she anchors at Extol's headquarters. She was recently awarded the Distinguished Toastmaster title, which is the highest achievement of Toastmasters.

Mdm Lee was appointed to Extol MSC Bhd's Board on 20 December 2005.

3. Alex Tan Seng Keng

*28 years of age, Malaysian
Executive Director*

Alex Tan Seng Keng, joined Extol Group in 2000 as a Design Engineer

responsible for conducting preliminary research in access control and alarm systems for ICT security.

His area of expertise is in Research and Development of network hardware. Among the products he has designed for the Group are EC*TAG, voice playback card and wireless multiplex boards. Alex is a skilled documenter of design procedures and testing procedures. He set up the standard testing procedures for the hardware designed by the Group's R&D team.

Alex graduated from Bradley University in the US with a degree in Electrical Engineering in 2000, and was on the National Dean's List in 1997.

He was appointed to Extol MSC Bhd's Board on 20 December 2005.

4. Lee Boon Kok

*43 years of age, Malaysian
Independent Non-Executive Director*

Lee Boon Kok is the Independent Non-Executive Director of Extol MSC Bhd. He is currently the Chairman of the Association of the Computer and Multimedia Industry of Malaysia ("PIKOM"). PIKOM is the body representing the ICT industry in Malaysia, whose members control approximately 80% of the total ICT industry in Malaysia.

Mr. Lee graduated from Universiti Kebangsaan Malaysia in 1989 with an honors degree in Computer Science. He started his career as a system engineer and has sixteen (16) years of experience in the ICT industry.

In 1996, as the Professional Service Director of KE Systems Sdn Bhd, he and his senior colleagues successfully completed a management buyout of KE Systems Sdn Bhd from Kumpulan Emas Berhad. He was promoted to the Managing Director of KE Systems Sdn Bhd in 2004.



5

Mr. Lee has represented PIKOM in various dialogues with key government agencies and his views are much sought after by policy-makers in Malaysia. He is a member of Technical Resource Group for Enabling Technology for the National Industry Master Plan 3 (IMP3 2005 to 2020). He is an alternate member for Board of Directors of Multimedia Development Corporation (MDC). Mr. Lee is also a director of WCIT2008 Sdn Bhd, a joint venture company formed by PIKOM and MDC to undertake the task of organizing the World Congress on Information Technology (WCIT) in Kuala Lumpur in 2008. Often referred to as the Olympics of ICT, WICT2008 is a world class event by World Software and Service Alliance (WITSA), an organization which comprises world leading IT associations from sixty seven (67) countries.

Mr. Lee was appointed to Extol MSC Bhd's Board and Audit Committee on 20 December 2005.

5. Kok We Tian @ Kok Wee Tian

*62 years of age, Malaysian
Independent Non-Executive Director*

Kok We Tian @ Kok Wee Tian is an Independent Non-Executive Director of Extol MSC Bhd. He is a graduate of the Association of Chartered Certified Accountants since 1969. Mr. Kok has experience in the fields of accountancy and management in the United Kingdom, Vietnam and Malaysia.

Mr. Kok started his career in England in 1966 as an assistant production controller with Revo Co. Ltd. In 1971, he was an accountant with Gulf Oil Company in England.

Upon his return to Malaysia in 1972, he was employed by Lever Brothers (Malaysia) Sdn Bhd ("Unilever") as a financial accountant and was promoted to works accountant in 1974. In the same year, he was seconded to Unilever's associated



6

company, SSC&B:Lintas Sdn Bhd (in Malaysia) and SSC&B:Lintas (SEA) Sdn Bhd (in Singapore) as commercial manager for both companies. In 1977, he was appointed of both the companies. In 1979, he was recalled to Lever Brothers (M) Sdn Bhd as a commercial manager of Unichema (Chemical Division) to help build a new RM35 million oleo chemical factory at Bukit Rajah, Klang. Subsequently in 1983, he was appointed the general sales manager of Unichema products in the Asia Pacific region, in charge of all Unichema products manufactured by the seven (7) Unichema factories worldwide. He was promoted to the position of regional sales director in 1990. In 1995, he resigned from Lever Brothers (M) Sdn Bhd. At the same time, he was also a special advisor for several companies in Malaysia and Vietnam.

He is currently HELP University College's representative in Vietnam.

He was appointed to Extol MSC Bhd's Board on 20 December 2005.

6. Mohd Fadzli bin Ibrahim

*51 years of age, Malaysian
Independent Non-Executive Director*

Mohd Fadzli bin Ibrahim is an Independent Non-Executive Director of Extol MSC Bhd. He graduated with a Diploma in Banking from Universiti of Technology Mara in 1976 and Bachelor of Business Administration (Finance) from Western Michigan University, US in 1981.

Mohd Fadzli started his career in Bank Negara Malaysia in 1976 as an executive. After he attained his degree, he started working with Malaysian International Merchant Bankers Berhad as an assistant manager in 1982 in the field of corporate finance. Three (3) years later, he was promoted to the position of senior manager in the Corporate/Credit and Marketing department.



7

Currently, he sits on the board of directors of Early Impression Sdn Bhd specializing in pre-school education and Elite Project Management Sdn Bhd specializing in aviation, homeland security and project consultant.

He was appointed to Extol MSC Bhd's Board on 5 January 2006.

7. Clairmont Kok Hsiao Kate

*33 years of age, Malaysian
Alternate Director to Kok Wee Tian @
Kok Wee Tian*

Clairmont Kok Hsiao Kate is an alternate Director to Kok Wee Tian @ Kok Wee Tian, an Independent Non-Executive Director of Extol MSC Bhd. She graduated in 1996 with a Bachelor of Economics, majoring in banking and finance from La Trobe University, Australia. She is also a holder of Masters in Information Management and Systems majoring in systems development and management information systems from Monash University.

Clairmont Kok started her career in 1997 as an executive in the Treasury Department of Bolton Finance Berhad (now Alliance Bank Malaysia). A year later, she was transferred to Branch Operations Unit in the same firm. She left the firm in 1999 to further her studies.

After the completion of her Masters in 2001, she returned to the workforce as a Director in Marketing and Communications in iRepublics.com Sdn Bhd and currently still holds this position. Her responsibilities in iRepublics.com Sdn Bhd include client account and project management as well as product development.

She was appointed as an alternate Director to Extol MSC Bhd's Board on 21 December 2005.

Chief Executive Officer's Statement

On behalf of the Board of Directors, it is my pleasure to present to you the Annual Report and the audited Financial Statements of the Group and Company for the financial year ended ("FYE") 31 December 2006.

FINANCIAL PERFORMANCE

Revenue

For the financial year ended 31 December 2006 ("FY2006"), the Group recorded revenue of approximately RM15.630 million, representing an increase of RM10.151 million or 185% as compared to revenue of RM5.479 million achieved during the same period in the preceding year. The increase in revenue was mainly due to the increase in sales and the consolidation of the financial results of Extol Corporation in Group's financial results for FY2006.

Profitability

The Group recorded Profit Before Tax ("PBT") of RM1.571 million for FY2006 as compared to PBT of RM2.826 million for financial year ended 31 December 2005 ("FY2005"). This represents a decrease of 44.41% as compared to FY2005. PBT margin for FY2006 was 10.05% as compared to PBT margin of 51.58% for FY2005.

The drop in PBT is mainly due to an increase in operating expenses in the FY 31 December 2006 as compared to the FY 31 December 2005. The increase in operating expenses is mainly due to the Group's initiatives in undertaking marketing efforts to increase the market exposure and profile of the Group as well as the recruitment of a few high level staff in the second half of the FY 31 December 2006, which has contributed to a higher staff costs.

Further to that, the Group has increased its dealer network since the previous FY 31 December 2005 to have a wider market reach. Dealers are able to negotiate a more competitive pricing from the Group as compared to end users, as they typically purchase in bulk and make repeat purchases. Hence, this has contributed to a decrease in the Group's PBT margin as well as its gross profit margin. However, in the longer term, the increase in sales to dealers is expected to contribute positively to the revenue and business of the Group.

INDUSTRY TREND AND CORPORATE DEVELOPMENTS

Due to efforts undertaken by the Malaysian Government to strengthen the foundation for a knowledge-based economy and the greater adoption and usage of information and communications technology, it has become important for the ICT industry to improve productivity and competitiveness as well as progress to high value added and knowledge intensive economic activities.

As a result, the management has formulated the Group's business plan tailored to industry developments by considering both long-term as well as short-term strategies. Projects have been carried out as planned and their implementations are expected to contribute positively to the Group's earnings and financial position in the near future.

The business development plan and strategies adopted by the Group for further growth are:

1) Product Development

The Group has a long history of product development and now has embarked on R&D of its neural network systems called X-Net. The Group has spent considerable efforts in Artificial Intelligence (AI) research and has now developed a new industrial strength neural network called ARTY Algorithm which is originally derived from ARTMAP. The Group is now focusing on developing and packaging the ARTY Algorithm into an appliance box, where other developers can access it through industry open standard protocols like SOA (service-oriented architecture).

Artificial Neural Networks (ANN) is a branch of Artificial Intelligence (AI) that possesses a self-learning capability. In layman terms, the AI that we are developing can simulate how the human brain stores information and makes decisions. Contrary to the traditional way of pattern matching, signature based applications and fields, rules are not required to be predefined in order to match the targeted object. In the event of biometrics or face recognition, this technology is not affected by slight changes in the targeted faces.

For business operations that rely on enterprise resource planning applications, AI can be incorporated into their existing system to provide better information decision making capabilities where this information can be analyzed based on the individual customer preferences.

2) Growth and market penetration strategies

The Group is now working with its other partners in an effort called GISA (Global Information Security Alliance) to promote each other's technology and solutions to the marketplace. The Group's main focus is to develop more partnerships to leverage on each other's strength. Strategic Partnerships have been forged with global IT leaders to expand our international market presence. Leveraging on our partner's extensive market reach and superior technologies, the Group can accelerate its expansion plan in a more structured and cost effective manner that taps into potential opportunities in the South East Asia, Middle East, China and European regions.

RESEARCH AND DEVELOPMENT

Product development is a key focus of the Group as it is important for the Group to widen its product offerings and to enhance its product features. Hence, the Group has continuously engaged in R&D activities since its listing on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") in 2006.

The capital outlay for the R&D has been provided in the planned capital expenditure of the Group and as such is not expected to have significant financial impact on the Group.

PROSPECTS

The Group will continue to explore new business opportunities in emerging markets for ICT Security Solutions such as in Vietnam, Thailand, Indonesia, Middle East and Malaysia itself. Extol has initiated GISA (Global Information Security Alliance) with certain multinational companies as its partners. The GISA is a platform for the Group's branding, product bundling, technical support, marketing and business development initiatives. Each partner is carefully selected for their role, products, and contributions towards forming a complete "chain" of Extol's ICT Security Solutions.

In order to maintain its competitive advantage and sustainability in the industry, the Group's strategies for future growth will continue to be based on the following:

- 1) Enhancement of R&D capabilities to ensure competitiveness in the industry and to be able to undertake R&D to continuously enhance its existing products and to offer new products;
- 2) To pool the marketing and sales resources from its partners around Extol to explore business opportunities relating to ICT Security in target markets;

- 3) To create Extol as a global brand for ICT Security Solutions with the support of its prestigious partners; and
- 4) To acquire a global sales and marketing channel to fast track Extol's market penetration through its partners' existing marketing and sales channels.
- 5) Formulation of a sound system of internal control establishing and maintaining the adequacy and effectiveness of such a system covering not only financial controls but also operational and compliance controls, risk management as well as strong and effective business continuity plans.

