

REDTONE INTERNATIONAL BERHAD

Incorporated in Malaysia: 596364-U

**QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FIRST QUARTER ENDED 31 AUGUST 2006**

REDTONE INTERNATIONAL BERHAD

(Company No: 596364-U)

The Directors are pleased to announce the unaudited results for the first quarter ended 31 August 2006.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JUNE 2006 TO 31 AUGUST 2006**

	Note	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		1 June 06 to 31 Aug 06	1 June 05 to 31 Aug 05 PRECEDING YEAR CORRESPONDING QUARTER RM'000	1 June 06 to 31 Aug 06 CURRENT YEAR TODATE RM'000	1 June 05 to 31 Aug 05 PRECEDING YEAR CORRESPONDING PERIOD RM'000
REVENUE	A11	28,675	N/A	28,675	N/A
PROFIT FROM OPERATIONS		4,378	N/A	4,378	N/A
FINANCE INCOME, NET		145	N/A	145	N/A
DEPRECIATION AND AMORTISATION		(2,440)	N/A	(2,440)	N/A
PROFIT BEFORE TAX		2,083	N/A	2,083	N/A
TAXATION	B5	-	N/A	-	N/A
PROFIT FOR THE PERIOD		2,083	N/A	2,083	N/A
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE PARENT		2,544	N/A	2,544	N/A
MINORITY INTEREST		(461)	N/A	(461)	N/A
		2,083	-	2,083	-
EARNINGS PER SHARE (SEN)	B10	1.01	N/A	1.01	N/A
ANNUALISED EARNINGS PER SHARE (SEN)	B10	4.04	N/A	4.04	N/A

The financial year end of the Company has been changed from 28 February to 31 May commencing financial period ended 31 May 2006 and thereafter to end on 31 May of every subsequent year. Accordingly, there are no comparative figures for the current quarter ended 31 August 2006 and the preceding year corresponding period. However, the previously announced results for the first quarter (March 2005 to May 2005) is attached herewith as reference

The unaudited Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements for period ended 31 May 2006.

REDTONE INTERNATIONAL BERHAD

(Company No: 596364-U)

Condensed Consolidated Balance Sheet

	Unaudited	Audited
	AS AT END OF CURRENT QUARTER 31 Aug 2006 RM'000	AS AT PRECEDING PERIOD ENDED 31 May 2006 RM'000
Note		
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	19,712	20,992
Intangible Assets	2,404	2,169
Deferred Tax Assets	1,142	1,142
	<u>23,258</u>	<u>24,303</u>
Current Assets		
Inventories	2,192	2,123
Trade and other receivables	42,821	40,184
Marketable securities	B7 1,892	1,892
Cash and cash equivalents	38,553	41,428
	<u>85,458</u>	<u>85,627</u>
TOTAL ASSETS	<u>108,716</u>	<u>109,930</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	25,200	25,200
Reserves	40,975	38,397
Reserve on Consolidation	A14 3,788	6,038
	<u>69,963</u>	<u>69,635</u>
Minority Interest	3,833	3,565
Total Equity	<u>73,796</u>	<u>73,200</u>
Non-current Liabilities		
Deferred Income	-	283
Deferred Tax Liabilities	15	15
	<u>15</u>	<u>298</u>
Current Liabilities		
Trade payables	21,782	19,664
Other payable & accruals	10,913	14,164
Deferred income	2,210	2,579
Taxation	-	25
	<u>34,905</u>	<u>36,432</u>
Total Liabilities	<u>34,920</u>	<u>36,730</u>
TOTAL EQUITY AND LIABILITIES	<u>108,716</u>	<u>109,930</u>
Net assets per share (sen)	<u>29.28</u>	<u>29.05</u>

(The unaudited Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for period ended 31 May 2006)

REDTONE INTERNATIONAL BERHAD

(Co number: 596364-U)

Condensed Consolidated Statement of Changes in Equity

MONTH ENDED 31 AUGUST 2006

Group	Note	Share	Non Distributable	Exchange	Distributable	Total
		Capital	Share	reserve	Retained	
		RM'000	premium	RM'000	profits	RM'000
At 1 June 2006		25,200	16,421	(370)	22,346	63,597
Net profit for the period		-	-	34	2,544	2,578
Dividend declared	A12	-	-	-	-	-
At 31 August 2006		25,200	16,421	(336)	24,890	66,175

Due to the change in financial year end from 28 February to 31 May the results for the corresponding period in the prior year are not presented as it is not comparable.