UTILIZATION OF PROCEEDS

The Group spent RM1.178 million from its listing proceed to invest in R&D, as part of the Group's continuing efforts in developing new products and updating versions of existing products with enhanced features to meet the various business requirements of its customers. The expenditure also included funding for fundamental research covering machine intelligence, learning and algorithms. Further details on the utilisation of proceeds from the Company's Public Issue are disclosed on page 56

APPRECIATION

On behalf of the Board of Directors, I would also like to put on record our heartfelt thanks to the management team and our employees, who have displayed commendable dedication though out the year. I take this opportunity to acknowledge our gratitude to the regulatory authorities, our customers, business partners, adviser, sponsor and bankers for their support. We look forward to your continued support and contribution to the growth of the Company.

JUSTIN TAN SENG KOOI
Chief Executive officer
18 April 2007



Corporate Governance Statement

The Board is committed to ensure that the highest standards of corporate governance are practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group. In this respect, the Board is pleased to present the manner in which it has applied, wherever practical and reasonable, the principles and best practices articulated in the Malaysian Code on Corporate Governance ("the Code") throughout the year ended 31 December 2006.

A. Directors

1. Composition of Board

The Board consists of six (6) members, comprising three (3) Executive Directors and three (3) Independent Non-Executive Directors. The current Board composition complies with the MESDAQ Market Listing Requirements of the Bursa Malaysia Securities Berhad. A brief profile of each Director is set out on page 7 and 8 of this Annual Report.

The composition of the Board reflects a mix of members that possess a wide range of business, financial and technical skills. The presence of Independent Non-Executive Directors brings an additional element of balance to the Board as they provide unbiased and independent views, advice and judgement. Although all the Directors have an equal responsibility for the Group's operations, the role of these Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and takes into account the long term interests of the Group, its shareholders and other stakeholders. The Nomination Committee is responsible for making recommendation for any appointments to the Board. Further details on the Nomination Committee are set out on page 13 of this Annual Report.

The Executive Directors are responsible for implementing the policies and decisions of the Board, overseeing the operations as well as coordinating the development and implementation of business and corporate strategies. The Independent Non-Executive Directors bring to bear objective and independent judgment to the decision making of the Board and provide a capable check and balance for the Executive Directors.

The Board is satisfied that the current Board composition fairly reflects the interests of minority shareholders in the Company.

2. Duties and Responsibilities

The Board is primarily responsible for the strategic directions of the Group and meets at least four (4) times a year at quarterly intervals, with additional meetings being convened when necessary.

During the financial year ended 31 December 2006, the Board met four (4) times. The details of the Directors attendance at these Board meeting are set out as follows:

Director	No. of meetings attended
Justin Tan Seng Kooi	4 of 4
Lee Choon Kee	4 of 4
Alex Tan Seng Keng	4 of 4
Lee Boon Kok	4 of 4
Kok We Tian @ Kok Wee Tian	4 of 4
Mohd Fadzli bin Ibrahim	3 of 4

3. Supply of Information

All Directors have full access to information concerning the Company and the Group. Board papers and reports which include quarterly and annual financial statements and corporate information are distributed to the Directors prior to Board Meetings and to enable Directors

to obtain further explanation, where necessary, in order to be properly briefed before meeting.

The Directors also have access to the advice and services of the Company Secretaries, senior management staff as well as independent professional advisers including the external auditors.

4. Directors Training

All members of the Board have attended the Mandatory Accreditation Program (MAP) pursuant to Bursa Malaysia Securities Berhad guidelines on training for Directors. The Directors have also attended other training programs such as Revamped MESDAQ Listing Requirement and Malaysian Institute of Management trainers Summit 2006 : Tools, Trends and Practices. The Directors will continue to attend other relevant training programs and seminars to enhance their knowledge and skills in the latest statutory and regulatory requirements to assist them in discharging their duties as Directors.

5. Re-election of Directors

In accordance with the Company's Articles of Association, all Directors shall retire by rotation once in every three (3) years or at least one third (1/3) of the Board can offer themselves for re-election at the Annual General Meeting ('AGM').

6. Board Committees

The Board has delegated certain responsibilities to its committees which operate within clearly defined terms of reference:

a) **Audit Committee**

The Board is assisted by an Audit Committee. The composition and terms of reference to the Audit Committee can be found on pages 17 to 20.

b) **Nomination Committee**

The functions of the Nomination Committee are to access and recommend candidates with mix of skills and experience to the Board. The Committee also carries out annual evaluation on the effectiveness and adequacy of balance between the whole Board.

The members are as follows:

Kok Wee Tian @ Kok Wee Tian (Chairman)
Lee Boon Kok (Member)
Mohd Fadzli bin Ibrahim (Member)

c) **Remuneration Committee**

The role of Remuneration Committee is to recommend to the Board, the remuneration packages of the Executive Directors. The remuneration packages of Non-Executive Directors should be determined by the Board as a whole.

The members are as follows:

Mohd Fadzli bin Ibrahim (Chairman)
Justin Tan Seng Kooi (Member)
Kok Wee Tian @ Kok Wee Tian (Member)

7. Conflict of Interest

None of the Directors have any interest in contracts entered into by the Company. Significant related parties transactions in which the Directors have interests have been disclosed in Note 28 to the audited financial statements.

8. Convictions for Offences

None of the Directors have been convicted for any offences for the past 10 years other than traffic offences, if any.

9. Directorship in other public companies

None of the Directors have any directorship in other public company.

10. Family relationships

Save as disclosed below, none of the Directors have any family relationships with any other directors and/or substantial shareholders :-

- a) Justin Tan Seng Kooi and Alex Tan Seng Keng are siblings and Lee Choon Kee is their mother.
- b) Clairmont Kok Hsiao Kate is the daughter of Kok We Tian @ Kok Wee Tian

B. Directors Remuneration

The remuneration of the Executive Directors is structured so as to link rewards to corporate and individual performance in order to attract, retain and motivate the Executive Directors to run the Group successfully. In the case of the Non-Executive Directors, the level of remuneration reflects the experience, expertise and level of responsibilities undertaken by the particular Non-Executive Director concerned.

The aggregate remuneration of Directors for the financial year ended 31 December 2006 is as follow:

	Directors Fees (RM)	Directors Salaries and Other Emoluments (RM)	Total (RM)
Non-Executive Directors	-	10,000	10,000
Executive Directors	-	435,340	435,340
Total	-	445,340	445,340

The number of directors of the Company whose remuneration fall within the respective band are as follows :

	Executive Director	Non-Executive Director
Below RM50,000	1	3
RM50,000 to RM150,000	1	-
RM200,000 to RM250,000	1	-
Total	3	3

C. Relationship with Shareholders and Investors

The Group recognizes the importance of effective and timely communication with shareholders and investors to keep them informed on the Group's latest business and corporate developments. Such information is disseminated via the Company's annual reports, circulars to shareholders, quarterly financial results, the various announcements made from time to time and notices of general meeting published in national newspapers. Official announcements are made to Bursa Securities before any market sensitive information such as corporate proposals, financial results and other material information are disseminated to any party. The AGM remains the principal avenue for dialogue with shareholders and investors, where they may seek clarification on the Group's performance, major developments of the Group as well as on the resolutions being proposed. In addition, shareholders may obtain the Company's latest corporate, financial and market information via the Bursa Securities' website at www.bursamalaysia.com.

D. Accountability and Audit

1. Financial Reporting

The Board is responsible for ensuring that the Company maintains accounting records, and financial statements which disclose with reasonable accuracy the financial position of the Group, and that the financial statements comply with the Companies Act, 1965 and the applicable approved accounting standards set by Malaysian Accounting Standard Boards. The statement of Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 28 of this Annual Report.

In the preparation of the financial statements, the Directors are of the view that:

- The Group has used appropriate accounting policies that are consistently applied;
- Reasonable and prudent judgments and estimates have been made;
- All applicable approved accounting standards in Malaysia have been followed.

2. Internal Control

The Board acknowledges that it is responsible to maintain an effective system of internal control to safeguard the shareholders' interest and the Group's assets. The Group has in place a system of internal control designed to meet the Group's needs to manage rather than to eliminate the risk to which the Group is exposed to. The Audit Committee assist the Board in discharging the duties in relation to internal control.

3. Relationship with Auditors

Through the Audit Committee, the Company has established a transparent and appropriate relationship with the Group's external auditors. The Audit Committee meets with external auditors at least once a year to review audit plans and to facilitate exchange of views on issues requiring attention. In addition, audit findings and reports are highlighted to the Audit Committee and the Board.

4. Statement of compliance with the Best Practices of the Code on Corporate Governance ("the Code")

The Company is committed to achieve high standards of corporate governance throughout the Group and the highest level of integrity and ethical standards in all of its business dealings.

The Board has complied with and will continue to strive for full compliance with the Code in the coming financial year.

E. Additional Compliance Information

1. Share Buybacks

The Company did not buy-back any of its shares during the financial year ended 31 December 2006.

2. Amount of Option, Warrants or Convertible Securities Exercised during the Financial Year

There were no options, warrants or convertible securities exercised during the financial year ended 31 December 2006.

3. American Depository Receipt ("ADR") or Global Depository Receipt (GDR")

The Company did not sponsor any ADR and GDR.

4. Sanction and/or Penalties

There were no sanction and/or penalties imposed on the Company and its subsidiaries, directors or management by the regulatory bodies during the financial year 31 December 2006.

5. Variation of Results

The Company did not issue any profit estimate, forecast or projection for the financial year ended 31 December 2006.

There were no variances of 10% or more between the audited results for the financial year ended 31 December 2006 and the unaudited results previously announced.

6. Profit Guarantee

There were no profit guarantee given by the Company in respect of the financial year ended 31 December 2006.

7. Material Contracts

There were no material contracts entered into by the Group involving directors' and substantial shareholders interest, either still subsisting, or entered into since the end of the previous financial year.

8. Revaluation of Landed Properties

The Group did not revalue any of its landed properties during the financial year ended 31 December 2006

9. Corporate Social Responsibility Activities or Practices

The Group did not undertake any corporate social responsibility activities or practices during the financial year ended 31 December 2006.

10. Recurrent Related Party Transactions ("RRPT") of revenue nature

There were no RRPT of revenue nature entered into by the Group during the financial year ended 31 December 2006.

11. Non-Audit Fees

The amount of non-audit fees incurred for services rendered to the Company for the financial year ended 31 December 2006 by the Company's auditor is RM2,500.



Audit Committee Report

Member

The Audit committee was established on 5 January 2006. The present members of the Audit Committee and their respective designations are as follows:

Chairman

Lee Boon Kok
Independent Non-Executive Director

Members

Kok We Tian @ Kok Wee Tian
Independent Non-Executive Director

Mohd Fadzli bin Ibrahim
Independent Non-Executive Director



Terms of Reference of Audit Committee

1. Constitution
The Board has established a committee of the Board to be known as the Audit Committee. ("Committee").
2. Composition of Audit Committee
 - a) The Audit Committee shall be appointed by the Board of Directors from amongst their members and shall consist of at least three (3) members, the majority of whom are independent directors.
 - b) The members of the Audit Committee shall elect a Chairman from amongst its members who shall be an Independent Director.
 - c) The Board must ensure that the Chief Executive Officer shall not be a member of the Audit Committee.
 - d) The Board must review the term of office and performance of the Audit Committee and each of its members at least once every three (3) years to determine whether such committee and members have carried out their duties in accordance with their terms of reference.
3. Meetings
 - a) Frequency of Meeting
 - i) The Committee shall meet not less than four (4) times a year and as many times as the Committee deems necessary.
 - b) Proceedings of Meeting
 - i) The quorum for meeting of the Audit Committee shall be two (2) members of which the majority of members present must be Independent Non-Executive Directors.
 - c) Attendance at Meeting
 - i) Other members of the Board and officers of the Company and its group may attend the meeting upon the invitation of the Audit Committee.
4. Authority
The Committee shall in accordance with the procedure determined by the Board and at the cost of the Company:-
 - a) have explicit authority to investigate any matter within the terms of reference;
 - b) have the resources which the Audit Committee may require to perform its duties;

- c) have full access to any information which the Audit Committee requires in the course of performing its duties;
- d) have unrestricted access to the Chief Executive Officer and the Chief Financial Officer of the Company;
- e) have direct communication channels with the external auditors and persons carrying out the internal audit function (if any);
- f) be able to obtain independent professional or other advice in the performance of its duties at the cost of the Company; and
- g) be able to invite outsiders with relevant experience to attend its meetings, if necessary.

5. Duties and Responsibilities

The duties and responsibilities of the Audit Committee shall include the following:-

- a) Matters relating to external audit:-
 - i) To review the nomination of external auditors and external audit fee;
 - ii) To review the nature, scope and quality of external audit plan/arrangements;
 - iii) To review quarterly and annual financial statements of the Company, before submission to the Board, focusing in particular on the going concern assumption, compliance with accounting standards and regulatory requirements, any changes in accounting policies and practices, significant issues arising from the audit and major judgment issues;
 - iv) To review the external auditors' audit report on the financial statement;
 - v) To review any management letter sent by the external auditors to the Company and the management's response to such letters;
 - vi) To review any letter of resignation from the Company's external auditors;
 - vii) To consider and review whether there is reason (supported by grounds) to believe that the Company's external auditors are not suitable for re-appointment;
 - viii) To review the assistance given by the Company and its officers to the external auditors;
 - ix) To discuss problems and reservations arising from the interim and final audits such as significant audit findings, reservations, difficulties encountered or material weakness reported.
- b) Matters relating to internal audit function, if any exists:-
 - i) To review the effectiveness of the internal audit function;
 - ii) To review the effectiveness of the internal control and management information systems;
 - iii) To review the internal audit program and results of the internal audit process (if any);
 - iv) To review the follow up actions by the management on the weakness of internal accounting procedures and controls;
 - v) To review on all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels; and

- vi) To review the assistance and co-operation given by the Company and its officers to the internal auditors;
 - vii) To review any appraisal or assessment of the performance of staff of the internal audit function, compliance with accounting standards and regulatory requirements, any changes in accounting policies and practices, significant issues arising from the audit and major judgement issues;
 - viii) To review any letter of resignation from internal audit staff members (if any) and provide the resigning staff member an opportunity to submit his reasons for resigning.
- c) Roles and Rights of the Audit Committee:-
- i) To consider and review any significant transactions which are not within the normal course of business and any related party transactions that may arise within the Company and the Group.
 - ii) To report to the Bursa Securities on any matter reported by the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Bursa Securities Listing Requirements.
 - iii) To carry out any other function that may be mutually agreed upon by the Committee and the Board which would be beneficial to the Company and ensure the effective discharge of the Committee's duties and responsibilities.

Summary of Activities Undertaken

The activities of the Committee include, inter alia, the following:

1. Reviewed the audit planning memorandum for the financial year ending 31 December 2007.
2. Reviewed the draft audited financial statements for the year ended 31 December 2006 and the Directors' and Auditors' Reports.
3. Reviewed the quarterly results and financial statements prior to submission to the Board.
4. Reviewed the Corporate Governance Statement.
5. Reviewed the Company's compliance in particular the quarterly and year-end financial statement with the Listing Requirements of Bursa Securities for the MESDAQ market and other relevant legal and regulatory requirements.

Meetings

During the 12 months financial year ended 31 December 2006, four (4) meetings were convened, with details on the attendance of the Directors listed below:

Director	No. of meetings attended
Lee Boon Kok	4 of 4
Kok We Tian @ Kok Wee Tian	4 of 4
Mohd Fadzli bin Ibrahim	3 of 4

Internal Audit Function

The Board recognised the importance of the internal audit function and the independent status required for it to carry out the job effectively. During the financial year ended 31 December 2006, the internal audit function was performed by Quality Assurance and Audit department (QA) of Extol MSC Bhd. The QA has introduced risk based auditing approach with risk focused audit programme in order to ensure that the principal risks are being identified and mapped with the existing system of internal control. The QA carries out its duties according to the audit plan, and areas of concern which need further improvement as highlighted in the audit report are discussed in the Audit Committee meetings. The Board has via the Audit Committee evaluated the effectiveness of the QA by reviewing the results of its work in the Audit Committee meetings.

Statement by the Audit Committee in relation to ESOS allocation

The Group has obtained approval for an Employee Share Option Scheme (“ESOS”) in conjunction with the Initial Public Offer approval up to 10% of the issued and paid-up share capital of the Company. As at the date of this report, no ESOS options have been granted.

Statement on Internal Control

The Board of Directors is committed to maintain a sound system of internal control of the Group to safeguard shareholders' investment and the Group's assets. The Board is pleased to provide the following statement which outlines the nature and scope of internal control of the Group during the financial year.

Board Responsibility

The Board of Directors recognizes the importance of a sound system of internal control and acknowledges its overall responsibility for establishing and maintaining the adequacy and effectiveness of such a system covering not only financial controls but also operational and compliance controls, risk management as well as a strong and effective business continuity plan. The Board is ultimately responsible for the Group's system of internal control including compliance with applicable law, regulation, common rule, common directive and guidelines.

The Group's system of internal control is designed to manage the risk of failure to achieve business objectives and therefore recognizes that the system needs to be continuously improved to support the type of business and size of the Group's operations. Such a system is concerted and continues the process for identifying, evaluating and managing significant risks faced by the Group.

Internal Control Framework

The key elements of the Group's internal control are as follows:

- The Board has established the Audit Committee, which comprises of three (3) Independent Non-Executive Directors
- The reviews of the quarterly and financial reports are conducted by the Board and Audit Committee
- The organizational structures are in place for each department with clearly defined lines of accountability and delegated authority
- Periodic reviews by the internal quality auditors, providing independent assurance on the effectiveness of the Group's system on internal control and advising management on areas for further improvement
- By the proper monitoring of the compliance of the Group's Standard Operations Procedure and adherence to the Group's policy by the Quality Assurance Department resulting in the Group's services exceeding customer needs and its being ISO 27001:2005 certified.
- Policies and Procedures are documented based on the guidelines of the Information Security Management System or the ISO27001:2005 and is monitored by the Quality Assurance Department
- Progress meetings are conducted regularly with heads of departments to address weaknesses and to improve efficiency and productivity
- The Group has outsourced its internal audit services since 18 April 2007

Company's Policies on Risk Management

Extol has a Risk Management procedure where all information and associated assets, such as information processing equipments and facilities, shall undergo risk assessment on an annual basis or as and when there is an urgent need. A risk that can be reduced, transfer, or avoided is considered as acceptable level of risk. The management shall decide for the criteria for risk acceptance. Extol shall select appropriate control objectives from the ISO 27001 standard and work to mitigate the risks to residual level through the process of:

- Identify the threats,
- Identify the vulnerabilities
- Determine the probability
- Determine the impact
- Select appropriate controls from the ISO 27001 standard

The Group is committed to deliver the best in everything that is being done by the Group. Each employee knows exactly what is expected of them not only in deliverables but also in the quality of the deliverables. The Board is of the view that no significant breakdown or weaknesses in the system of internal control of the Group has had material impact against the operations of the Group's for the financial year which ended 31 December 2006.



Financial Statements

24	Director's Report
28	Statements by Directors
28	Statutory Declaration
29	Report of the Auditors
30	Balance Sheets
31	Income Statements
32	Statement of Changes in Equity
33	Cash Flow Statements
34	Notes to the Financial Statements



DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company and of the Group for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year are to carry out research and development in Information Communication Technology (ICT) security system and to provide professional services which are directly and indirectly linked to ICT, and of investment holdings. The principal activities of the subsidiary companies are stated in Note 8 of the notes to the financial statements. There have been no significant changes in the nature of these activities during the year.

RESULTS FOR THE FINANCIAL YEAR

	COMPANY RM	GROUP RM
Profit before taxation	1,269,076	1,570,714
Taxation	(15,112)	(113,143)
Profit after taxation	1,253,964	1,457,571
Less: Interim tax exempt dividend of 8%	(835,200)	(835,200)
	418,764	622,371
Unappropriated profit brought forward	3,418,357	3,706,710
Unappropriated profit carried forward	3,837,121	4,329,081

No transfer has been made to or from any reserve or provision.

An interim tax exempt dividend of 8% per share amounting to RM835,200 were paid for the financial year ended 31st December 2006. No other dividend was paid or declared by the Company.

In the opinion of the directors the results of the Company and of the Group during the year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIRECTORS

The directors in office at the date of this report are:-

JUSTIN TAN SENG KOOI
ALEX TAN SENG KENG
LEE CHOON KEE
LEE BOON KOK
MOHD FADZLI BIN IBRAHIM
KOK WE TIAN @ KOK WEE TIAN
CLAIRMONT KOK HSIAO KATE (Alternate to KOK WE TIAN @ KOK WEE TIAN)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit (other than those disclosed as directors' remuneration in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Neither during nor at the end of the financial year was the Company a party to any arrangement whose object was to enable the directors to acquire benefits through the acquisition of shares or debentures in the Company or any other body corporate.

DIRECTORS' INTERESTS

The directors holding office at the end of the financial year and their interest in the issued share capital of the Company during the year according to the register of directors' shareholdings were as follows:-

	Number of shares				***As at 31.12.2006
	*As at 01.01.2006	**Sub-divided shares	Bought	Sold	
Direct					
JUSTIN TAN SENG KOOI	3,285,000	32,850,000	18,000	\$(2,320,000)	30,548,000
ALEX TAN SENG KENG	1,991,000	19,910,000	-	(2,500,000)	17,410,000
LEE CHOON KEE	1,294,000	12,940,000	2,500,000	-	15,440,000
LEE BOON KOK	-	-	10,000	(10,000)	-
MOHD FADZLI BIN IBRAHIM (Appointed on 05.01.2006)	-	-	-	-	-
KOK WE TIAN @ KOK WEE TIAN	450,000	4,500,000	-	(3,999,000)	501,000
CLAIRMONT KOK HSIAO KATE (Alternate to Kok We Tian @ Kok Wee Tian)	-	-	-	-	-
Indirect					
JUSTIN TAN SENG KOOI	3,285,000	3,850,000	2,500,000	(2,500,000)	32,850,000
ALEX TAN SENG KENG	4,579,000	45,790,000	2,518,000	(2,320,000)	45,988,000
LEE CHOON KEE	5,276,000	52,760,000	18,000	(4,820,000)	47,958,000
LEE BOON KOK	-	-	-	-	-
MOHD FADZLI BIN IBRAHIM (Appointed on 05.01.2006)	-	-	-	-	-
KOK WE TIAN @ KOK WEE TIAN	-	-	3,999,000	(100)	3,998,900
CLAIRMONT KOK HSIAO KATE (Alternate to KOK WE TIAN @ KOK WEE TIAN)	450,000	4,500,000	3,999,000	(3,999,100)	4,499,900

* Ordinary share of RM1.00 each

** After sub-division of shares from one ordinary share of RM1.00 each to ten ordinary shares of RM0.10 each on 3rd January 2006.

*** Ordinary share of RM0.10 each.

#Shares sold before the listing of the Company on MESDAQ Market.

SHARE CAPITAL

The authorised share capital of the Company was sub-divided from 25,000,000 ordinary shares of RM1 each to 250,000,000 ordinary shares of RM0.10 each on 3rd January 2006.

In conjunction with the listing of the Company on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company issued 26,100,000 ordinary shares of RM0.10 each for cash at an issue price of RM0.30 per share. These new share were fully subscribed for and the entire issued shares were successfully listed on the MESDAQ Market of Bursa Malaysia Securities Berhad on 20th March 2006. The new shares rank pari passu in all respects with the existing ordinary shares of the Company.