(The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for year ended 28 February 2005)

REDTONE INTERNATIONAL BERHAD

(Co number:596364-U)

Unaudited Condensed Consolidated Cash Flow Statement

	3 MONTHS CURRENT FINANCIAL YEAR 1 June 06 to 31 Aug 06 RM'000	15 MONTHS PRECEDING FINANCIAL PERIOD 1 Mar 05 to 31 May 06 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	2,544	18,839
Adjustments for:		
Non cash items	387	9,950
Non operating items	109	(6,265)
Operating profit before working capital changes	<u>3,040</u>	<u>22,524</u>
Net changes in current assets	159	(15,043)
Net changes in current liabilities	<u>(2,526)</u>	<u>5,688</u>
	673	13,169
Tax paid	<u>(96)</u>	<u>(1,072)</u>
Net cash generated from operating activities	<u>577</u>	<u>12,097</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceed from disposal of marketable securities	-	3,898
Proceed from disposal of property, plant and equipment	-	11
Proceeds from disposal of subsidiary	-	1,067
Purchase of marketable securities	-	(3,536)
Purchase of property, plant and equipment	(1,152)	(13,238)
Intangible assets incurred	(243)	(1,714)
Acquisition of equity interest in subsidiaries	(2,216)	-
Additional purchase consideration to vendor of a subsidiary	-	(239)
Interest received	<u>159</u>	<u>987</u>
Net cash used in investing activities	<u>(3,452)</u>	<u>(12,764)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(15,120)
Cash received from minority interest	-	3,448
Net cash generated from financing activities	<u>-</u>	<u>(11,672)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,875)	(12,339)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>41,428</u>	<u>53,767</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>38,553</u></u>	<u><u>41,428</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances	9,882	10,248
Deposits with licensed bank	<u>28,671</u>	<u>31,180</u>
	<u>38,553</u>	<u>41,428</u>

(The unaudited Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for period ended 31 May 2006)

A. NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 AUGUST 2006

A1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of the Financial Reporting Standard (FRS) 134: Interim Financial Reporting (previously known as MASB 26) issued by the Malaysian Accounting Standards Board ("MASB") and MESDAQ Listing Requirements of the BMSB.

The interim financial report should be read in conjunction with the audited financial statements for the period ended 31 May 2006.

The accounting policies and presentation adopted for this interim financial report are consistent with those adopted for the audited financial statements for the period ended 31 May 2006.

The following notes provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group.

A2. Qualification of financial statements

There were no audit qualification on the audited financial statements for company and the subsidiaries for the financial period ended 31 May 2006.

A3. Nature and amount of exceptional and extraordinary items

There were no exceptional or extraordinary items during the current quarter under review.

A4. Changes in estimates

There were no material changes in the nature and amount of estimates reported in prior financial period that have a material effect in the quarter under review.

A5. Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment.

A6. Changes in the composition of the Group

The changes in the composition of the Group during the quarter are as follow:

Acquisition by RT from Tan Teck Leong ("TTL") of 60% Equity Interest in Jupitel Sdn Bhd

On 7 July 2006, REDtone announced that Redtone Technology Sdn Bhd ("RT"), its wholly-owned subsidiary has on 7 July 2006 entered into Share Sale Agreement ("SSA") between TTL and RT in conjunction with its Acquisition of Jupitel. RT, will acquire 300,000 ordinary shares of RM1.00 each in Jupitel representing 60% of the equity interest in Jupitel from TTL for a total cash consideration of RM300,000.

(i) Acquisition by RT from Juan Kuang (M) Industrial Berhad of 700,000 Ordinary Shares of RM1.00 each in Meridianotch Sdn Bhd ("MSB") representing 50% of the Issued and Paid-up Share Capital of MSB

(ii) Acquisition by RT from CNX Holdings Sdn Bhd ("CNXH") of 51,000 Ordinary Shares of RM1.00 each in CNX Solutions Sdn Bhd ("CNXS") representing 1.86% of the Enlarged Issued and Paid-up Share Capital in CNXS

(iii) Investment by RT in 745,000 Ordinary Shares in CNXS representing 27.14% of the Enlarged Issued and Paid-up Share Capital in CNXS

On 10 July 2006, REDtone announced that RT, its wholly-owned subsidiary has on 10 July 2006 entered into an agreement for the acquisition of 700,000 MSB Shares representing 50% of the issued and paid up share capital in MSB for a total cash consideration of RM1,500,000.

On the same day, RT also entered into an agreement with CNXH for the acquisition of 51,000 CNXS Shares for a total cash consideration of RM109,293.