OTHER STATUTORY INFORMATION

- a.) Before the income statements and balance sheets of the Company and of the Group were made out, the directors took reasonable steps:-
- (i) to ascertain that action has been taken in regard to the writing off and providing for bad and doubtful debts and have satisfied themselves that there are no known bad debts and that provision for doubtful debts are not necessary; and
 - (ii) to ensure that any current assets which are unlikely to realize their book values in the ordinary course of business have been written down to their estimated realizable values.
- b.) At the date of this report, the directors advise that they are not aware of any circumstances which would render:
- (i) it necessary to write off bad debts or to make a provision for doubtful debts in respect of these financial statements; and
 - (ii) the values attributable to current assets in the financial statements misleading.
- c.) In their opinion, no item, transaction or event of a material and unusual nature has arisen which would affect substantially the results of the operations of the Company and of the Group for the financial year in which this report is made.
- d.) In the opinion of the Directors: -
- (i) there are no contingent liabilities of the Company and of the Group which have arisen since the end of the financial year.
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Company and of the Group to meet its obligations as and when they fall due.
- e.) As at the date of this report:-
- (i) there are no charges on the assets of the Company and of the Group which have arisen since the end of the financial year to secure the liabilities of any other person, or
 - (ii) the directors are not aware of any circumstances not otherwise dealt with in the report or financial statements of the Company and of the Group which would render any amount stated in the financial statements misleading.

SIGNIFICANT AND SUBSEQUENT EVENTS

- a) On 27th February 2006, the Company issued a prospectus for Public Issue of 26,100,000 new ordinary shares of RM0.10 each at an issue price of RM0.30 per share to all shareholders in conjunction with its listing on the MESDAQ Market of Bursa Malaysia Securities Berhad on 20th March 2006.

The Public issue comprised of the following:-

- i) 7,100,000 new ordinary shares of RM0.10 each for application by the eligible directors, employees and business associates of the Company and its subsidiary companies;
 - ii) 18,000,000 new ordinary shares of RM0.10 each by way of private placement to identified investor; and
 - iii) 1,000,000 new ordinary shares of RM0.10 each for application by the public.
- b) On 16th April 2007, EXTOL MARKETING SDN. BHD., a wholly-owned subsidiary of the Company, had entered into a conditional sale and purchase of shares agreement for the proposed acquisition of 833,000 ordinary shares of RM1.00 each representing 68% of the issued and paid-up capital in INNODIUM SDN. BHD. (Company No. 596701-T) from NG SOO LOO for a total cash consideration of RM1,700,000. The proposed acquisition is subject to, inter-alia, the following:
- i) approval of the Board of Directors of the Purchaser, and
 - ii) any other approval required, if any, from the relevant authorities.

This proposed acquisition is expected to be completed by the third quarter of 2007.

PROCEEDS OF PUBLIC ISSUE

The gross proceeds from the Public Issue of 26,100,000 shares amounting to RM7,830,000 were proposed to be utilized as follows:

	RM
Research and development	3,066,000
Business expansion	1,917,000
Working capital	1,247,000
Listing expenses	1,600,000
	<u>7,830,000</u>

As at 31st December 2006, all the proceeds were utilized in the manner as proposed except for an unutilized balance of RM3,058,577 in relation to:

	RM
Research and development	1,887,469
Business expansion	929,108
Working capital	242,000
	<u>3,058,577</u>

AUDITORS

The auditors, Messrs C. K. Cheah & Co., Chartered Accountants, have expressed their willingness to accept re-appointment.

By Resolution of the Board

JUSTIN TAN SENG KOOI
DIRECTOR

LEE CHOON KEE
DIRECTOR

PETALING JAYA

STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

We, JUSTIN TAN SENG KOOI and LEE CHOON KEE, being two of the directors of EXTOL MSC BHD do hereby state on behalf of the directors that in our opinion, the financial statements as set out on pages 30 to 56 are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the results of the operations of the Company and of the Group and of the cash flows of the Company and of the Group for the year ended on that date.

On behalf of the Directors

JUSTIN TAN SENG KOOI
DIRECTOR

LEE CHOON KEE
DIRECTOR

Petaling Jaya
Dated: 18.04.2007

STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, JUSTIN TAN SENG KOOI, being the director primarily responsible for the accounting records and financial management of EXTOL MSC BHD do solemnly and sincerely declare that the financial statements as set out on pages 30 to 56 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
JUSTIN TAN SENG KOOI)
I/C No. 720612-01-5023)
at Petaling Jaya)
in the state of Selangor Darul Ehsan on)
this 18.04.2007)

Before me

**AUDITORS' REPORT TO MEMBERS OF
EXTOL MSC BHD**
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 30 to 56 of EXTOL MSC BHD.

The financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provision of the Companies Act, 1965 and applicable Malaysian Accounting Standard Board approved accounting standards so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company and of the Group; and
 - (ii) the state of affairs of the Company and of the Group as at 31st December 2006 and of the results of the operations of the Company and of the Group and of the cash flows of the Company and of the Group for the year ended on that date; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

C. K. CHEAH & CO.
AF: 0434
CHARTERED ACCOUNTANTS (MALAYSIA)
Dated:
18.04.2007

CHEAH CHOONG KEONG
1108/5/08(J)
CHARTERED ACCOUNTANT

BALANCE SHEET

AS AT 31ST DECEMBER 2006

	Notes	The Group		The Company	
		2006 RM	2005 RM	2006 RM	2005 RM
SHARE CAPITAL	4	10,440,000	7,830,000	10,440,000	7,830,000
SHARE PREMIUM	5	3,620,000	-	3,620,000	-
PROFIT AND LOSS ACCOUNT		<u>4,329,081</u>	<u>3,706,710</u>	<u>3,837,121</u>	<u>3,418,357</u>
		18,389,081	11,536,710		11,248,357
DEFERRED TAXATION	6	<u>848,015</u>	<u>755,532</u>	-	-
		<u>19,237,096</u>	<u>12,292,242</u>	<u>17,897,121</u>	<u>11,248,357</u>
Represented by:					
PROPERTY, PLANT AND EQUIPMENT	7	5,354,881	4,372,464	339,701	117,972
INTEREST IN SUBSIDIARY COMPANIES	8	-	-	12,550,161	7,198,030
GOODWILL	9	2,026,255	2,026,255	-	-
PRODUCT DEVELOPMENT EXPENDITURE	10	4,323,572	3,371,901	2,683,902	1,509,499
CURRENT ASSETS					
Stocks		64,660	76,000	-	-
Trade receivables	11	7,548,749	4,792,077	1,551,160	2,243,484
Other receivables	12	382,666	867,209	31,617	478,613
Tax Recoverable		84,154	89,567	-	-
Short term investment	13	1,038,928	-	1,038,928	-
Deposit with a licensed bank	14	2,527,068	-	-	-
Cash and bank balances		67,812	538,256	16,081	175,375
		<u>11,714,037</u>	<u>6,363,109</u>	<u>2,637,786</u>	<u>2,897,472</u>
Less:					
CURRENT LIABILITIES					
Trade payables	15	1,065,522	1,321,103	6,500	235,961
Bills Payable	16	1,385,000	1,028,000	-	-
Other payables	17	325,837	345,296	106,151	238,655
Hire Purchase Creditors	18	48,752	15,000	40,002	-
Term Loans	19	83,117	153,088	-	-
Provision for taxation		15,112	-	15,112	-
Bank Overdraft	19	570,536	418,979	-	-
		<u>3,493,876</u>	<u>3,281,466</u>	<u>167,765</u>	<u>474,616</u>
NET CURRENT ASSETS		<u>8,220,161</u>	<u>3,081,643</u>	<u>2,470,021</u>	<u>2,422,856</u>
		19,924,869	12,852,263	18,043,785	11,248,357
LONG TERM LIABILITIES	20	<u>(687,773)</u>	<u>(560,021)</u>	<u>(146,664)</u>	-
		<u>19,237,096</u>	<u>12,292,242</u>	<u>17,897,121</u>	<u>11,248,357</u>

**The notes on pages 34 to 56 form an integral part of the financial statements.*

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2006

	Notes	The Group		The Company	
		2006 RM	2005 RM	2006 RM	2005 RM
TURNOVER	21	15,630,781	5,479,034	2,626,745	4,935,189
COST OF SALES		(10,196,313)	(1,635,402)	(395,248)	(1,473,504)
GROSS PROFIT		5,434,468	3,843,632	2,231,497	3,461,685
Other operating income		234,531	159,749	94,486	161,400
Administration expenses		(2,123,265)	(774,657)	(615,138)	(712,476)
Selling & distribution expenses		(359,100)	(156,403)	(36,255)	(161,823)
Other operating expenses		(1,447,943)	(236,623)	(403,800)	(217,436)
PROFIT FROM OPERATIONS		1,738,691	2,835,698	1,270,790	2,531,350
Finance expenses		(167,977)	(9,676)	(1,714)	-
PROFIT BEFORE TAXATION		1,570,714	2,826,022	1,269,076	2,531,350
After charging:					
Amortization of product development expenditure		378,186	51,751	155,454	45,038
Auditors' remuneration					
- other emoluments		2,500	3,500	2,500	3,500
- current year provision		22,500	15,952	11,500	15,000
-over-provision in previous year		(1,500)	-	(2,000)	-
Depreciation of property, plant and equipment		735,026	34,936	77,763	21,376
Finance expenses	22	167,977	9,676	1,714	-
Loss in foreign exchange		37,804	-	48,030	-
Rental of premises		12,655	10,195	4,495	11,447
Staff costs	23	1,712,717	618,376	462,044	554,219
		=====	=====	=====	=====
and crediting:					
Interest income		121,554	-	94,486	-
Miscellaneous income		-	5,400	-	-
Rental income		91,100	3,050	-	-
TAXATION	24	(113,143)	(6,319)	(15,112)	-
PROFIT AFTER TAXATION		1,457,571	2,819,703	1,253,964	2,531,350
Earnings per share (sen)					
-basic/adjusted	25	1.46	19.10	1.26	17.15

**The notes on pages 34 to 56 form an integral part of the financial statements.*

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2006

	The Group				The Company			
	Share Capital	Share premium	Unappropriated profit	Total	Share capital	Share premium	Unappropriated profit	Total
	RM	RM	RM	RM	RM	RM	RM	RM
As at 01.01.2005	1,260,000	-	887,007	2,147,007	1,260,000	-	887,007	2,147,007
Issuance of shares	6,570,000	-	-	6,570,000	6,570,000	-	-	6,570,000
Profit after taxation	-	-	2,819,703	2,819,703	-	-	2,531,350	2,531,350
As at 31.12.2005	7,830,000	-	3,706,710	11,536,710	7,830,000	-	3,418,357	11,248,357
Issuance of shares	2,610,000	5,220,000	-	7,830,000	2,610,000	5,220,000	-	7,830,000
Listing expenses	-	(1,600,000)	-	(1,600,000)	-	(1,600,000)	-	(1,600,000)
Interim tax exempt dividend of 8%	-	-	(835,200)	(835,200)	-	-	(835,200)	(835,200)
Profit after taxation	-	-	1,457,571	1,457,571	-	-	1,253,964	1,253,964
As at 31.12.2006	10,440,000	3,620,000	4,329,081	18,389,081	10,440,000	3,620,000	3,837,121	17,897,121

**The notes on pages 34 to 56 form an integral part of the financial statements.*

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2006

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before taxation	1,570,714	2,826,022	1,269,076	2,531,350
Adjustments for :				
Amortization of product development expenditure	378,186	51,751	155,454	45,038
Depreciation of property, plant and equipment	735,026	34,936	77,763	21,376
Interest income	(121,554)	-	(94,486)	-
Interest expenses	167,977	9,676	1,714	-
	1,159,635	96,363	140,445	66,414
Operating profit before working capital changes	2,730,349	2,922,385	1,409,521	2,597,764
Decrease in stocks	11,340	12,737	-	-
Increase in receivables	(2,272,129)	(426,125)	(4,212,811)	(1,178,503)
Increase/(Decrease) in payables	81,960	(645,460)	(361,965)	(14,298)
	(2,178,829)	(1,058,848)	(4,574,776)	(1,192,801)
Cash generated from operations	551,520	1,863,537	(3,165,255)	1,404,963
Bank overdraft interest	(25,209)	(4,583)	-	-
Bills payable interest	(94,835)	(4,389)	-	-
Taxation paid	(135)	-	-	-
Net cash (used in) /generated from operating activities	431,341	1,854,565	(3,165,255)	1,404,963
CASH FLOW FROM INVESTING ACTIVITIES				
Investment in subsidiary companies	-	-	-	(6,570,000)
Acquisition of subsidiary companies (note 26)	-	(7,068,453)	-	-
Interest received	121,554	-	94,486	-
Purchase of property, plant and equipment	(1,517,443)	(128,659)	(99,492)	(128,659)
Product development expenditure	(1,329,857)	(1,104,157)	(1,329,857)	(1,104,157)
Net cash used in investing activities	(2,725,746)	(8,301,269)	(1,334,863)	(7,802,816)
	(2,294,405)	(6,446,704)	(4,500,118)	(6,397,853)
CASH FLOW FROM FINANCING ACTIVITIES				
Drawn down of term loan	71,142	-	-	-
Hire purchase interest paid	(3,694)	-	(1,714)	-
Payment to hire purchase creditor	(28,334)	-	(13,334)	-
Payment of dividend	(835,200)	-	(835,200)	-
Proceeds from issuance of shares	6,230,000	6,570,000	6,230,000	6,570,000
Repayment of term loans	(151,275)	(6,543)	-	-
Term loan interest paid	(44,239)	(704)	-	-
Net cash generated from financing activities	5,238,400	6,562,753	5,379,752	6,570,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,943,995	116,049	879,634	172,147
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	119,277	3,228	175,375	3,228
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 27)	3,063,272	119,277	1,055,009	175,375

**The notes on pages 34 to 56 form an integral part of the financial statements.*

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

1. General Information

The principal activities of the Company during the year are to carry out research and development in Information Communication Technology (ICT) security system and to provide professional services which are directly and indirectly linked to ICT, and of investment holdings. The principal activities of the subsidiary companies are stated in Note 8 of the notes to the financial statements. There have been no significant changes in the nature of these activities during the year.

The Company is a public listed company incorporated and domiciled in Malaysia and quoted on the MESDAQ Market of Bursa Malaysia Securities Berhad.

The address of the registered office of the Company is as follows:

Level 14, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

The address of the principal place of business of the Company is as follows:

No. 5-5, Jalan USJ 9/5Q
Subang Business Centre
47620 Subang Jaya
Selangor Darul Ehsan

2. Basis of Preparation

The financial statements of the Company and the Group have been prepared under the historical cost convention and the Malaysian's Financial Reporting Standards (FRS).

3. Summary of Significant Accounting Policies

The following accounting policies have been used consistently in dealing with items which are considered to be material in relation to the financial statements.

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Subsidiaries are companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiaries acquired or disposed of are included in the consolidated income statement from the date of acquisition or up to the date of disposal. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiaries acquired, the difference is recognized directly in the income statement.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

3. Summary of Significant Accounting Policies (Continued)

3.1 Basis of consolidation (Continued)

Intragroup transactions, balances and unrealized gains on transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as at date of disposal.

3.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight line method so as to write off the cost of the property, plant and equipment over their estimated useful lives. The annual rates used are as follows:

	%
Freehold office buildings	2
Furniture and fittings	10
Office equipment	10
Computers	30
Hardware appliances	10
Renovation	10
Motor vehicle	20

The hardware appliances consisting of exclusive source appliances, programs and associated documentation are capitalized as they are able to generate economic benefits to the Group. The hardware appliances are depreciated and recognized as expenses based on the forecasted income stream over the expected lives of their economic benefits of ten years.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

3.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill acquired in a business combination shall not be amortized.

Investment in a subsidiary is stated at cost. Where an indication of impairment exists, the carrying amount of the subsidiary are assessed and written down immediately to its recoverable amount as set out in accounting policy Note 3.5 on impairment of assets. On disposal of a subsidiary, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

3. Summary of Significant Accounting Policies (Continued)

3.4 Products development expenditure

Research expenditure are written off to the income statement as and when incurred. Expenditure incurred on specific development projects are recognized as products development expenditure to the extent that such expenditures are expected to generate future economic benefits.

Capitalized products development expenditure is stated at cost less accumulated amortization and impairment losses. Products development expenditure will be amortized over their expected useful lives upon generation of income.

3.5 Impairment of assets

As at each balance sheet date, assets, other than stocks are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement unless it reverses a previous revaluation credited to reserve. The recoverable amount of an asset is either the net selling price or the value in use of the asset. The net selling price is the amount realizable from the sale of the asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if impossible to be estimated individually, for the cash-generating unit in which the asset is deployed.

Reversal of an impairment loss previously recognized is recorded to the extent the impairment loss had previously been recognized. A reversal of an impairment loss on a revalued asset is credited directly to reserves, unless the impairment loss on the same revalued asset was previously expensed in the income statement, in which case it is recognized as income.

3.6 Equity instrument

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized as equity in the period in which they are declared.

3.7 Trade and other receivables

Trade and other receivables are carried at anticipated realizable value. Known bad debts are written off and specific provision is made against the financial statements for debts which are doubtful of recovery.

3.8 Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

3. Summary of Significant Accounting Policies (CONTINUED)

3.9 Hire purchase creditors

Assets acquired under hire-purchase are included in property, plant and equipment and the capital elements of the hire purchase installments are shown as hire purchase creditors. Each hire purchase installment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding installment obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the hire purchase period. Property, plant and equipment held under hire purchase are depreciated over the useful lives of equivalent owned assets.

3.10 Employee benefits

i) Short term benefits

Wages, salaries, bonuses and social contributions are recognized as expenses in the year in which the associated services are rendered by employees of the company. Short-term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund (EPF). Such contributions are recognized as an expense in the income statement when incurred.

3.11 Foreign currency transactions

Transactions in foreign currencies have been translated into Ringgit Malaysia at rates of exchange ruling on the transaction dates. Foreign currency assets and liabilities are converted at rate ruling on the balance sheet date. All exchange differences are dealt with in the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

	2006 RM	2005 RM
1 US Dollar	3.56	3.80
1 Euro	4.70	4.49

3.12 Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of the revenue can be measured reliably. Revenue relating to sales of goods is recognized net of discounts upon the transfer of risk and rewards. Revenue from services rendered is recognized net of discounts as and when the services are performed.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

3. Summary of Significant Accounting Policies (CONTINUED)

3.13 Income tax

Income tax on the profit or loss for the year comprised current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax is not recognized if the temporary differences arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

3.14 Borrowings

Interest-bearing borrowings are recognized based on the proceeds received, net of transactions costs incurred. Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalized as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. All other borrowing costs are charged to the income statement as expenses in the period in which they are incurred.

3.15 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, cash at bank and deposits with banks and highly liquid investments which have an insignificant risk of change in value. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts, if any.

3.16 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item, where applicable.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments are offset when the company has a legally enforceable right to set off the recognized amounts and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

4. Share capital

Company and Group

	2006		2005	
	Number of shares	RM	Number of shares	RM
Authorized:				
At 1st January	25,000,000	25,000,000	5,000,000	5,000,000
Creation of new ordinary shares of RM1 each during the financial year	-	-	20,000,000	20,000,000
	<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>
Sub-division of shares to RM0.10 each during the year	225,000,000	-	-	-
At 31st December	<u>250,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>
Issued and fully paid:				
At 1st January	7,830,000	7,830,000	1,260,000	1,260,000
Sub-division of shares to RM0.10 each during the year	70,470,000	-	-	-
	<u>78,300,000</u>	<u>7,830,000</u>	<u>1,260,000</u>	<u>1,260,000</u>
Issuance of new ordinary shares of RM0.10 each during the financial year	26,100,000	2,610,000	6,570,000	6,570,000
At 31st December	<u>104,400,000</u>	<u>10,440,000</u>	<u>7,830,000</u>	<u>7,830,000</u>

The authorized share capital of the Company was sub-divided from 25,000,000 ordinary shares of RM1 each to 250,000,000 ordinary shares of RM0.10 each on 3rd January 2006.

In conjunction with the listing of the Company on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company issued 26,100,000 ordinary shares of RM0.10 each for cash at an issue price of RM0.30 per share. These new shares were fully subscribed for and the entire issued shares were successfully listed on the MESDAQ Market of Bursa Malaysia Securities Berhad on 20th March 2006. The new shares rank pari passu in all respects with the existing ordinary shares of the Company.

5. Share Premium

Company and Group

	2006	2005
	RM	RM
At 1 st January	-	-
Premium arising from share issued pursuant to Initial Public offer (IPO)	5,220,000	-
Expenses incurred for corporate listing exercise	(1,600,000)	-
At 31 st December	<u>3,620,000</u>	<u>-</u>

The share premium is not distributable by way of cash dividends and may be utilized in the manner set out in Section 60(3) of the companies Act, 1965.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

6. Deferred Taxation

Group	2006 RM	2005 RM
At 1 st January	755,532	-
Acquisition of subsidiary company	-	755,532
Addition during the year	92,483	-
At 31 st December	<u>848,015</u>	<u>755,532</u>

Deferred tax liabilities and assets are offset where there is legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

The amounts, determined after appropriate offsetting, are as follows:

	2006 RM	2005 RM
Deferred tax liabilities		
- property, plant and equipment	451,283	345,913
-product development expenditure	419,107	481,473
Deferred tax assets		
-unabsorbed business losses	(22,375)	(54,094)
-unabsorbed capital allowances	-	(17,760)
	<u>848,015</u>	<u>755,532</u>

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

7. Property, plant and equipment

	Furniture and fittings	Office equipment	Computers	Motor Vehicles	Renovation	Total
Company	RM	RM	RM	RM	RM	RM
2006						
Cost						
At the beginning of the year	52,636	38,073	35,307	-	17,133	143,149
Addition during the year	3,460	25,278	6,455	251,457	12,842	299,492
At the end of the year	56,096	63,351	41,762	251,457	29,975	442,641
Accumulated depreciation						
At the beginning of the year	5,264	4,080	14,120	-	1,713	25,177
Charge for the year	5,610	6,335	12,529	50,291	2,998	77,763
At the end of the year	10,874	10,415	26,649	50,291	4,711	102,940
Net book value						
At the end of the year	45,222	52,936	15,113	201,166	25,264	339,701
2005						
Cost						
At the beginning of the year	-	2,730	11,760	-	-	14,490
Addition during the year	52,636	35,343	23,547	17,133	-	128,659
At the end of the year	52,636	38,073	35,307	17,133	-	143,149
Accumulated depreciation						
At the beginning of the year	-	273	3,528	-	-	3,801
Charge for the year	5,264	3,807	10,592	1,713	-	21,376
At the end of the year	5,264	4,080	14,120	1,713	-	25,177
Net book value						
At the end of the year	47,372	33,993	21,187	15,420	-	117,972