In addition, RT will subscribe for 745,000 ordinary shares in CNXS for a cash consideration of RM968,500.

Disposal of 30% Equity Interest in Retone Network Sdn Bhd ("RN")

On 22 August 2006, Redtone announced that it had on 22 August 2006 entered into a share sale agreement with Zainal Amanshah bin Zainal Arshad ("ZA") for the proposed disposal by Redtone of 450,000 RN Shares, representing 30% of the issued and paid-up share capital of RN, to ZA for a total cash consideration of RM495,560.

A7. Seasonality or cyclicity of interim operations

The Group's operations are not affected by any significant seasonal or cyclical factors during the period under review.

A8. Debt and equity securities

There were no issuances, cancellations, repurchases, resale or repayments of debt during the financial period under review.

A9. Contingent liabilities

There were no material contingent liabilities as at the date of this report.

A10. Off Balance Sheet Financial Instruments

There is no off balance sheet financial instruments as at the date of this report.

A11. Segmental Information

	Individual Quarter		Cumulative Quarter	
	1 June 2006 to 31 Aug 2006	1 June 2005 to 31 Aug 2005	1 June 2006 to 31 Aug 2006	1 June 2005 to 31 Aug 2005
	RM'000	RM'000	RM'000	RM'000
<u>Revenue by Types of Products:-</u>				
Discounted call services	28,060	N/A	28,060	N/A
Computer-telephony and other related products and services	615	N/A	615	N/A
	<u>28,675</u>	<u>0</u>	<u>28,675</u>	<u>0</u>
<u>Profit Before Tax and Minority Interest:-</u>				
Discounted call services	2,046	N/A	2,046	N/A
Computer-telephony and other related products and services	37	N/A	37	N/A
	<u>2,083</u>	<u>0</u>	<u>2,083</u>	<u>0</u>

A12. Dividend

There were no dividends declared by the Group for the current quarter under review.

On 26 July 2006, the Company declared an interim tax exempt dividend of RM0.04 per ordinary share for the financial period ended 31 May 2006 amounting to RM10.08 million. The dividend was paid on 15 September 2006. The financial statements for the current quarter do not reflect the interim dividend. It will be accounted for as an appropriation of retained profits in the next quarter.

A13. Material events subsequent to the end of the reporting period

There were no significant events since the end of this current quarter up to the date of this announcement.

A14. Reserve on consolidation

	As at 31 Aug 2006	As at 31 Aug 2005
	RM'000	RM'000
Goodwill on consolidation	(3,591)	N/A
Reserve on consolidation	7,379	N/A
	<u>3,788</u>	<u>-</u>

A15. Change of financial year end

The financial year end of the Company has been changed from 28 February to 31 May commencing financial period ended 31 May 2006 and thereafter to end on 31 May of every subsequent year.

REDTONE INTERNATIONAL BERHAD

(Co number:596364-U)

B. ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

B1. Review of group results for the first quarter ended 31 August 2006

For the current quarter ended 31 August 2006, the Group registered consolidated revenue of RM28.67 million and profit before tax and minority interest of RM2.08 million. Due to change of financial year end from 28 February to 31 May, no comparative figures are presented.

B2. Current year prospects

Baring unforeseen circumstances, the Directors expect the Group will continue to operate profitably and therefore the performance of the Group will be satisfactory for the current financial year.

B3. Material Changes In Profit Before and After Taxation Compared To The Preceding Quarter

	1st Quarter ended 31 Aug 2006 RM'000	5th Quarter ended 31 May 2006 RM'000
Revenue	28,675	28,749
Profit Before Taxation and Minority Interest ("PBT")	2,083	1,581
Profit After Taxation and Minority Interest ("PAT")	2,544	2,051

For the current quarter under review, the Group's recorded revenue of RM28.67 million which is fairly consistent as compared to the immediate preceding quarter of RM28.75 million.

The Group's recorded PBT and PAT of RM2.08million and RM2.54million respectively, representing an increase of approximately 31.75% and 24.04% respectively as compared to the PBT and PAT recorded for the immediate preceding quarter. The increase is due to operational improvement and greater cost efficiency throughout the Group during the current quarter.

B4. Profit forecast

No profit forecast was announced.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	1 June 2006 to 31 Aug 2006 RM'000	1 June 2005 to 31 Aug 2005 RM'000	1 June 2006 to 31 Aug 2006 RM'000	1 June 2005 to 31 Aug 2005 RM'000
Within Malaysia				
Current period estimated tax	-	N/A	-	N/A

There are no tax charge for the quarter due to subsidiaries which have been granted MSC status which exempt 100% income from income tax.