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

7. Property, plant and equipment (CONTINUED)

Group	Freehold office buildings	Furniture and fittings	Office equipment	Computers	Hardware appliances	Motor vehicle	Renovation	Total
	RM	RM	RM	RM	RM	RM	RM	RM
2006								
Cost								
At the beginning of the year	2,032,000	157,834	142,251	471,436	2,870,000	70,000	17,133	5,760,654
Addition during the year	668,000	4,560	110,346	670,238	-	251,457	12,842	1,717,443
At the end of the year	2,700,000	162,394	252,597	1,141,674	2,870,000	321,457	29,975	7,478,097
Accumulated depreciation								
At the beginning of the year	338,160	77,729	100,418	268,170	574,000	28,000	1,713	1,388,190
Charge for the year	54,000	10,417	17,159	299,161	287,000	64,291	2,998	735,026
At the end of the year	392,160	88,146	117,577	567,331	861,000	92,291	4,711	2,123,216
Net book value								
At the end of the year	2,307,840	74,248	135,020	574,343	2,009,000	229,166	25,264	5,354,881

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

7. Property, plant and equipment (CONTINUED)

Group	Freehold office buildings	Furniture and fittings	Office equipment	Computers	Hardware appliances	Motor vehicles	Renovation	Total
	RM	RM	RM	RM	RM	RM	RM	RM
2005								
Cost								
At the beginning of the year	-	-	2,730	11,760	-	-	-	14,490
Acquisition of subsidiaries	2,032,000	105,198	104,178	436,129	2,870,000	70,000	-	5,617,505
Addition during the year	-	52,636	35,343	23,547	-	-	17,133	128,659
At the end of the year	2,032,000	157,834	142,251	471,436	2,870,000	70,000	17,133	5,760,654
Accumulated depreciation								
At the beginning of the year	-	-	273	3,528	-	-	-	3,801
Acquisition of subsidiaries	336,935	72,263	96,153	251,173	565,351	27,578	-	1,349,453
Charge for the year	1,225	5,466	3,992	13,469	8,649	422	1,713	34,936
At the end of the year	338,160	77,729	100,418	268,170	574,000	28,000	1,713	1,388,190
Net book value								
At the end of the year	1,693,840	80,105	41,833	203,266	2,296,000	42,000	15,420	4,372,464

Group

As at the balance sheet date, there was a property, plant and equipment acquired under installment purchase plans for which there were outstanding installments. The net book value of these assets amounted to RM229,166 (2005: RM42,000).

The Group's freehold office buildings were charged to licensed banks for banking facilities granted to a subsidiary and their net book value were RM1,976,600 (2005: RM1,693,840).

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

8. Interest in Subsidiary Companies

	2006 RM	2005 RM
Unquoted shares, at cost	6,570,000	6,570,000
Amount owing by a subsidiary company	6,027,661	675,530
Amount owing to a subsidiary company	<u>(47,500)</u>	<u>(47,500)</u>
	<u>12,550,161</u>	<u>7,198,030</u>

The Company has:

- i) 100% (2005: 100%) interest in the shares of EXTOL CORPORATION (M) SDN. BHD. (Company No. 121135-U), a company incorporated in Malaysia whose principle activities are those of sale and research and development of security technology, security maintenance and professional security services and training.
- ii) 100% (2005: 100%) interest in the shares of EXTOL MARKETING SDN. BHD. (Company No. 647402-P), a company incorporated in Malaysia whose principle activity is that of trading in computer hardware, software, related equipment and software development.

The amount owing by/(to) the subsidiary companies are unsecured, interest free and have no fixed term of repayment.

9. Goodwill

Group	2006 RM	2005 RM
At cost		
At the beginning of the year	2,026,255	-
Goodwill arising from business combination during the year	<u>-</u>	<u>2,026,255</u>
At the end of the year	<u>2,026,255</u>	<u>2,026,255</u>

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

10. Product Development Expenditure

Company	2006 RM	2005 RM
Product development expenditure, at cost		
At the beginning of the year	1,554,537	450,380
Addition during the year	1,329,857	1,104,157
	<u>2,884,394</u>	<u>1,554,537</u>
Less: Amortization of product development expenditure	(200,492)	(45,038)
At the end of the year	<u>2,683,902</u>	<u>1,509,499</u>

Group	2006 RM	2005 RM
Product development expenditure, at cost	3,781,867	1,554,537
Acquisition of subsidiary company, at cost	-	2,227,330
Addition during the year	1,329,857	-
	<u>5,111,724</u>	<u>3,781,867</u>
Less: Amortization of product development expenditure	(788,152)	(409,966)
At the end of the year	<u>4,323,572</u>	<u>3,371,901</u>

Product development expenditure includes the following expenses for the year:

Company and Group	2006 RM	2005 RM
Rental of premises	<u>31,115</u>	<u>45,526</u>

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

11. Trade Receivables

The currency exposure profile of trade receivables is as follows:

Company	2006 RM	2005 RM
Ringgit Malaysia	880,606	1,121,204
US Dollar	670,554	1,122,280
	<u>1,551,160</u>	<u>2,243,484</u>

Group	2006 RM	2005 RM
Ringgit Malaysia	6,878,195	3,669,797
US Dollar	670,554	1,122,280
	<u>7,548,749</u>	<u>4,792,077</u>

The normal trade credit terms given by the Company and Group ranges from 30 days to 90 days. Other credit terms are assessed and approved on a case-to-case basis. The Company and Group have no significant concentration of credit risk that may arise from exposures to a single debtor.

12. Other Receivables

Company	2006 RM	2005 RM
Other receivables	6,066	1,377
Deposits	8,461	7,145
Prepayments	17,090	470,091
	<u>31,617</u>	<u>478,613</u>

Group	2006 RM	2005 RM
Other receivables	326,089	17,377
Deposits	39,487	376,741
Prepayments	17,090	473,091
	<u>382,666</u>	<u>867,209</u>

Other receivables are denominated in Ringgit Malaysia.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

13. Short Term Investment

<u>Company and Group</u>	2006 RM	2005 RM
-Short term investment with licensed institution	1,038,928	-

The interest rate of the investment as at 31st December 2006 is as follows:

Company and Group	2006 %	2005 %
-Short term investment with licensed institution	3.09	-

14. Deposit with a Licensed Bank

<u>Group</u>	2006 RM	2005 RM
-Fixed deposit with a licensed bank	2,527,068	-

The interest rate and maturity of the deposit as at 31st December 2006 are as follows:

<u>Group</u>	Interest rate		Maturity	
	2006 %	2005 %	2006 Days	2005 Days
-Fixed deposit with a licensed bank	3.2	-	30	-

15. Trade Payables

The currency exposure profile of trade payables is as follows:

Company	2006 RM	2005 RM
Ringgit Malaysia	6,500	235,961
<u>Group</u>	2006 RM	2005 RM
Ringgit Malaysia	890,274	1,191,417
EURO	29,289	98,954
US Dollar	145,959	30,732
	1,065,522	1,321,103

The normal trade credit terms received by the Company and Group ranges from 30 days to 60 days.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

16. Bills Payable

Group	2006 RM	2005 RM
Bankers' acceptance, secured	<u>1,385,000</u>	<u>1,028,000</u>
Interest rate per annum	<u>3.53% to 4.65%</u>	<u>3.53% to 4.5%</u>

All bankers' acceptances are denominated in Ringgit Malaysia.

The bankers' acceptances of the Group are secured by a charge on the freehold office buildings of a subsidiary company and guaranteed by directors of the subsidiary company and a third party.

Bankers' acceptances have credit periods of 120 days (2005: 120 days).

17. Other Payables

Company	2006 RM	2005 RM
Other payables	17,775	59,232
Payroll liabilities	74,376	165,923
Accruals	14,000	13,500
	<u>106,151</u>	<u>238,655</u>
Group	2006 RM	2005 RM
Other payables	74,823	97,645
Payroll liabilities	227,614	224,651
Accruals	23,400	23,000
	<u>325,837</u>	<u>345,296</u>

Other payables are denominated in Ringgit Malaysia.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

18. Hire Purchase Creditors

Company	2006 RM	2005 RM
Minimum hire purchase payments:		
Payable not later than one year	45,144	-
Payable after one year but before five years	165,508	-
	<u>210,652</u>	<u>-</u>
Less: Finance charges	(23,986)	-
Present value of hire purchase liability	<u>186,666</u>	<u>-</u>
Present value of hire purchase liability:		
Payable not later than one year	40,002	-
Payable after one year but before five years	146,664	-
	<u>186,666</u>	<u>-</u>
Effective interest rate per annum	<u>2.57%</u>	<u>-</u>
Group	2006 RM	2005 RM
Minimum hire purchase payments:		
Payable not later than one year	55,049	16,980
Payable after one year but before five years	165,508	9,905
	<u>220,557</u>	<u>26,885</u>
Less: Finance charges	(25,141)	(3,135)
Present value of hire purchase liability	<u>195,416</u>	<u>23,750</u>
Present value of hire purchase liability:		
Payable not later than one year	48,752	15,000
Payable after one year but before five years	146,664	8,750
	<u>195,416</u>	<u>23,750</u>
Effective interest rate per annum	<u>2.57% to 4.4%</u>	<u>4.4%</u>

The hire purchase creditors are denominated in Ringgit Malaysia. Hire purchase creditors are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

19. Banking Facilities

Group

These represent:-

- 1) Bank overdraft which bears interest at 2% (2005: 2%) per annum above the bank's base lending rate, and
- 2) Term loans which are subjected to interest:-
 - a) at 4.5% per annum fixed for the first year, base lending rate for the second year and 1% per annum above the bank's base lending rate thereafter,
 - b) at 1.75% per annum above the bank's base lending rate, and
 - c) at 3.45% for the first year, 5.00% for the second year and 0.5% per annum above the bank's base lending rate thereafter.

The term loans and bank overdraft are denominated in Ringgit Malaysia.

The above banking facilities are secured by way of:-

- a) a charge on a subsidiary company's freehold office buildings, and
- b) guarantees by the subsidiary company's directors and a third party.

20. Long Term Liabilities

Company

These represent hire purchase creditors repayable one year after but not later than five years after the balance sheet date.

Group

	2006		2005	
	Payable after one year but before five years RM	Payable after five years RM	Total RM	Total RM
Hire purchase creditor (Note 18)	146,664	-	146,664	8,750
Term loans	323,488	217,621	541,109	551,271
	<u>470,152</u>	<u>217,621</u>	<u>687,773</u>	<u>560,021</u>

21. Turnover

Company and Group

These represent billing for net invoiced value of goods sold and services rendered.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006
22. Finance Expenses

	2006	2005
Company	RM	RM
Total interest expenses	1,714	-
This comprises interest expenses on:		
- hire purchase interest	1,714	-
Group		
Total interest expenses	167,977	9,676
This comprises interest expenses on:		
- bank overdraft	25,209	4,583
- bills payable	94,835	4,389
- hire purchase	3,694	-
- term loans	44,239	704
	167,977	9,676

23. Staff Costs

	2006	2005
Company	RM	RM
Salaries and allowances	106,803	367,637
EPF and SOCSO contributions	17,821	68,615
Other staff related expenses	37,840	32,927
Directors' remuneration		
- salaries, bonus and allowances	268,000	75,371
- EPF contributions	31,580	9,669
	462,044	554,219
Group	2006	2005
	RM	RM
Salaries and allowances	1,045,337	413,824
EPF and SOCSO contributions	142,153	76,115
Other staff related expenses	79,887	33,397
Directors' remuneration		
- salaries, bonus and allowances	402,000	85,371
- EPF contributions	43,340	9,669
	1,712,717	618,376

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

24. Taxation

<u>Company</u>	2006 RM	2005 RM
Taxation for the year	(15,112)	-
Reconciliation of tax expenses:-		
Profit before taxation	1,269,076	2,531,350
Income tax at Malaysian's tax rates	(355,341)	(668,778)
Effect of expenses not deductible for tax purposes	(97,764)	(19,403)
Effect of expenditure deductible for tax purposes but capitalized in balance sheet	372,360	269,164
Effect of income not taxable for tax purposes	11,344	-
Effect of utilization of current year capital allowances	15,152	9,099
Effect of taxation exempted under MSC status	39,137	374,039
Tax incentive from different tax rate	-	35,879
Taxation for the year	(15,112)	-
<u>Group</u>	2006 RM	2005 RM
Taxation for the year	(20,525)	-
Under-provision in previous year	(135)	-
Deferred taxation	(92,483)	(6,319)
	(113,143)	(6,319)

Reconciliation of tax expenses:-

Profit before taxation	1,570,714	2,826,022
Income tax at Malaysian's tax rates	(416,862)	(733,282)
Effect of expenses not deductible for tax purposes	(311,945)	(89,987)
Effect of expenditure deductible for tax purposes but capitalized in balance sheet	372,360	269,164
Effect of utilization of current and previous year business loss	34,349	3,552
Effect of income not taxable for tax purposes	11,344	-
Effect of utilization of current and previous year capital allowances	251,092	140,635
Effect of taxation exempted under MSC status	39,137	374,039
Tax incentive from different tax rate	-	35,879
Under-provision in previous year	(135)	-
Deferred taxation	(92,483)	(6,319)
Taxation for the year	(113,143)	(6,319)

The Company has been granted the Multimedia Super Corridor (MSC) Status on 8th September 2004 and awarded the Pioneer Status under Section 4A of the Promotion of Investment (Amendment) Act, 1986.

Subject to agreement from the Inland Revenue Board, the company has, as at 31st December 2006, tax exempt income amounting to approximately RM1,243,400 (2005: RM1,938,900) which can be used to pay tax exempt dividend.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

25. Earnings Per Share

Basic earnings per share (adjusted to incorporate the effects of share split) of the Company and the Group is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

<u>Company</u>	2006	2005
Net profit for the financial year (RM)	1,253,964	2,531,350
Weighted average number of ordinary shares in issue (unit)	99,537,534	1,476,000
Adjustment for effects of share split (unit)	-	13,284,000
Adjusted weighted average number of ordinary shares in issue (unit)	99,537,534	14,760,000
Basic earnings per share (sen)	1.26	17.15
<u>Group</u>	2006	2005
Net profit for the financial year (RM)	1,457,571	2,819,703
Weighted average number of ordinary shares in issue (unit)	99,537,534	1,476,000
Adjustment for effects of share split (unit)	-	13,284,000
Adjusted weighted average number of ordinary shares in issue (unit)	99,537,534	14,760,000
Basic earnings per share (sen)	1.46	19.10

26. Acquisition of Subsidiary Companies

The subsidiary companies acquired by the Company in previous year were EXTOL CORPORATION (M) SDN. BHD. (Company No. 121135-U) and EXTOL MARKETING SDN. BHD. (Company No. 647402-P). The fair value of assets and liabilities acquired were as follows:

	2006 RM	2005 RM
Property, plant and equipment	-	4,268,052
Product development expenditure	-	1,869,115
Stocks	-	88,737
Trade receivables	-	2,532,691
Other receivables	-	481,346
Tax recoverable	-	89,567
Cash and bank balances	-	59,744
Trade payables	-	(1,785,433)
Bill payables	-	(898,000)
Other payables	-	(120,012)
Bank overdraft	-	(552,117)
Deferred taxation	-	(749,213)
Hire purchase creditor	-	(23,750)
Term loans	-	(710,902)
	-	4,549,825
Goodwill	-	2,026,255
	-	6,576,080
Add: Cash and cash equivalents of subsidiary companies acquired	-	492,373
Cash used in acquisition, net of cash	-	7,068,453

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

27. Cash and Cash Equivalents at the End of the Year

<u>Company</u>	2006 RM	2005 RM
Short term investment	1,038,928	-
Cash and bank balances	16,081	175,375
	<u>1,055,009</u>	<u>175,375</u>
<u>Group</u>	2006 RM	2005 RM
Short term investment	1,038,928	-
Deposit with a licensed bank	2,527,068	-
Cash and bank balances	67,812	538,256
Bank overdraft	(570,536)	(418,979)
	<u>3,063,272</u>	<u>119,277</u>

28. Significant Related Party Disclosures

<u>Company</u>	2006 RM	2005 RM
Advances to a subsidiary	11,046,238	611,694
Expenses paid on behalf for a subsidiary	317,562	-
Expenses paid on behalf by a subsidiary	1,750,912	-
Management fees charged to a subsidiary	-	156,000
Payment to supplier by a subsidiary	238,961	-
Purchases from a subsidiary	394,012	1,176,611
Repayment from a subsidiary	5,874,834	-
Royalties charged by a subsidiary	-	507,364
Sales proceeds received by a subsidiary	197,395	-
Sales to a subsidiary	<u>2,049,655</u>	<u>2,247,551</u>
<u>Group</u>		
Purchase of properties by Extol Corporation (M) Sdn. Bhd., a subsidiary of the Company, from RE Solution Sdn. Bhd. and X-ECT Corporation (M) Sdn. Bhd., in which certain directors of the Group have substantial interest.	-	668,000
Rental charged to Extol Corporation (M) Sdn. Bhd. by Extol Capital Sdn. Bhd., in which certain directors of the Group have substantial interest.	-	<u>36,000</u>

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

29. Segmental Information

The Company is principally carrying out research and development in Information Communication Technology (ICT) security system and to provide professional services which are directly and indirectly linked to ICT, and of investment holdings.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

29. Segmental Information (CONTINUED)

The segmental results for the Group are as follows:-

	Anti-Virus Software		Managed Security Solutions		Secured Enterprises Applications		Group	
	RM	%	RM	%	RM	%	RM	%
Sales	182,290	1.2	15,264,681	97.6	183,810	1.2	15,630,781	100
Cost of sales	(63,477)	0.4	(10,132,836)	64.8	-	-	(10,196,313)	(65.2)
Gross profit	118,813	0.8	5,131,845	32.8	183,810	1.2	5,434,468	34.8

30. Financial Instruments

Company and Group

i) Financial risk management objective and policies

The Company's financial risk management policies seek to ascertain that adequate financial resources are available for the development of the Company's business whilst managing its foreign currency exchange, credit, liquidity and market risks.

ii) Interest rate risk

The Company is exposed to interest rate risk through the impact of interest rate changes on interest bearing borrowings from financial institutions.

iii) Credit risk

The Company has no major concentration of credit risk. Cash is placed with credit worthy financial institutions.

The maximum exposure to credit risk in the event that the counter-parties fail to perform their obligations as at end of the financial year in relation to trade receivable is the carrying amount of trade receivables as stated in the balance sheet as at the end of the financial year.

iv) Foreign currency exchange risk

The Company is exposed to currency risk as a result of the foreign currency transactions entered into in currencies other than its functional currency.

Foreign exchange exposures in transactional currencies other than functional currency are kept to an acceptable level. The Company has not entered into any derivative financial instruments such as forward foreign exchange contracts.

v) Liquidity risk

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuation in cash flows. The Company maintains adequate funds to meet their obligations as and when they fall due.

vi) Fair value of financial assets and financial liabilities

The carrying amounts in respect of the Company's financial assets and financial liabilities in the financial statements approximate their fair values due to the relatively short term nature of these financial instruments.

The responsibility for managing the above risks is vested in the directors.

NOTES TO THE FINANCIAL STATEMENTS, 31ST DECEMBER 2006

31. Significant and Subsequent Events

- a) On 27th February 2006, the Company issued a prospectus for Public Issue of 26,100,000 new ordinary shares of RM0.10 each at an issue price of RM0.30 per share to all shareholders in conjunction with its listing on the MESDAQ Market of Bursa Malaysia Securities Berhad on 20th March 2006.

The Public issue comprised of the following:

- i) 7,100,000 new ordinary shares of RM0.10 each for application by the eligible directors, employees and business associates of the Company and its subsidiary companies;
 - ii) 18,000,000 new ordinary shares of RM0.10 each by way of private placement to identified investors; and
 - iii) 1,000,000 new ordinary shares of RM0.10 each for application by the public.
- b) On 16th April 2007, EXTOL MARKETING SDN. BHD., a wholly-owned subsidiary of the Company, had entered into a conditional sale and purchase of shares agreement for the proposed acquisition of 833,000 ordinary shares of RM1.00 each representing 68% of the issued and paid-up capital in INNODIUM SDN. BHD. (Company No. 596701-T) from NG SOO LOO for a total cash consideration of RM1,700,000. The proposed acquisition is subject to, inter-alia, the following:

- i) approval of the Board of Directors of the Purchaser, and
- ii) any other approval required, if any, from the relevant authorities.

This proposed acquisition is expected to be completed by the third quarter of 2007.

32. Proceeds of Public Issue

The gross proceeds from the Public Issue of 26,100,000 shares amounting to RM7,830,000 were proposed to be utilized as follows:

	RM
Research and development	3,066,000
Business expansion	1,917,000
Working capital	1,247,000
Listing expenses	1,600,000
	<u>7,830,000</u>

As at 31st December 2006, all the proceeds were utilized in the manner as proposed except for an unutilized balance of RM3,058,577 in relation to:

	RM
Research and development	1,887,469
Business expansion	929,108
Working capital	242,000
	<u>3,058,577</u>

33. Comparative Figures

Certain comparative figures have been re-classified to conform with the current year's presentation.

Statistic of Shareholdings

As of 27 April 2007

Authorized Share Capital	RM25,000,000
Issued and fully paid up Share Capital	RM10,440,000 comprising of 104,400,000 ordinary shares of RM0.10 each
Class of Shares	Ordinary shares of RM0.10 each
Voting Right	One vote per ordinary share

Analysis by Size of Shareholding

	No of shareholders	% shareholders	No of shares held	% of issued capital
1 to 99 shares	4	0.415	249	0.000
100 to 1,000 shares	104	10.810	96,550	0.092
1,001 to 10,000 shares	408	42.411	2,806,781	2.688
10,001 to 100,000 shares	391	40.644	14,739,010	14.117
100,001 to 5,219,999 shares (*)	52	5.405	26,159,410	25.056
5,220,000 and above shares (**)	3	0.311	60,598,000	58.044
	962	100.00	104,400,000	100.00

Remark : (*) - Less than 5% of issued shares
 (**) - 5% and above of issued shares

List of Substantial Shareholders' Shareholdings (5% and above)

Name	No of Shares Held			
	Direct	%	Indirect	%
Justin Tan Seng Kooi	30,548,000	29.3	32,850,000(a)	31.5
Lee Choon Kee	16,540,000	15.8	46,858,000(b)	44.9
Alex Tan Seng Keng	16,310,000	15.6	47,088,000(c)	45.1

List of Directors' Shareholdings

Name	No of Shares Held			
	Direct	%	Indirect	%
Justin Tan Seng Kooi	30,548,000	29.3	32,850,000(a)	31.5
Lee Choon Kee	16,540,000	15.8	46,858,000(b)	44.9
Alex Tan Seng Keng	16,310,000	15.6	47,088,000(c)	45.1
Kok We Tian @ Kok Wee Tian	501,000	0.5	3,651,900(d)	3.5
Lee Boon Kok	-	-	-	-
Mohd Fadzli bin Ibrahim	-	-	-	-
Chairmont Kok Hsiao Kate	-	-	4,152,900(e)	4.0

Note :

- Deemed interested via his mother, Lee Choon Kee's (16,540,000) and his brother, Alex Tan Seng Keng's (16,310,000) shareholdings.
- Deemed interested via her sons, Justin Tan Seng Kooi's (30,548,000) and Alex Tan Seng Keng's (16,310,000) shareholdings.
- Deemed interested via his mother, Lee Choon Kee's (16,540,000) and his brother, Justin Tan Seng Kooi's (30,548,000) shareholdings.
- Deem interested via his wife, Wong Lye Chun @ Wong Lai Chan's (3,651,900) shareholding.
- Deem interested via her father, Kok We Tian @ Kok Wee Tian's (501,000) and her mother, Wong Lye Chun @ Wong Lai Chan's (3,651,900) shareholding.