B6. Profit on sale of unquoted investments and/or properties

There were no disposal of unquoted investment and/or properties for the period ended 31 August 2006

B7. Purchase or disposal of quoted securities

There were no purchase nor disposal of quoted securities during the current financial period.

The investment in quoted shares as at 31 August 2006 are summarized below:

	RM'000
Total investment at cost	1,892
Total investment at carrying value	1,892
Total investment at market value	<u>1,927</u>

B8. Off balance sheet financial instruments

There were no off balance sheet financial instruments as at the date of this report.

B9. Material litigation

- REDtone Telecommunications Sdn Bhd ("RTC") vs. Shermont Graduate Studies
Recovery of debts of RM49,556 for services rendered. Hearing date has been fixed for 19 October 2006 for filing of affidavit.
- RT vs Choo Ah Seng t/a Pasar Raya Mesra Maju
Recovery of debts of RM42,090 for services rendered. Appeal filed by debtor against Summary Judgment. Hearing of appeal made in favor of RT is fixed on 11 January 2007.
- RT vs Ashraf
The Notice of Arbitration was filed on 18 May 2005 and served on Ashraf on 21 May 2005. RT is claiming for the amount of USD310,000 being loss and damages. On 13 October 2006, Kuala Lumpur Regional Centre for Arbitration ("KLCRA") has fixed the preliminary meeting between both parties to be held on 22 November 2006.
- RTPL vs Ashraf
The Notice of Arbitration was filed on 7 June 2005 and served on Ashraf. RTPL is claiming for the amount of USD290,000 being loss and damages. RTPL has also applied to the Director of KLCRA to be included as a co-claimant in RT's arbitration proceeding against Ashraf and the preliminary meeting between both parties will be held on 22 November 2006.
- Defamation suit by Syed Zain Ul Islam ("Zain")
On 4th June 2005, Zain filed a defamation suit against RTPL for the publication of a notice on major newspapers in Pakistan informing the public that Zain no longer act as the Chief Executive Officer of RTPL with effect from 6 April 2005.

On 12 December 2005, the Court has fixed the case for evidence by Zain on 26 January 2006. The case has been adjourned by the Court for a number of times for evidence by Zain. On 15 June 2006, Zain submitted his documentary evidence to the Court and the Court has adjourned the case to 27 July 2006 for the remaining cross examination by RTPL's lawyer. On 27 July 2006 the Court adjourned the case to 4 October 2006 and subsequently to 18 November 2006 due to unavailability of Zain's counsel.

Counsel of RTPL is of the opinion that the success of the suit is unlikely as the Public Notice issued by RTPL was based on true facts and in the interest of public.

Provision for doubtful debts has been made for items 1 to 2.

B10. Earnings per share

	Individual Quarter		Cumulative Quarter	
	1 June 2006 to 31 Aug 2006	1 June 2005 to 31 Aug 2005	1 June 2006 to 31 Aug 2006	1 June 2005 to 31 Aug 2005
Basic earnings per share				
Net profit for the period (RM'000)	2,544	N/A	2,544	N/A
Weighted average number of ordinary shares in issue ('000)	252,000	N/A	252,000	N/A
Basic earnings per share (sen)	<u>1.01</u>	<u>N/A</u>	<u>1.01</u>	<u>N/A</u>
Annualized earnings per share				
Annualized net profit for the period (RM'000)	10,176	N/A	10,176	N/A
Number of ordinary shares in issue ('000)	252,000	N/A	252,000	N/A
Annualized earnings per share (sen)	<u>4.04</u>	<u>N/A</u>	<u>4.04</u>	<u>N/A</u>
Fully diluted earnings per share	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>

B11. Corporate proposals

There are no corporate developments since the last quarter except as disclosed in Note A6.

B12. Group borrowings

There are no Group borrowings.

B13. Utilization of Proceeds

As at 31 August 2006, the Company has utilized approximately 92% of the total proceeds raised from the Initial Public Offering. The status of the utilization proceeds is as follows:

Details of Utilization	Total amount of RM'000	Utilized as at 31-Aug-06 RM'000	Amount unutilized RM'000
Replication of business model overseas	10,000	10,000	0
Marketing expansion of products locally and	10,000	9,799	201
Research and development	10,000	7,373	2,627
Working capital (*)	3,126	4,034	(908)
Listing expenses (*)	2,500	1,592	908
Total	35,626	32,798	2,828

Note:

* The unused proceeds to defray listing expenses has been utilized for working capital purposes.