List of Thirty (30) Largest Shareholders

As of 27 April 2007

No	Shareholder	No of Shares	%
1	Justin Tan Seng Kooi	30,548,000	29.260
2	Alex Tan Seng Keng	16,310,000	15.622
3	Lee Choon Kee	13,740,000	13.160
4	Wong Lye Chun @ Wong Lai Chan	3,624,900	3.472
5	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LPF)	2,817,000	2.698
6	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Choon Kee (CEB)	2,800,000	2.681
7	ECM Libra Avenue Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hah Pin Kiew	2,146,000	2.055
8	Alliance Group Nominees (Tempatan) Sdn Bhd Phiem Asset Management Sdn Bhd for Employees Provident Fund	1,250,000	1.197
9	Hiah Swee Hiang	1,100,000	1.053
10	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Pau Yu Tiong	817,000	0.782
11	AMMB Nominees (Tempatan) Sdn Bhd Amtrustee Berhad for Apex Dana AL-SOFI-I (5/26-4)	680,000	0.651
12	Zaini Bin Zainuddin	667,600	0.639
13	HSBC Nominees (Asing) Sdn Bhd HSBC-FS for ASEAN Emerging Companies Growth Fund Ltd	612,000	0.586
14	HSBC Nominees (Asing) Sdn Bhd HSBC-FS for The Vittoria Fund Limited	612,000	0.586
15	Kok We Tian @ Kok Wee Tian	500,000	0.478
16	Lim Chew Hian	487,900	0.467
17	JF Apex Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Chui Lan (Margin)	455,000	0.435
18	Soon Fook Kian	450,000	0.431
19	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tai Yam Kooi (M01)	400,000	0.383
20	Chhoa Kwang Hua	300,000	0.287
21	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chee Shok Fong	300,000	0.287
22	Teh Hong Chuan	300,000	0.287
23	Chang Siw Fong	295,000	0.282
24	Sim Siew Choo @ Sim Siew Lee	295,000	0.282

25	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Daniel Tan Chien Ming (14570MM0433)	270,000	0.258
26	Hiah Siew Hiang	267,600	0.256
27	Alliance Group Nominees (Tempatan) Sdn Bhd Phiem Asset Management Sdn Bhd for Magnum Corporation Bhd	250,000	0.239
28	Chu Ah Chow	230,000	0.220
29	Tan Geik Hoon	227,000	0.217
30	Pau Yu Tiong	211,500	0.202
	Total	<u>82,963,500</u>	<u>79.453</u>

List of Properties

	Registered Owner	Title / Location	Description / Existing use	Land / built-up	Tenure	Approximate age of building	Encumbrances	Audited net book value as at 31.12.06 (RM)	Year of Acquisition
1	Extol Corporation	Prima Square 13-1 Block 1, Dataran Prima Jalan PJU 1/37 47301 Petaling Jaya Selangor	Office Lot	1,282 sq. ft.	Freehold	8 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	311,600	Dec, 1995
2	Extol Corporation	Prima Square 13-2 Block 1, Dataran Prima Jalan PJU 1/37 47301 Petaling Jaya Selangor	Office Lot	1,487 sq. ft.	Freehold	8 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	205,000	Dec, 1995
3	Extol Corporation	Prima Square 13-3 Block 1, Dataran Prima Jalan PJU 1/37 47301 Petaling Jaya Selangor	Office Lot	1,480 sq. ft.	Freehold	8 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	205,000	Dec, 1995
4	Extol Corporation	Prima Square 13-4 Block 1, Dataran Prima Jalan PJU 1/37 47301 Petaling Jaya Selangor	Office Lot	1,480 sq. ft.	Freehold	8 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	205,000	Dec, 1995
5	Extol Corporation	Prima Square 13-5 Block 1, Dataran Prima Jalan PJU 1/37 47301 Petaling Jaya Selangor	Office Lot	1,487 sq. ft.	Freehold	8 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	205,000	Dec, 1995

	Registered Owner	Title / Location	Description / Existing Use	Land / Built-up	Tenure	Approximate age of buildings	Encumbrances	Audited net book value as at 31.12.06 (RM)	Year of Acquisition
6	Extol Corporation	Subang Business Center 5-5, Jalan USJ 9/5Q, Subang Business Center, 47620 UEP-Subang Jaya Selangor	Office Lot	1,726 sq. ft.	Freehold	9 years	Deed of assignment in favor of Standard Chartered Bank (M) Berhad	260,800	Apr, 1995
7	Extol Corporation	Subang Business Center 7-5, Jalan USJ 9/5Q, Subang Business Center, 47620 UEP-Subang Jaya Selangor	Office Lot	1,726 sq. ft.	Freehold	9 years	Deed of assignment in favor of Standard Chartered Bank (M) Berhad	260,800	Apr, 1995
8	Extol Corporation	Subang Business Center, 9-5, Jalan USJ 9/5Q, Subang Business Center, 47620 UEP-Subang Jaya Selangor	Office Lot	1,726 sq. ft.	Freehold	9 years	Free of Encumbrances	331,240	Nov, 2005
9	Extol Corporation	Subang Business Center 11-5, Jalan USJ 9/5Q, Subang Business Center, 47620 UEP-Subang Jaya Selangor	Office Lot	1,726 sq. ft.	Freehold	9 years	Deed of assignment in favor of HSBC Bank Malaysia Berhad	323,400	May, 2005

EXTOL MSC BHD (643683-U)
(Incorporated in Malaysia)

NOTICE OF THIRD ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Third Annual General Meeting of the Company will be held at Pahlawan 5, Level 5, The Summit Hotel Subang USJ, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan on **Friday, 22 June 2007 at 9.00 a.m.**, to transact the following businesses:-

AS ORDINARY BUSINESS: -

1. To receive the Audited Accounts for the financial year ended 31 December 2006 and the Reports of Directors and Auditors thereon. (Ordinary Resolution 1)
2. To re-elect Mr Justin Tan Seng Kooi who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association. (Ordinary Resolution 2)
3. To re-elect Mr Kok We Tian @ Kok Wee Tian who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association. (Ordinary Resolution 3)
4. To re-appoint Messrs C.K. Cheah & Co. as Auditors of the Company for the financial year ending 31 December 2007 and to authorise the Directors to fix the Auditors' remuneration. (Ordinary Resolution 4)

AS SPECIAL BUSINESS: -

5. To approve the payment of Directors' Fees of RM61,200 for the financial year ended 31 December 2006. (Ordinary Resolution 5)
6. To consider and if thought fit, to pass the following Ordinary Resolution, with or without modifications: -

AUTHORITY TO ISSUE SHARES

"THAT subject always to the Companies Act, 1965, Articles of Association of the Company and approvals from Bursa Malaysia Securities Berhad and any other governmental/regulatory bodies, where such approval is necessary, authority be and is hereby given to the Directors pursuant to Section 132D of the Companies Act, 1965 to issue and allot not more than ten percent (10%) of the issued capital of the Company at any time upon any such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit or in pursuance of offers, agreements or options to be made or granted by the Directors while this approval is in force until the conclusion of the next Annual General Meeting of the Company and that the Directors be and are hereby further authorised to make or grant offers, agreements or options which would or might require shares to be issued after the expiration of the approval hereof." (Ordinary Resolution 6)

7. To consider and if thought fit, to pass the following Special Resolution, with or without modifications: -

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

“THAT the proposed amendments to the Articles of Association of the Company as contained in Appendix II which is attached in the Circular to Shareholders dated 31 May 2007 be approved and adopted as the new Articles of Association of the Company, in substitution for, and to the exclusion of the existing Articles of Association of the Company.

AND THAT the Directors be and are hereby authorised to assent to any modifications, variations and/or amendments as may be required by the relevant authorities and to do all acts and things and take all steps as may be considered necessary to give full effect to the proposed amendments to the Articles of Association of the Company.” (Special Resolution 1)

8. To transact any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

BY ORDER OF THE BOARD

WONG WEI FONG (MAICSA 7006751)
LIM LEE KUAN (MAICSA 7017753)
Secretaries

Petaling Jaya

Date: 31 May 2007

Notes:-

- I. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead and the holder shall specify the proportion of his shareholding to be represented by each proxy; a proxy need not be a member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- II. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of an officer or its attorney duly authorised.
- III. The instrument appointing a proxy must be deposited at the registered office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting, i.e. on or before **9.00 a.m., Wednesday, 20 June 2007**.

Explanatory Note on Special Business:-

1. Ordinary Resolution 5

The proposed Ordinary Resolution 5 is in accordance with Article 94 of the Company's Articles of Association and if passed, will authorise the payment of Directors' Fees to the Directors of the Company for their services as Directors for the year ended 31 December 2006.

2. Ordinary Resolution 6

The proposed Ordinary Resolution 6, if passed, will authorise the Directors of the Company to allot and issue not more than 10% of the issued share capital of the Company subject to the approvals of all the relevant governmental/regulatory bodies. This authorisation will empower the Directors of the Company to issue shares notwithstanding that the authorisation has ceased to be in force if the shares are issued in pursuance of an offer, agreement or option made or granted by the Directors while the authorisation was in force. This authorisation will expire at the conclusion of the next Annual General Meeting of the Company.

3. Special Resolution 1

The proposed amendments to the Articles of Association will bring the Articles of Association of the Company in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad for MESDAQ Market.



FORM OF PROXY

EXTOL MSC BHD (643683-U) (Incorporated in Malaysia)

I/We NRIC No.
(Full Name in Capital Letters)

of
(Full Address)

being a member(s) of **EXTOL MSC BHD** (Company No.: 643683-U) hereby appoint

.....
(Full Name in Capital Letters)

of
(Full Address)

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Third Annual General Meeting of the Company to be held at Pahlawan 5, Level 5, The Summit Hotel Subang USJ, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan on **Friday, 22 June 2007** at **9.00 a.m.** and at any adjournment thereof. The proxy is to vote in the manner indicated below, with an "X" in the appropriate spaces. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

NO.	RESOLUTIONS	FOR	AGAINST
1.	To receive the Audited Accounts for the financial year ended 31 December 2006 and the Reports of Directors and Auditors thereon.		
2.	To re-elect Mr Justin Tan Seng Kooi who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association.		
3.	To re-elect Mr Kok We Tian @ Kok Wee Tian who retires as a Director of the Company pursuant to Article 84 of the Company's Articles of Association.		
4.	To re-appoint Messrs C.K. Cheah & Co as Auditors of the Company for the financial year ending 31 December 2007 and to authorise the Directors to fix the Auditors' remuneration.		
5.	To approve the payment of Directors' Fees of RM61,200 for the financial year ended 31 December 2006.		
6.	Authority to Issue Shares.		
7.	Proposed Amendments to the Articles of Association of The Company		

Signed this day of2007.

Number of shares held:-	
CDS account no.:-	
Telephone no. (during office hours):-	

Signature
Shareholder or Common Seal

Notes:-

- A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote in his stead and the holder shall specify the proportion of his shareholding to be represented by each proxy; a proxy need not be a member and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of an officer or its attorney duly authorised.
- The instrument appointing a proxy must be deposited at the registered office of the Company at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting, i.e. on or before **9.00 a.m., Wednesday, 20 June 2007.**



ADVANCING EXCELLENCE

EXTOL MSC BERHAD (643683-U)

Tel: +603 8024 8166

Fax: +603 8024 6982

email: info@extol.com.my / sales.ec@extol.com.my

www.extol.com.my